

THE INDIAN CO-OPERATIVE REVIEW

Vol. VII

JANUARY—MARCH, 1941

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CONTENTS

	PAGE
EDITORIAL NOTES	
Ourselfs; Provincial Co-operative Banks; Rehabilitation of the Movement in Bihar; Rehabilitation of the Movement in Other Provinces ..	1
Planned Co-operation <i>By Dr. Radhakamal Mukerjee</i> ..	9
The Bombay Provincial Co-operative Bank <i>By Vaikunth L. Mehta</i> ..	19
The Sind Provincial Co-operative Bank <i>By Rao Bahadur Shivratan G. Mohan</i> ..	30
The Punjab Provincial Co-operative Bank <i>By Muhaj Bhai, M.A.</i> ..	34
The Bengal Provincial Co-operative Bank <i>By Rai Bahadur Sanat Kumar Chatterjee</i> ..	48
The Central Provinces and Berar Provincial Co-operative Bank <i>By G. A. Bhonsule</i> ..	53
The Madras Provincial Co-operative Bank <i>By T. Raghavendra Rau</i> ..	78
The B. & O. Provincial Co-operative Bank <i>By M. Ali Ahsan</i> ..	97
The Mysore Provincial Co-operative Apex Bank <i>By Y. Sreenivasaiya, B.A., LL.B.,</i> ..	107
The Trivandrum Central Co-operative Bank <i>By K. Velayudhan Pillai</i> ..	116
The Indore Premier Co-operative Bank <i>By W. T. Karambelkar, B.A., LL.B.</i> ..	122
The Reserve Bank's advice to Land Mortgage Banks on Sinking Fund and a High Margin <i>By V. S. Ramaswami Iyer, B.A.</i> ..	129
War and the Co-operative Movement in Bihar <i>By Prof. B. B. Mukherjee, M.A.</i> ..	145
The Course of Co-operative Finance in Madras <i>By K. C. Ramakrishnan</i> ..	148

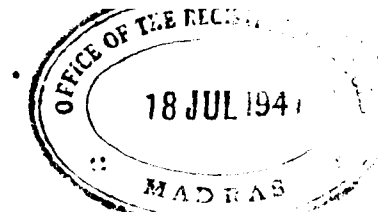


CONTENTS (Contd.)

	PAGE
REVIEWS	
Proceedings of the First Conference of the Indian Society of Agricultural Economics ..	158
Lalubhai Samaldas ..	159
CO-OPERATIVE SOCIETIES AT WORK IN INDIA	
Macras ..	161
Mysore ..	178
CO-OPERATIVE CONFERENCES AND MEETINGS	
The Eleventh Land Mortgage Banks' Conference, Madras, 4th January, 1941 ..	182
The Mysore Provincial Co-operative Apex Bank Ltd., Silver Jubilee Celebrations, 2nd March, 1941 ..	188
Rehabilitation of the Co-operative Movement—Bihar Government's Scheme ..	193
Reconstruction of the Co-operative Movement in Bengal ..	198
Co-operative Movement in Orissa ..	201
The Reserve Bank of India—Extension of Remittance Facilities to Provincial Co-operative Banks ..	202
Representation of the Bombay Provincial Co-operative Bank to the Reserve Bank of India, on the Revised Scheme of Remittance Facilities ..	205
The Indian Reserve Bank and the Co-operative Credit Movement —Withdrawal of the right of free Transfer of Funds ..	207
EXTRACTS	
The Bengal Co-operative Societies Bill and After ..	209
New Indian Report on Co-operation ..	210
CO-OPERATIVE NEWS AND NOTES ..	211



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EDITORIAL NOTES

OURSELVES

The Indian Co-operative Review enters on the seventh year of its life with this, the twenty-fifth issue. We gratefully acknowledge the support we have been receiving from the Registrars of Co-operative Societies and leading non-official co-operators in the Provinces and States of India. What we now ask for is a much larger measure of financial support from individual co-operators and institutions. The subscribers' list has been more or less static all these six years, and we make an earnest appeal to all those interested in co-operation to extend their patronage to the *Review* so as to make it self-supporting, particularly in view of the increase in the cost of printing and publication on account of the War.

We have been devoting the pages of the *Review* almost from its inception to the collection and analysis of material from a "sectional" as well as a "central" view point, for the reason that the development of the Movement in the several Provinces and States naturally followed its own peculiar lines determined by local conditions and circumstances. We believe that teachers and students of co-operation and writers dealing with the subject either from a regional or topical standpoint will find useful material in the volumes of the *Review*. Have we not also a higher aim in view? Dr. C. R. Fay, Chairman of the Horace Plunkett Foundation, observes in the course of the review of a book in *The Year-Book of Agricultural Co-operation, 1941*: "In all countries, when a certain stage of maturity has been reached, interest shifts for a time from central to sectional history. This is the point which has been reached in India *This itself would not be the final stage.* For it would then be the duty of these writers or their successors to meet together in central council and plan a work on Indian Co-operation as a whole, which would be a careful generalisation from the better practice of the different sections One man cannot easily bring together the material out of which a true picture of Indian Co-operation,—its past, present and possibilities—can be framed." It has indeed been our ambition to collect together

in the pages of this *Review* in the shape of contributions from well-informed and experienced workers in the field, in all parts of India, as much material as possible to enable the two All-India Co-operative Associations to entrust in the near future to a competent central council of writers on co-operation the task of planning and publishing a comprehensive work on Indian co-operation.

It has also been, and it will continue to be, our policy to throw open the pages of this *Review* to contributions on allied subjects which have an intimate bearing on the development of co-operation on right lines. There can be no doubt that co-operators in India are agreed that unless an atmosphere and environment favourable to the development of co-operation on sound lines is created and fostered, the Movement cannot make any substantial contribution to the socio-economic regeneration of the masses. The effects of land tenures and the agrarian policy of the State on the economic position of the agriculturists who constitute the bulk of our members, the incidence of rural indebtedness and measures adopted by the Provincial and State Governments to deal with it and the creation of village self-governing institutions, like statutory village panchayats, are subjects in which co-operators must feel intensely interested.

We regret the delay in the publication of this issue of the *Review*. The delay is partly due to the time taken in getting contributions from ten different Provinces and States on the evolution and working of their respective Provincial Banks and other articles which have increased the size of this number to the biggest on record and partly to our prolonged illness since our return from the Session of the Standing Committees held in January last at Bombay.

PROVINCIAL CO-OPERATIVE BANKS

A study of the origin, working and progress of the Provincial Co-operative Banks in India will not only give us an idea of the history and fortunes of those apex institutions but also give us an insight into the organisation and development of co-operative finance in the several Provinces and States. How different the conditions are in several parts of India in regard to evolution of co-operative credit and how those conditions have determined the lines of development of the credit institutions therein can be gathered from the very interesting accounts of the ten Provincial Co-operative Banks which are published in this issue,—the notable omissions being Assam among the British Indian Provinces and Hyderabad among the Indian States. accounts of whose Provincial Co-operative Banks we hope to be able to get in time for our next issue. We are indebted to the several contributors who have generously responded to our invitation.

All the major British Indian Provinces except United Provinces have a Provincial Co-operative Bank of their own. The establishment of a

Provincial Co-operative Bank in U.P. is long overdue. We understand that the early inauguration of such an institution is in contemplation, and we are looking forward eagerly to that happy event.

Generally speaking, the quantitative and statistical information furnished in the accounts published in this issue do not necessarily give an idea of the qualitative character of the institutions or of their financial position, as for instance in Bengal, Bihar, and Central Provinces and Berar where large bulk of the loans outstanding in the societies have become frozen and schemes for rehabilitation or reconstruction are in progress. We reserve for our next issue a critical examination of the lines on which the several apex banks in the Provinces and States have developed, their special features, present position and future possibilities.

REHABILITATION OF THE MOVEMENT IN BIHAR

We publish elsewhere the scheme sanctioned by the Government of Bihar to rehabilitate the Co-operative Movement in that Province. The problem has been engaging the attention of the Provincial Government and the non-official co-operators of the Province for the last three or four years. But having regard to the complexity and the magnitude of the task, the elaborate and thorough nature of the preliminary enquiries into the condition of the societies and their members and the unfortunate developments in the national and international situation, the delay that has occurred in giving a final shape to the scheme of rehabilitation is perhaps inevitable. We had opportunities of getting acquainted with the nature of the economic investigations that were conducted in connection with the rehabilitation scheme. Bihar was fortunate in having at that time an able, conscientious and painstaking officer at the head of the Co-operative Department in Mr. N. Baksi, I.C.S., but for whose labours, the work of the Rehabilitation Committee and the Board of Experts would not have been easy. The investigations included the ascertainment of the repaying capacity and the value of the lands possessed by each member of every society that came under the scope of enquiry. It is only in Bihar and the Central Provinces that systematic investigations of agricultural costs and profits, land values and repaying capacity of the cultivator have been undertaken by the Co-operative Departments in several representative regions of the Provinces, though the freezing of the credit in the rural societies and unrealisability of a large proportion thereof is a common feature of all the Provinces. We are gratified to learn that Mr. Baksi's successor in office, Mr. M. M. Philip, I.C.S., is keen on implementing the decision of the Provincial Government in regard to the rehabilitation of the Movement.

The scheme which mainly aims at reconstructing the machinery for rural credit, which is practically in a state of collapse in the Province, rightly deals with the co-operative credit organisation as a whole—the Provincial Bank, Central Banks and village societies. These institutions which cannot function as isolated units, correspond to the several parts of a sound irrigation system—its catchment areas, reservoirs, and supply channels. A steady and continuous flow of productive rural credit can be ensured only by carefully planning these several parts of the system and keeping them in good repair, so that the flow

may not be interrupted or blocked until it "reaches the fields to be irrigated and waters every root." The reconstruction of the primary societies on which the credit structure really rests is naturally based on a plan to relieve the members of societies from the heavy burden of their accumulated debt, by scaling it down, as far as possible, to the level of their capacity to pay. The rate of interest on the loans after being so scaled down will be reduced to 7 per cent, as against the pre-reconstruction rates of interest ranging from 9 to 15 per cent, and the scaled down debt will be made repayable in easy instalments over a period not exceeding 20 years. In this process of reconstruction, the members of the rural credit societies are classified under two heads: "retained members" and "eliminated members". Those whose repaying capacity is such as enables them to pay at least the principal amount of their outstanding loan together with future interest at 7 per cent over a maximum period of 20 years are to be retained, and those who do not fulfill this test or are otherwise uncreditworthy are to be eliminated. The retained members of the reconstructed societies are also to be helped by advances of small crop loans with a view to enable them to carry on their agricultural operations during the period of repayment of the scaled down debt.

The Central Banks are classified under the scheme into three categories: (a) comparatively good banks in which the percentage of net deficit to gross liabilities is below 25 per cent; (b) banks in which the percentage is over 50 per cent. It is decided to reconstruct such of the banks in groups (a) and (b) as may be considered by the Government suitable for reconstruction, and to liquidate the banks in group (c). The recoverable assets of the Central Banks are broadly classified into interest-bearing and non-interest-bearing. The interest-bearing assets of a co-operative Central Bank mainly represent the dues estimated as recoverable from the 'retained members' of reconstructed societies, while non-interest-bearing assets represent the dues estimated as recoverable from 'eliminated members,' members of liquidated societies and investments in lands and buildings held by societies and Central Banks and certain other items.

To facilitate the process of reconstruction, the Government will grant a subsidy, as contribution towards loss, a sum not exceeding Rs. 12 lakhs, besides advancing to the reconstructed Central Banks a loan not exceeding 50 per cent of the recoverable assets from the reconstructed societies, to a limit of Rs. 14 lakhs. The loan will be advanced through the Provincial Co-operative Bank. While the Government propose to charge a rate of 3½ per cent on such advances to the Provincial Bank, the Provincial Bank will charge 4 per cent to the reconstructed Central Banks. The sum of Rs. 12 lakhs granted as subsidy and Rs. 14 lakhs advanced as loan will be utilised for repayment to the creditors (other than the Provincial Bank) of the reconstructed Central Banks on a *pro rata* basis. Any loss not covered by this measure of financial assistance or eventually recouped from collections of realisable assets in due course after meeting the obligations to the Provincial Government, will be borne by the creditors of the Central Banks. Besides the subsidy and the loan mentioned above, the Government will also provide a sum of Rs. 10 lakhs for

crop loans to retained members of reconstructed societies, to whom reference has already been made. The Government have further agreed to grant a subsidy of Rs. 5 lakhs to the reconstructed Central Banks towards the cost of management at Rs. 1 lakh per annum, in addition to bearing the expenditure on audit for the next five years, which is estimated to cost another sum of Rs. 5 lakhs. A sum of Rs. 2 lakhs is provided for special staff for liquidation, and a sum of Rs. 1 lakh for the salary of the Banking Adviser. In all, Government have provided for an expenditure of Rs. 49 lakhs under the scheme, of which about one half, Rs. 25 lakhs, will be by way of contribution and the balance of Rs. 24 lakhs by way of loan secured on the assets against which it is advanced. This is in addition to the Government's preparedness to bear the loss of the Provincial Bank, which is roughly estimated at about Rs. 18 lakhs. The Government are further pleased to guarantee to the Provincial Bank a cash credit of the sum considered sufficient to ensure ability to pay deposits. The management of the Provincial Bank during the period of rehabilitation will be entrusted to a small Interim Board, consisting of a Chairman and six other members, who will be elected in accordance with the by-laws suitably amended for the purpose, besides the Banking Adviser who will be the *ex-officio* Managing Director of the Bank.

The Board of Experts, constituted by the Bihar Government to advise them on rehabilitation of the Co-operative Movement,* recommended *inter alia* the following main items of financial assistance by the Provincial Government: *firstly*, a subsidy to the reconstructed Central Banks of a sum representing 12½ per cent of the creditors' claims in all Central Banks in which the loss is 25 per cent of the outside liabilities or more—this was estimated at about Rs. 11 lakhs; *secondly*, a loan to the reconstructed Central Banks on a strictly business footing of a sum not exceeding 50 per cent of the realisable assets represented by the loans outstanding against the retained members in the societies under certain safeguards and conditions, the loans bearing interest at half per cent over the Bank Rate—this loan was estimated at not more than Rs. 15 lakhs; and *thirdly* a guaranteed cash credit to the Provincial Bank to the extent of Rs. 20 to 30 lakhs for future finance, besides treating the sum of Rs. 24 lakhs, which is now shown in the balance sheet of the Provincial Bank as a loan due to the Government, as a guarantee fund for meeting losses arising from bad and doubtful debts in the Provincial Bank. Though the scheme of financial assistance to the Movement ultimately sanctioned by the Govern-

* The following were the members of the Board of Experts:—

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|---|----------|
| 1. The Hon'ble Mr. V. Ramadas Pantulu, | Chairman |
| 2. Dewan Bahadur K. Deivasikhamani Mudaliar, M.L.C., | |
| 3. Mr. Vaikunth L. Mehta; | |
| 4. Mr. Dip Narayan Sinha, M.L.A.; | |
| 5. Mr. Ram Charitra Sinha, M.L.A.; | |
| 6. Mr. Binodanand Jha, M.L.A.; | |
| 7. Rai Bahadur Shyamnandan Sahay; | |
| 8. Khan Bahadur Saghirul Haque, M.L.A.; and | |
| 9. Mr. N. Bakshi, I.C.S., Registrar of Co-operative Societies | Convener |

ment differs from the recommendations of the Board of Experts in some material particulars, yet it goes a long way in achieving the two main objects which the Board of Experts had in view in making their recommendations, viz., affording some measure of immediate, though partial, relief to the creditors of the Central Banks who have been severely hit by the deterioration of the Movement, and vouchsafing reasonable chance for the reconstructed Central Banks and rural credit societies to carry on their business in future, though on a much restricted scale. We hope and trust that the endeavour of the Provincial Government to rehabilitate the Movement in Bihar under this scheme will prove successful and the Movement will once more be enabled to subserve the interests of the agriculturists of the Province.

As we have often said before, measures to revive and strengthen the co-operative societies will not by themselves result in improving the economic position of their members, or prevent societies from lapsing into their former desperate plight. Other reforms like a sound agrarian policy on the part of the Provincial Governments are also called for. Co-operation itself needs planning. As Dr. Radhakamal Mukerjee, whose interesting article on "Planned Co-operation" is assigned the place of honour in this issue puts it, "Planned Co-operation must be an offensive on all fronts". Weakness or indefensibility in one sector will establish the foe in no time within the entire territory."

REHABILITATION OF THE MOVEMENT IN OTHER PROVINCES

Orissa.—After the accounts of the Bihar & Orissa Provincial Co-operative Bank were settled with the Central Banks in North Orissa in August 1938, the connection between those Central Banks and the Bihar Provincial Bank ceased. As a result of such settlement, the Orissa Government undertook to pay the Bihar Provincial Bank a sum of Rs. 3.75 lakhs in eight equal instalments in full settlement of its claims against the Central Banks in North Orissa. In this connection it must be mentioned that the two Central Banks in what is now called South Orissa, viz., those at Aska and Berhampore, have all along been affiliated to and financed by the Madras Provincial Co-operative Bank as their area of operations formed part of the then Madras Province. Even after the formation of a separate province for Orissa and the transfer of that area to it, that arrangement has been continuing till to-day. These two banks in South Orissa are in a comparatively stronger financial position than the Central Banks in North Orissa. It was contemplated that they should be affiliated to the Provincial Bank of Orissa as soon as one was constituted. As a matter of fact, a Provincial Bank for Orissa was registered in 1936 and the assets of the Central Banks in North Orissa were transferred to that Bank on paper after the settlement with the Bihar Provincial Bank in 1938. Indeed this was considered to be a step forward in the creation of a Provincial Co-operative Bank for Orissa. But the scheme has been abandoned for the time being. In a recent communique issued by the Government of Orissa, a summary of which is published elsewhere in this issue, it is definitely stated that the present circumstances are not suitable for the establishment of a Provincial Bank. The Government have, however, made a very modest provision of Rs. 1.5 lakhs in the

budget estimate of 1941-42 to finance the primary societies situated in areas not served by solvent central banks capable of financing the societies.

The Government of Orissa have decided to fix the rate of interest payable by the members at 8 per cent on loans not overdue, and one per cent more on overdue loans, and to make these rates applicable to all loans outstanding on 1st July 1941 or to be issued thereafter. While we are in agreement with the view of the Orissa Government that the present time is not suitable for the starting of a Provincial Co-operative Bank, we feel that not only some better and more adequate provision should have been made for financing the primary societies in that Province but steps should have also been taken to rehabilitate such of the Central Banks in North Orissa as are capable of reconstruction, with some measure of financial assistance from the Government. In regard to the rate of interest it should not have been put up in any case above 7 per cent, which is the rate now fixed by the Government of Bihar in their rehabilitation scheme.

Central Provinces and Berar.—The scheme of rehabilitation of the Central Banks in Berar suggested by the Standing Committees of the All-India Co-operative Associations has unfortunately not been accepted by the Government of C. P. and Berar. But we realise the difficulties of the Provincial Government, which arose partly from the attitude adopted by the creditors of those banks, and partly by the new situation created by the outbreak of the war. The communiques issued by the Provincial Government on 9th September 1939 and 26th March 1940, which have already appeared in the pages of this Review, are now followed up by a programme of thorough enquiry into the assets and liabilities of the members of societies and their repaying capacity and to work out the figures of debts which can be repaid by the members within a maximum period of 20 years. The Central Banks are expected to do some preliminary work before the official enquiry is actually started. Elaborate and exhaustive instructions for the rehabilitation enquiry have been issued by the Co-operative Department. At the meeting of the Standing Committees held at Bombay in January last, Sir M. G. Deshpande and Rao Bahadur R. M. Khare informed us that the enquiries were likely to be finished by about the end of the current co-operative year. It is not known how far the enquiries have proceeded. We were also informed at that meeting that until the enquiry was completed it would not be possible to know the total loss to the Central Banks in Berar. The Provincial Bank of C. P. and Berar has, however, agreed to bear part of the loss thus ascertained, to the extent of about Rs. 10 lakhs; and the Government after much hesitation seem to have now agreed to meet the deficit in expenditure of the Central Banks to the extent of Rs. 1 lakh per annum for not more than 3 years in the first instance. There are other helpful features like a sharp rise in the price level of cotton, which is the chief money crop of the Province and evidence of increasing demand for lands which have been hanging on the hands of Central Banks and societies as frozen assets, with consequent rise in land values. These signs of economic prosperity, which may be temporary and not such as to lead to a real

increase in the income and purchasing power of the cultivator, as we stated at the last session of the Registrars' Conference in December 1939, may, however, lead to stiffer demands on the part of the creditors of the Central Banks on the plea that the repaying capacity of the members of societies would rise correspondingly with the upward trend in the price level of cotton and land values. We trust that the recent addition to the Co-operative Societies Act of Section 42-B and other measures that the Government may adopt will bring about a reasonable settlement, fair alike to the creditors and the Central Banks. In any case, we hope that the final decision of the Government based on the enquiries in progress will be announced soon and that no further time will be lost in implementing an effective scheme for the rehabilitation of the Movement in the Province.

Bengal.—We publish elsewhere extracts from the *Bengal Co-operative Journal*, January-March 1941, which disclose that no tangible action has so far been taken on the scheme of rehabilitation drawn up by the former Registrar of Co-operative Societies. We, however, believe that the matter is engaging the earnest attention of the Provincial Government and the present Registrar. It is said that "tired of the static Government, the restive non-official co-operators" have begun to move in the matter and that their activity found expression in the decisions of the meeting held in Calcutta on the 22nd and 23rd March last under the presidentship of Mr. W. C. Wordsworth, Chairman of the Bengal Provincial Co-operative Bank. The suggestions of these non-official co-operators are set out in some detail in the extract referred to. Now that a constructive scheme has been chalked out by the co-operators of Bengal themselves, we hope that the Government of Bengal will examine the scheme carefully along with such other schemes as may be pending before them and take speedy action in that behalf, for the present situation should in no case be allowed to continue.

In this connection we are glad to find that the co-operators of Bengal have endorsed the view expressed by us that the passing of a stringent Co-operative Societies' Act vesting new and wider powers of control in the Registrar would not by itself help the rehabilitation of the Movement. Prof. J. P. Niyogi, in his *Co-operative Movement in Bengal*, rightly points out that while the new Co-operative Societies Act of Bengal may be of some use to deal with the present situation, if permanently placed on the Statute Book, "there will emerge a form of co-operation which is drilled and regimented by the State, and State-controlled co-operation will hardly offer a permanent solution towards our endeavour to build up a vigorous and self-reliant movement." So, something should be done on the constructive side also as speedily as possible. The scheme of rehabilitation must aim at two things: firstly immediate action for setting the credit organisation once again on its feet by removing the malady which now afflicts the movement and nextly comprehensive planning to prevent the reconstructed societies from lapsing into their present paralytic condition, which becomes possible only by improving the economic condition of their members.

PLANNED CO-OPERATION

By

DR. RADHAKAMAL MUKERJEE,

*Head of the Department of Economics and Sociology
Lucknow University.*

Co-operation, a Many-sided Approach.—Co-operation has succeeded best in those regions in India where it has not been a mere economic movement, but has improved along with business methods the moral and social standards of the villager. Since co-operation touches the social tissue, no success can attain the efforts of the co-operator unless co-operation forms a phase of a many-sided advance, a part of an entire rural reconstruction movement. In those spacious days of early co-operation the leaders of the movement were on the whole more anxious for records of the number of Co-operative Societies and of membership, without paying due heed to real stability and solidity of the movement, rooted as these are in better living and farming and improvement of business methods and of credit-worthiness.

Not merely the forces responsible for a quick mushroom growth of Co-operative Societies were largely responsible for the present debacle, but the agricultural depression reduced the cultivator's source of income and credit between 1928 and 1933 from 61 per cent. in Bengal to 35 per cent. in the United Provinces.

In other countries the Government has stepped in by a forward currency and agricultural policy, reduction of the interest rate on loans and State-aid to crop finance and marketing to over the economic effects of the slump; but in India nothing effective was done in this connection and the effects of the agricultural depression were aggravated by the cumulative effects of violation of both business and moral principles in co-operative finance.

Planning is essential not merely for the rehabilitation of the bankrupt societies, for their integration into improved societies, and for re-organising the arrangement and agencies for short-term and long-term credit but also, and what is more essential, for relating the Co-operative Movement to the improvement of crop practice, crop marketing and rural reconstruction generally.

As long as the Co-operative Movement does not link itself with the entire range of methods and agencies for the improvement of income and

credit-worthiness of the cultivator, it cannot be rescued from the mire of bankruptcy and the rut of business inefficiency into which it has fallen.

Rehabilitation of Bankrupt Cultivators.—A Co-operative Movement which aims at strengthening the economic position of the weak by association with the strong will be untrue to itself if it seeks to eliminate the weak from its protection in a drastic manner. Instead of ousting the cultivators who have now become insolvent and are likely to be so without adequate means of life, efforts should be made to rehabilitate and restore them to the care of the Co-operative Movement. The extent of relief to such distressed farmers can only be gauged by a careful economic investigation of the repaying capacity and the value of land of each member of the society, which will be preliminary to assessment of the repaying capacity of the societies and the assets of the Central Banks. It is noteworthy that while almost all the provinces of India have found that a not inconsiderable proportion of the debt of members to the Societies is unrealisable, it is only in Bihar and the Central Provinces that a thorough investigation of agricultural costs and profits, land values and repaying capacity of the cultivator has been undertaken by the Co-operative Department in several representative regions. Under present conditions agriculture is a submarginal occupation offering no profits for about half the cultivators in the crowded regions of the Ganges Valley, where holdings have become uneconomic due to continuous sub-division. It is probable that members of Co-operative Societies are better off than the average cultivator and that those who are now bankrupt will not represent half the farming population. But since the proportion of bankrupt cultivators will be considerable, we have to rehabilitate their credit by means of subsidies, by reduction of the burden of mortgage and other loans, and other measures.

While it is certain that we can no longer permit the bankrupt to drag down the well-to-do cultivators to a common doom spelt by the ruin of the Co-operative Movement, it is equally definite that the Government must enable the bankrupt cultivators to make arrangements with the Co-operative Societies and outside creditors and afford them facilities for reduction or conversion of old debts regarded as too onerous or unredeemable. The recent debt legislation of Denmark, where the farmer's indebtedness led to the collapse of farms, is worthy of serious consideration not merely in Bihar but also in the other provinces of India. The Danish Government has in the first instance relieved the farmers by the establishment of Crisis Funds for the grant of subsidies to the most distressed farmers in order to put them in a position to pay their mortgage and fiscal charges. Forty-two million crowns were distributed among 135,000 farmers, i.e., 67 per cent of all the farmers in

the country. Another country in Europe which has paid a direct subsidy to the distressed farmers during the agricultural depression is Italy. Short-term loans have here been converted into long-period debt, and the State undertakes to pay a part of the repayment instalments to the extent of 2½ per cent. The State has also granted a contribution towards the payment of interest for loans payable in five annual instalments obtained from agricultural banks.

It seems necessary that in order to avert the present crisis for the cultivators, and the stampede of credit caused by the emergent debt legislation the Government should find money for the creation of a Rehabilitation Fund, like that of Denmark, to lighten the burden of mortgage debt and of interest and rent payable by distressed tenants to be distributed among the latter according to determined principles. Secondly, the Danish Government has by law facilitated the conversion to loans at a lower rate of interest of the loans granted by the mortgage credit companies. The application of the Danish and Italian precedents to Bihar conditions may be as follows:—The Government after reducing the claims of Co-operative Societies and outside creditors by, say, 50 per cent on the ground of the fall of agricultural prices, which calls for revision of contractual obligations, will contribute a portion of the repayment instalments. The Government will also grant loans covering the remainder of the liability to the bankrupt cultivators on the basis of mortgage of their holdings to the State on these conditions; freedom from payments for ten years, and afterwards, payment by instalments, and a rate of interest not exceeding 4½ per cent. The Government will raise money by issuing debentures on the basis of the mortgaged properties. To obtain the loan, the tenant's debt must exceed the mortgage value of the holding by at least 10 per cent, while the loan itself cannot exceed 25 per cent of the mortgage value of the property and must be guaranteed by a mortgage not exceeding 10 per cent. of the value of the property. In lieu of the subsidy and facility of credit offered by Government it may be insisted upon that in the succession the tenants' holding should pass undivided to one person (the preferred heir). The charges burdening the succession (including the mortgage debt) must be met as far as possible out of fortune other than the landed property. No new debt can be incurred without the consent of the Co-operative Society or the land mortgage bank, which has rehabilitated the credit of the cultivator. Loans out of this Rehabilitation Fund will be granted also to Co-operative Societies and private money-lenders in order to enable them to meet the difficulties that may arise in consequence of the application of the law on the moratorium. The present debt legislation of the major provinces of India, which only provides for compulsory scaling-down of debts and rate of interest and application of a moratorium, and too

greatly sacrifices the creditors without making any arrangement for the financial recovery of the bankrupt cultivators aggravates the crisis of agricultural indebtedness. In the debt relief legislation of many agricultural countries in Europe importance was given as much to the adjustment or conciliation of debts as to the conversion of loans guaranteed by mortgages on farms with a view to the repayment of debts to creditors by instalments over a series of years and contribution by the State towards the repayment of instalments and the payment of interest.

In Germany the scheme of conversion of debts was facilitated by the credit granted by the Bank for German Industrial Securities, and the necessary resources for the relief of indebtedness, amounting to a total of 600 millions R. M., were drawn to a large extent from a fund formed by levies imposed on industry. The Reich guarantees up to 25 per cent of the loan granted under the conditions indicated in the event of the non-payment of the mortgage loans credited in relieving the indebtedness. In Bulgaria where the law has reduced both the amount of interest and the amount of debt of farmers, and exempted from sale the debtor's land up to 5 hectares, the reduction of debts is similarly made up out of an Amortisation Fund to which the State assigns the proceeds of the tax on vocations and the supplementary tax on total income. In Switzerland the Confederation and the Cantons both pay 5 million francs a year as subsidy to an Amortisation Fund created for the relief of indebtedness. In Bihar it is worthy of serious consideration whether such an Amortisation Fund could be created out of new taxes on industry and professions, the resources of which could be utilised both for subsidy to distressed farmers and the conversions of debts and repayment to money-lenders who renounce a part of their credit.

Credit and Consolidation of Holdings.—A more effective and permanent method of rehabilitating credit for the bankrupt cultivators is to make their cultivation profitable through consolidation of holdings and of croppings and through co-operative or collective farming. Many prejudices have to be overcome, many old customs abjured before we can eliminate the present serious drawbacks of (scatteredness and) fragmentation of holdings. The Government should take practical steps through legislation and otherwise to make agriculture economical for small tenants who now distribute themselves between farming and agricultural labour, and for agricultural partners and hired farm hands, who are landless but who crowd on to the land for eking out a bare living. The intractable feature of the present agricultural crisis in the United Provinces, Bihar and Bengal is that probably half the number of holdings, at least in the crowded districts, has become uneconomical. In the Punjab 20 per cent of the land owners hold less than one acre of land. In

the United Provinces more than 50 per cent of holdings are below the economic size. In Bihar the average size of holdings is estimated to be only 1.33 acres in Saran; 1.51 acres in Patna; and 1.82 acres in Muzaffarpur and 1.85 acres in Darbhanga. The minimum subsistence holding for the cultivators' family cannot be less than 4 to 5 acres in North Bihar. Vast sums of money sent by emigrants from Bengal and Assam to the villages are the mainstay of cultivation of under-sized holdings in North Bihar and the eastern and central districts of the U. P. But of late the tide of emigration has ebbed, while the rate of population increase has tended to accelerate, increasing the proportion of uneconomic holdings through fractionalisation. In Bengal three-fourths of the agricultural families possess holdings below the economic size of 5 acres and 46 per cent of the families hold less than 2 acres each.

Small tenants in undersized holdings are hardly occupied for more than 200 days in the year. Intensive farming is the only method available for the masses of people in Northern India for the improvement of income and credit. But intensive farming is being jeopardised by the excessive fractionalisation of holdings, which more than any other single factor is responsible for the poverty of debt-ridden cultivators, and the deterioration of soil fertility and animal power through the abolition of the practices of fodder cultivation and fallowing which formerly aided towards nitrogen fixation in the soil. There is no possibility of rehabilitating intensive farming except by overcoming the handicap of subdivision of holdings by either consolidation of holdings or consolidation on the basis of crops. The village will have to be divided according to the crops cultivated and each cultivator will be given, say, two compact blocks, one in the low-lying rice land and the other in the relatively high land which grows *rabi*. This will ensure both security and the economic advantage of compact farming. In the tube-well region in U.P. and in other areas as well, consolidation of cropping converts the appearance of the village area to that of a single farm consisting of fields of cane, wheat and other crops instead of the chess-board appearance of the land of most villages. The individual still owns his particular portion of any one block and he may still farm it as a separate unit; but close association of persons growing the same crop invariably leads to co-operative work on the block as a whole; it makes the utilization of co-operatively owned implements easier, and it facilitates the demonstration of improvement and stimulates rivalry towards better production.

Consolidation of cropping is easier than consolidation of holdings by co-operative societies, though the latter has achieved remarkable success in the Punjab, where there are now about 700 co-operative consoli-

dation societies, and the area consolidated from 1921 to 1937 was about 800,000 acres. In U.P. there are now about 130 co-operative societies and the total area consolidated so far is about 56,000 bighas. The Punjab has deputed one Assistant Registrar and 15 Inspectors of co-operative societies and 180 Sub-Inspectors to this phase of the Co-operative Movement.

Co-operative and Collective Farming.—Ostrich provinces which would not re-examine the present credit situation of the Co-operative Movement nor face economic realism in the debt-ridden and credit-unworthy villages are leading the Co-operative Movement to further futility and disaster. To facilitate credit for the mass of small tenants who have now sunk below the credit line, it is essential to improve the scale of farming as the basis of credit by means of consolidation. It is probable that due to the fact that the majority of holdings have reached an uneconomical size the problem can only be solved by legislation making it compulsory for the cultivators to accept re-stripment when the cultivators of more than say, one-third of the cultivated area of the village agree to consolidation. Co-operative and Collective Farming Societies should also be organised which should pool bullocks, ploughs and seeds and undertake agricultural operations in common. It has been the practice of small cultivators to borrow seeds and bullocks from among themselves when they cannot obtain credit from the money-lender. As the latter has become shy due to the recent debt relief legislation, the cultivator has curtailed his expenses for the preparation of the land and is getting a lower crop-yield, and here and there land also remains fallow. The situation can be successfully tackled by the establishment of the Collective Farming Society through which the small tenants may organise themselves for joint-ownership of cattle; joint cultivation and an equitable sharing of the produce in consolidated holdings according to the quota of labour from each family estimated by some pre-determined form or standard.

Co-operation and the Land-less Class.—But such collective farming societies would be even more necessary for the landless classes. In the U.P. agricultural labourers, numbering about 34 lakhs in 1931, had increased by almost 10 lakhs since 1921 at the expense of tenants who have either lost their holdings altogether or derived more income from labour than from cultivation. In Bihar, there are whole villages of entirely landless population, who eke out a scanty living on makai in favourable months and are unemployed and starve in lean months. The number of agricultural labourers here is 39.7 lakhs; these increased by 19 per cent between 1921 and 1931; and now form 19 per cent of the total agricul-

tural population. For every 25 non-cultivating landlords and tenants, there are about 725 agricultural labourers in Bihar, as compared with 200 labourers in the U.P. As the pressure of population on the soil increases and holdings become sub-divided and uneconomical, more tenants join the vast army of agricultural labourers or become earth-diggers and road-menders or leave for Bengal and Assam for domestic service, plantation and other labour. Many agricultural labourers who do not leave the village are reduced through indebtedness to the position of serfs, bound hand and foot for generations to the holdings where they toil and moil without having the wherewithal to pay off ancestral debts.

Public opinion should be so focussed and mobilised on this problem that all landlords and tenants declare on a fixed day that they set free all their bond servants, as it has recently been done for the Dublas in Bombay. Agricultural wages paid in kind should be standardized, and perhaps a minimum wage fixed at 5 annas per diem. It will be necessary also for Government to start a Re-settlement Department, as in Italy and the U.S.A., for opening out new lands in such sparsely populated districts as Kheri, Gonde, Bahraich in the U.P. or Champaran, Purnea and Bhagalpur in Bihar and also in Chota Nagpur for colonization by the discharged serfs. Co-operative Reclamation and Settlement Societies in the uncultivated wastes under the supervision of Government will be helpful. The experience of the co-operative colonization scheme at Gosaba in the Sundarbans should have its lessons for this province. Finally, Collective Farming Societies should be established in villages wherever the landless population forms more than a fifth of the total population, and these would obtain land on tenant lease from the Zamindars and parcel it out among the land-less classes for their joint cultivation. Co-operation may be used as an effective implement in stabilizing bankrupt tenants and agricultural labourers. In planned co-operation the reorganisation of primary societies is impossible without rehabilitating many members, who have now lost solvency and this necessitates organisation on a wide scale of collective farming for bringing up the latter to the line of normal credit.

The Multiple Purpose Society: Enforcement of Co-operative Marketing.—With the rehabilitation of the weaker members the primary societies will gain in strength. As their outstandings will be reduced by writing off a portion of their dues, the Central Banks will also have to reduce their dues from the Primary Societies *pro tanto*. Where the societies become too small after weeding out the undesirables, their size may be expanded to include as many well-to-do cultivators in the village as possible. Old members whose debts may be scaled down would require a reasonable period for the repay-

ment of their loans. It will be necessary in my view in the interest of ensuring prompt re-payment and avoiding chances of default to prevent private sale of crops by the members. The Co-operative Societies themselves will have to organise the storage and sale of the major crops. In other words, the mere credit society will have to transform itself into a Multiple Purposes Society, backed by legislation prohibiting cultivators from utilising the sale-proceeds of their produce without first paying off the societies' debts, subject of course to the prior claims of land revenue and rent. The English Agricultural Credits Act, 1928, includes a provision making it illegal for members to dispose off the crops before meeting the dues of the Co-operative Societies. In view of the assistance which cultivators and primary societies will obtain from the public exchequer the cultivators cannot reasonably object to their being compelled to dispose of crops only through the co-operative sales society.

In several agricultural countries in Europe crop finance or short-term credit from season to season is given on the basis of the bank or co-operative society having a lien on the crop, and warrants, backed by agricultural produce, have currency as simple commercial bills. In Egypt the agricultural credit establishment of the Government grants loans in cash or in kind in the form of seeds and fertilisers, such loans being secured on the crops themselves. Crops are sold through the agency of this establishment. I was delightfully surprised to find in the villages of France during a visit to their co-operative societies that hardly any crop worth anything is bought and sold privately, such being the hold of the co-operative organisation on the farmer's life. In Hungary the form of advances is known as 'green credit' i.e., credit granted against standing crops. In South Africa the law lays down that where in any area 75 per cent of the producers are co-operatively organised and handle 75 per cent of the product, the Minister may, at the request of such organisation, prescribe that all producers of that agricultural product within that area shall sell their product through the co-operative society or company.

In India, as in the case of compulsory restripment and consolidation, the percentage should be brought down to a much lower figure, say, 33 per cent of the producers, who may compel the rest to market their crops through the co-operative sales organisation. It will be expedient to run the marketing side of the co-operative society on a limited liability basis, introducing not merely well-to-do cultivators but also banias and money-lenders who have so far fought shy of co-operative societies because of the principle of unlimited liability. It will be to the interests of the bania, when co-operative marketing is forced

on the village, to build a warehouse or godown which may earn some rent from the co-operative society. On the other hand, the co-operative society will gain both from the bania's experience and investment of share capital. Some societies in the U.P. combine both the principles of limited and unlimited liability for different functions. In the rectification and re-organisation programme we should not make a fetish of the unlimited liability principle as we did in the past, but should organize the multiple purposes society on the limited liability principle retaining unlimited liability for the credit side of the business of the society.

In a system of organised warehouses where the cultivators' crops may be stored from season to season the co-operative society will lend money against warehouse receipts, and the banias who are members of the society may materially help the successful working of the warehouses due to their long and intimate connection with the grain markets of the country.

Co-operation, an Offensive on All Fronts.—As the standards of rural living, marketing and business improve, different agencies of rural uplift will develop, and this both in the single village as well as in the circles or groupings of villages, which become broader units of economic attack as represented by Central Banks, Marketing Boards and Union Panchayats. On the other hand, activities in the different fields of agriculture, co-operation, sanitation, education and so on act and react upon one another. That is essentially the meaning of rural planning.

Agriculture prospers through improvement of credit and marketing facilities by co-operation and of the technique of manuring, irrigation and farming practice by agricultural field demonstration. The advantages of cheap credit are nullified if farming be inefficient or if farmers waste money over social expenditure and litigation, or become chronic victims of malaria. Organised marketing fails if the farmers do not select their seeds nor consolidate their cropping and holdings. One of the striking instances of linking agricultural, marketing and credit improvements together is afforded by the Cane Growers' Co-operative Societies in the U.P., and Bihar. An all-sided programme, including improvement of seeds, manuring and agricultural implements, construction of roads, marketing and the building up of 'a common-good fund' has been characteristic of this co-operative effort. But surely such a concerted offensive has touched only the fringe of agriculture. All the major crops and not merely the cash crops should be brought under the scope of the Co-operative Multiple Purposes Society for agricultural production, credit and marketing. Co-operative education should also

embrace social reform. The excessive burden of uneconomical and superfluous cattle on tiny holdings is to-day a most serious handicap of small farming. No benefits from the improvement of food supply or distribution of good breeding bulls can accrue nor co-operative dairying succeed if farmers do not get rid of the present prejudice for the maintenance of useless, superfluous beasts. Finally, the social and economic aims of co-operation are vitiated if the peasantry multiply without restraint, outreaching not merely the out-turns of their fields but also the facilities of education and sanitation that may be provided. Thus planned co-operation must be an offensive on all fronts. Weakness or indefensibility in one sector will establish the foe in no time within the entire territory. The peasant's life with its inefficiency, simplicity, fear and ignorance is one undivided whole, and that rural programme succeeds which can improve him from all sides, economically, socially and morally.

THE BOMBAY PROVINCIAL CO-OPERATIVE BANK

By

VAIKUNTH L. MEHTA,
Managing Director

It is now thirty-seven years since the Co-operative Movement—originally confined to credit—was first introduced in India. The promoters of the movement in the early days expected that if the rural credit societies were not able to raise locally, either from members or non-members, the funds required for being advanced to individual members, this need would to some extent be supplied by the neighbouring urban credit societies which might be expected to possess surplus funds. In the initial stages loans for small amounts were received from Government, free of interest for the first few years and bearing a very low rate of interest thereafter. But so early as 1906 the then Registrar of Co-operative Societies found it so difficult to meet the demand for funds that he induced a few friends to start in Bombay an urban co-operative credit society for the purpose of providing capital for rural societies in the districts. Sir Vithaldas D. Thackersey and Sir Lalubhai Samaldas then conceived the idea of starting a bank, the sole business of which would be to finance co-operative societies, and which should have as a prominent feature of its financial mechanism a scheme of debentures with interest thereon to be guaranteed by Government. After considerable discussion between the Government of Bombay, the Government of India and the Secretary of State for India, approval was accorded to the scheme and in accordance with a formal agreement between the promoters and the Government, the Bombay Central Co-operative Bank was registered on 11th October 1911 as an urban co-operative credit society under the Government of India Act X of 1904.

The Bank's working is governed by its own bye-laws and the agreement with Government, subject to the provisions of the Co-operative Societies Act and the rules framed thereunder. The Bank commenced operations by taking over the loans allowed to societies in various districts by the Bombay Urban Co-operative Credit Society and also the Tagavi loans of Government (under the Agriculturists Loans Act) in a group of 29 villages in the Nira Canal tract. The area of operations of the Bank extended all over the Presidency proper; Sind which then had a separate Co-operative Department was not included within its jurisdic-

tion. Soon after it was brought into existence attempts were made to start District Central Banks; and some of the urban societies such as those at Surat, Broach and Ahmednagar, were gradually transformed into central banks for their respective districts. The desire of various districts to have local banks of their own got a stimulus as a consequence of the recommendations of the (MacLagan) Committee on Co-operation in India, and more local banks came to be started on the lines laid down by that Committee. At the same time, the Bombay Central Bank utilized as its responsible local agencies the Guaranteeing Unions of Primary societies which too came into existence in response to the recommendations of the MacLagan Committee. It was not until 1920 that the policy was laid down that there should be only one financing agency in any one tract and steps were taken thereafter to prevent overlapping of operations and to delimit the sphere of influence of the Bombay Central Bank in its direct relations with primary agricultural societies. The Bank's business in areas served by District Central Banks was transferred to these banks wherever the latter agreed to take it over. In harmony with the change in its status the name of the Bank was altered to the 'Bombay Provincial Co-operative Bank' in 1924, to denote that the Bank's primary function would be to serve as an apex bank balancing the surpluses and deficiencies in the resources of its affiliated banks. Nevertheless, the Bank continues to have direct relations with primary societies in a few districts where its business with them has not yet been taken over by the existing central banks for various reasons, either because the areas are very backward or the frozen amounts locked up are very large or local banks cannot be organized to take over the operations. The Bank has recently investigated the possibility of converting some of the branches into banking unions as recommended in the Reorganization Report submitted to the Government of Bombay by Mr. M. D. Bhansali, Registrar of Co-operative Societies and the writer of this article.

From the outset it was realized that where the Bank transacted business on any considerable scale, it should establish some link with societies in the area by opening a branch; and in pursuance of this policy a branch was opened at Baramati in the Poona District, when the Bank took over the Government's loan operations in that tract. The next branch to be opened was at Kopergaon in the Ahmednagar District to serve the group of societies for sugar-cane growers on the Godavari Canal which the Co-operative Department had organized. After 1920 the Bank definitely came to the conclusion that in districts where it had to continue business relations with primary agricultural credit societies, it should establish branches so as to be in close and constant touch with the societies and their members. Accordingly, the number of branches grew gradually and the opening of a branch at the district headquarters was

usually followed by the provision of similar facilities in the taluka towns of the same district. Hence the increase in the number of branches indicates not so much the expansion of business as the extension of facilities to outlying rural centres where there are compact groups of societies. The only primary societies financed by the Bank which still remain to be served by local branches are the few scattered societies in the Ratnagiri and Kolaba districts. The Bank has no direct business relations with primary societies in the whole of the Karnatak and in the districts of East Khandesh, Surat and Broach (excluding the Panch Mahals division). Where the volume of work is small, a sub-branch is opened, which may not be open throughout the week and where all types of banking operations are not conducted. The number of branches at the close of the year 1940 was 31 distributed as under :—

<i>District.</i>	<i>Branches.</i>	<i>Sub-Branches.</i>
Satara	8	
West Khandesh	8	
Ahmednagar	4	2
Nasik	3	3
Thana	3	
Panch Mahals	2	2
Poona	1	
Sholapur	1	
Ahmedabad	1	
	—	—
	31	7

In some districts arrangements are made at the request of the local societies and the Branch Committees for the receipt of repayments and disbursement of loans in central villages. The number of such approved pay-centres is three. Attached to each branch is a Branch Committee which is entrusted with various duties and powers including the power to sanction loans and credits to societies subject to certain restrictions.

At the outset, the entire body of the Bank's members were individuals, with the single exception of the Nagar Central Bank. Before long, however, the Directors appreciated the desirability of getting co-operative societies to become members, and special facilities were provided for the purchase of shares from existing share-holders for societies which were anxious to become members. Though a few primary agricultural

societies did take advantage of this offer, in the early days it was mainly the Central and Urban banks that purchased the shares of the Bank to any appreciable extent. Since 1925, with the enactment of the Bombay Co-operative Societies Act XV of 1925, it has been made obligatory for all borrowing societies to become members and at present out of a total of 3267 members, 2005 are co-operative societies. The share-holding of co-operative societies, including central and urban banks amounts to Rs. 6,76,150 out of a total of Rs. 12,99,850. Although the original bye-laws allowed voting to be based on the number of shares held, under the law now in force in Bombay every member, whatever his holding, exercises only one vote. In the original Board of Directors there were included two Directors connected with rural interests, one of them a chairman of an agricultural credit society on the Nira Canal. Later on, representative co-operators from various parts of the Province were taken on the Board, and in 1920 it was decided that Central Banks should be represented on the Board by four Directors. In 1924, it was further decided that this representation should be by direct election and that in addition there should be two representatives of agricultural societies financed by the Bank and one of urban societies financed by it. This scheme underwent a slight modification in 1932. There is a Board of fifteen members at present (including the Managing Director) of whom three represent central banks, two urban banks, three agricultural societies (the election being conducted through the Branch Committees) and seven individual shareholders elected at the General Meeting.

That the Bank has been able to serve as a balancing centre for the Co-operative Movement in the Province is evident from the fact that out of a total sum of Rs. 1,85,03,296 held by it in deposit, so large a portion as Rs. 94,46,720 is received from co-operative institutions, mainly Central and Urban banks. On the fixed deposits of co-operative institutions a slightly higher rate of interest is offered than to individuals. That rate, it may be observed, is regulated from time to time according to the conditions of the money market, but is, however, the same as is quoted by the best banks in Bombay on their fixed deposits. Another important class of depositors are public bodies—local boards, municipalities and school boards—which deposit substantial sums with branches of the Bank. Deposits from these can be accepted without limit as to the amount, in accordance with Government Resolution No. 140-A of 3rd August 1938. The Bank had until 1928 cash credit arrangements with the Imperial Bank of India but those were stopped in that year as the legal advisers of the Imperial Bank of India held that that Bank would not have adequate security for its lendings in virtue of the terms of the debenture trust deed of the

Bank. The Government were approached in the matter and it has been decided that as cover against the floating charge of the debenture holders, the Bank should deposit with the Finance Secretary of the Government of Bombay, securities equivalent in value to the amount of the debentures issued by the Bank. This deposit of securities had now been made. The Bank has cash credit arrangements with the Reserve Bank of India, the Imperial Bank of India and the Bank of India Ltd., against Government securities. In addition it obtains call deposits or loans from scheduled banks at current rates of interest. Arrangements for securing accommodation from the Reserve Bank of India against co-operative paper as provided in the Reserve Bank of India Act are under negotiation.

The Government of Bombay have authorized the Bank to raise debentures to the extent of Rs. 20,00,000 on which interest is guaranteed by the Secretary of State for India in Council until the debentures are redeemed. The debentures bear interest at 4 per cent. and have a maturity of 28 to 41 years. A sinking fund has been built up at the rate of one to two per cent on the amount outstanding by way of debentures, the contribution varying according to the average rate charged by the Bank on its lendings. This fund is invested separately in approved trustee securities and is held in the names of the Trustees. Debentures to the extent of Rs. 7,80,000 were sold before 1915, but after the outbreak of the War and the subsequent rise that took place in rates of interest in the money market it was not found possible to place any more debentures on the market. In 1926 when proposals for the creation of a land mortgage organization were placed before Government they called upon the Bank to function temporarily as a central land mortgage bank financing the operations by raising additional debentures. Government themselves agreed to subscribe to debentures of the value of Rs. 5 lakhs. Debentures of the value of Rs. 2 lakhs were taken up by Government but the remaining three lakhs were sold to private parties and co-operative institutions, as in 1932-33 Government expressed their inability to invest in the debentures at the rate at which the Bank was able to market them elsewhere.

Immediately after the starting of the Bombay Provincial Co-operative Land Mortgage Bank, Ltd., negotiations were opened for the transfer of the Land Mortgage Department maintained by this Bank, but the final transfer has not yet been completed. The Government have kindly consented to consider the question of reimbursing the Bank for the loss incurred on the creation of the land mortgage department on the submission of the particulars of the financial position of the land mortgage department after the loan adjustments of the three primary land mortgage banks have been completed.

At the request of Government, the Bank agreed in 1922 to serve as an agency for the distribution of loans under the Land Improvement Loans Act. Government issued a special set of rules in that year providing for the grant of an allotment to the Bank to be disbursed by it to co-operative societies for works of land improvement, finance being made available by the Bank through Central Banks in areas served by them. The rate of interest for the ultimate borrowers was to be the same as they would pay direct to Government in case they borrowed from the local Revenue authorities. The Bank agreed to charge only a margin of $\frac{1}{4}$ per cent. for its management expenses in case of advances to Central Banks and $\frac{1}{2}$ per cent in case of loans to primary societies. Under the Rules, loans were sanctioned jointly by the Bank and the Registrar and preference was given to co-operative schemes. The total allotment drawn from Government were Rs. 9,80,300 but these allotments have been stopped since 1936 mainly on the ground that the Bank was in a position to give petty loans for land improvement out of its own resources while large loans could be had from land mortgage banks. Of the sums borrowed from Government, the amount now payable to Government is Rs. 32,400 against which Rs. 56,430 is outstanding from societies and central banks, excluding outstandings from societies and banks in liquidation.

The original bye-laws of the Bank provided for its interesting itself in the work of selling on commission agricultural produce on behalf of members of societies and supplying to them agricultural requisites such as manures, fertilizers and improved implements. This business was first undertaken at Baramati and Nira on the Nira Canal through a shop run jointly on behalf of societies and the Bank. Similar arrangements were later on introduced at Kopergaon on the Godaveri Canal and at Belapur on the Pravara Canal. The Bank's experience of this work led it to organize shops for marketing and supply at Kolhapur (for societies in the Walva Taluka in Satara District), at Kurduwadi and Akluj in Sholapur, at Malegaon in Nasik and at Dhulia, Dondaicha and Shirpur in the West Khandesh District. The shops at all the centres after having worked successfully for a number of years have been transferred to newly registered co-operative purchase and sale unions or societies, there remaining with the Bank only one shop at Akluj. The Bank has reopened its shop at Malegaon due to temporary suspension of business by the sale society there. As a part of the programme of marketing organization, shops were opened in the season of 1940-41 at Mandgaon and Igatpur (Dist. Nasik) and at Sant Road (District Broach and Panch Mahals). Through the shops efforts have been made to introduce new varieties of seeds, manures, fertilizers and implements including power driven cane-crushing

plants. At those shops it became necessary for the Bank to make advances against agricultural produce pending sale or delivery or against requisites sent for disposal on consignment account and the bye-laws of the Bank were modified to permit this being done. Though power is assumed to deal direct with individuals who are members of the Bank, advantage is taken of this facility only where no other local organization such as an urban bank or purchase and sale society can take up the work. The minimum amount that can be advanced is fixed at a figure higher than the maximum amount that can be sanctioned by an urban bank or the sale society operating in the area.

For the convenience of members of societies special arrangements have been devised, in consultation with the Registrar, to grant advances to such members on the security of their gold and silver ornaments. The procedure of applying through societies and producing certificates from office-bearers was felt as irksome by members. To meet these difficulties, the bye-laws of the Bank were suitably amended to facilitate such operations. A new type of B class members, drawn from persons who are members of affiliated societies, has been created to whom advances against agricultural produce and goods can be made by the Bank direct. The number of such members is at present 40. Advances against valuables can also be made to members of the Bank itself. Accommodation on the security of manufactured industrial products or raw materials can be allowed to industrial co-operative societies and assistance given in the purchase of raw materials or the sale of finished products. At present financial assistance of this type is granted to various district co-operative industrial associations.

All the district Central Banks in the Province are affiliated to the Provincial Bank although at present only one bank borrows from it against co-operative paper. All the affiliated banks use the Provincial Bank as their balancing centre and overdraft accommodation is allowed to them against Government securities or fixed deposits on special terms. Similar facilities are allowed to urban banks which wish to carry on inland exchange banking operations with Bombay. Thus the Provincial Bank indirectly provides fluid resources for the movement as a whole. The Bank also functions as a clearing house for the affiliated banks all over the Province and special arrangements have been devised for the discounting and collection of cheques drawn on co-operative banks. Through the medium of current accounts at the Bank, co-operative banks in various centres are able to conduct a fairly substantial volume of remittance business arranging for the transfer of funds from one centre to another. Recently the Bank has entered into arrangements with the Bankers' Clearing House for the clearing, through its

agency, of cheques drawn on approved co-operative banks in the City. The Bank was admitted to the membership of the Clearing House in the year 1930 and is among the leading members in respect of the number of cheques cleared through its agency. It may be added that the Co-operative Department with the approval of Government took special steps in 1922 to promote the development of the banking side of the activities of the Co-operative Movement by permitting the opening of accounts and allowing the use of cheques, drafts, hundies and other instruments of credit. Though in the earlier years banks used to take some advantage of the facility of free remittance through the Treasury granted by Government, in accordance with the new orders issued by the Reserve Bank of India no free transfers of funds are now permitted to co-operative societies.

Of the total working capital of the Bank, amounting to Rs. 2,37,37,170 at the close of the year 1940, investments in Government and other authorized securities amounted to Rs. 81,12,964. Short term deposits are kept with joint stock banks and other Provincial Co-operative Banks approved for the purpose by Government. The provision of liquid resources is much in excess of the figure of 40 per cent of liabilities at call prescribed by the Agreement with Government, and ordinarily the Bank has always been troubled with the problem of idle balance for which it cannot find suitable employment within the Co-operative Movement. The amount of advances including the sums involved in overdrafts and cash credits to banks and loans against produce and valuables was Rs. 87,60,966. The bulk of the advances are to affiliated primary agricultural societies which number 1283. It may be noted here that while the standard of repayments was high prior to 1920—except since 1927 in the Deccan Canal areas—with the fall that occurred in commodity prices the volume of overdue loans has grown considerably. In spite of the best efforts on the part of the Bank the percentage of overdues still remains high. In the Canal areas there was a heavy fall in the price of gul (raw sugar) in 1927, and this combined with a few local factors brought about a very difficult situation even earlier.

It may be noted here that in the early days Government assisted the Bank by placing at its disposal a staff of Special Mamlatdars, originally paid entirely by Government and later on partly by Government and partly by the Bank. In course of time, and particularly since 1920, the Bank began engaging its own staff but the services of one Special Mamlatdar were retained till recently for the group of societies for Bhils in the Dohad Taluka. He has now been replaced by a more junior member of the staff of the Co-operative Department. These societies are intended for the aboriginal community of Bhils and the Supervising

Officer working under the Co-operative Department attends to their supervision and control. Similar arrangements have been made for co-operative societies for Bhils in the Taloda Taluka and neighbouring parts of the West Khandesh District. In all other areas the Bank has its own staff for inspection, the total strength of the inspecting staff being 46. The duties of the Inspectors are to scrutinize the applications for loans and credits and to check the statements of normal credits on the basis of which finance is required, to verify the statements of the landed assets of members, to stimulate recoveries and generally to inspect the working of affiliated societies. Branches in different districts are grouped together conveniently in seven circles and one Senior Inspector is placed in charge of each circle. Both the Managing Director and the Manager visit branches and important groups of societies. They or the Directors of the Bank also attend the general meetings held once a year at branches at which are considered reports of working and matters of common interest.

Various measures have been taken by the Bank within the limits of its own capacity to meet the situation created by the Depression. One of the most prominent of these is the adoption of a policy of reviving and continuing the business of societies even with growing overdues by the promise of fresh finance upto the limit of repayments. Every inducement is held out to members of societies to repay to the best of their ability, in consideration of which fresh finance is promptly made available against the repayments. Due care is taken to see that the burden of debt instead of increasing is gradually reduced from year to year. Extensions for the payment of the balance of the loans are allowed where repayments are made on this basis. During the last few years, special steps have been taken for the rectification of the mismanaged or defaulting societies. With the deterioration of the agrarian situation, a number of weak societies have had to be taken into liquidation. At present, the number of societies in liquidation, which have outstanding loans payable to the Bank, is 100, and the amount payable by them is Rs. 20,76,495. To expedite the process of liquidation, which was very dilatory, Government have approved of the appointment of the Bank as liquidator. The work is distributed by the Bank among its inspecting staff.

In the year 1936, the rate of interest for first class primary agricultural societies was reduced to 6 per cent the maximum interest charged being 7 per cent. In addition, the Bank has fallen in with the scheme adumbrated by the Registrar from time to time to permit societies to give a special rebate to their members. Owing to the peculiar condition of canal societies the rate of interest for old outstandings was substantially reduced in the year 1935 with a further reduction, extend-

ing to full remission of interest, on a graduated scale based on repayments. The percentage of repayments necessary for eligibility for further rebate in the case of weak canal societies was so brought down that with payment of full interest at the ordinary rate the society could obtain full remission of interest, the repayment having then to be adjusted to principal account. Similar concessions have now been allowed to weak and stagnant societies in other areas. Reduction in the rate of interest in financially weak societies is also considered on the merits of individual cases. Rebate in interest of long term loans to the extent of 14 to 16 per cent is also allowed.

The Bank provides informally arrangements for giving practical training in co-operative banking to the office and field staff of central and urban banks. Refresher courses have been arranged from time to time for the staff of the Bank itself as well as of other banks. Members of the staff are encouraged by the grant of bonuses to go in for examinations of the Institute of Bankers.

The Bank's Agreement with Government prescribes that after the Bank has paid to its shareholders a dividend at the rate of 6 per cent. the surplus profits, if any, have to be shared at the end of every three years equally between the members and borrowing societies. Contributions to the Reserve Fund too are to rank as payment to shareholders. The borrowing societies get a rebate out of the share of the profits on the basis of the interest paid by them to the Bank. Since the formation of the Bank upto the year 1930 rebates amounting in the aggregate to Rs. 1,87,900 were allowed to borrowing societies having been equivalent in some trienniums to a reduction by over one-half per cent in the rate of interest. With the reduction in the rate of dividend below 6 per cent, the triennial rebates payable under the agreement were discontinued but the Bank paid instead special rebates to deserving borrowing societies amounting to Rs. 46,547 including Rs. 10,000 paid on the occasion of the Bank's Silver Jubilee. It further paid by way of encouragement to well-managed societies rewards in kind amounting to Rs. 2,300 approximately. The rate of dividend paid by the Bank, which was 6 per cent since the commencement and slightly higher for 10 years, had to be brought down to 3½ per cent. The reasons for the reduction are :—

- (1) accumulation of surplus balances for which remunerative investment could not be secured ;
- (2) increased provision against doubtful debts ;
- (3) growth of unpaid interest, necessitating provision against the same out of the profits ;

- (4) loss of interest on balances due from societies in liquidation ;
- (5) increased provision for remitting or reducing the interest charged.

The Bank completed 25 years of its working on 11th October 1936, but owing to the unfavourable agricultural season in several parts of the Presidency, the Board did not deem it proper to incur expenditure on any formal observance of the Bank's Silver Jubilee. To mark the occasion in a suitable manner, a special Jubilee Bonus was paid to members as a further dividend at 1 per cent per annum in addition to the ordinary dividend paid at 5 per cent and special Silver Jubilee Rebate to societies and special Silver Jubilee bonus to the staff were given.

The Bank has interested itself in the holding of periodical conferences at which representatives of the central financing agencies and of urban banks meet together for discussion of matters of common interest. These activities and the interest shown in the discussion of matters of common interest led to proposals being put forward for a co-ordinating agency for the financial side of the Co-operative Movement in the Province. A body called the Bombay Co-operative Banks' Association was started in the year 1939 and the Bank is actively associated with its working. The Bank also took a prominent part in the formation of the Indian Provincial Co-operative Banks' Association of which it continues to be a member.

THE SIND PROVINCIAL CO-OPERATIVE BANK

By

RAO BAHADUR SHIVRATAN G. MOHATTA,
Chairman.

Amongst the Provincial Co-operative Banks in India, the Sind Provincial Co-operative Bank occupies a unique position inasmuch as it is the only Provincial Bank in India that directly finances the agricultural societies in the Province, the District Central Co-operative Banks in Sind having been amalgamated with it and now working as its branches. The history of this Bank may be divided into three periods:—(1) pre-amalgamation period from 1919 to 1934; (2) amalgamation period from 1934 to 1936 and (3) the crisis of 1937 and after. We shall briefly describe the working of the Bank during these three periods.

(1) **Pre-amalgamation period.**—Uptil 1919 there was no central agency in Sind to provide finance for the co-operative agricultural societies in Sind, then numbering about 125. It was through the efforts of the late Khan Bahadur Azimkhan, the then Assistant Registrar, Co-operative Societies in Sind, and with the active co-operation of some of the most prominent leaders of Sind such as Seth Gulamali Chagla, Messrs. Jamshed Nusserwanji Mehta and Jairamdas Doulatram, and the late Messrs. Gulam Md. Bhurgari, Harchandrai Vishindas, C.I.E. and Principal S. C. Shahani that this Bank was registered in 1919 under the name of Sind Central Co-operative Bank, Ltd. to serve as a central financing agency for the co-operative societies in the province. With the establishment of the central financing agency and the efforts of the official and non-official workers, the Co-operative Movement in Sind gathered strength. By March 1924 the number of societies increased to 550 and the working capital of the Sind Central Co-operative Bank increased to over Rs. 14 lakhs, as against Rs. 1½ lakhs in 1919-20. By this time the District Central Co-operative banks in different districts of Sind were established, while the Sind Central Co-operative Bank was recognized as the apex bank in Sind. By the end of 1933 the number of societies affiliated to the Sind Central Co-operative Bank and the District Central Co-operative Banks in Sind rose to over 1,200. The working capital of the Bank rose to over Rs. half a crore. During this period of fourteen years the Bank had made steady progress, built up good reserves and from its very inception paid dividend to its shareholders, the rate of dividend for 1932-33 being 5½ per cent.

(2) **Amalgamation Period.**—The amalgamation of the District Central Co-operative Banks in Sind with the Sind Central Co-operative Bank Ltd. was completed in two stages. The three District Central Co-operative Banks of Lower Sind at Hyderabad, Nawabshah and Mirpurkhas were amalgamated as from 1st April 1934 and the name of the amalgamated Bank was changed to Sind Provincial Co-operative Bank Ltd. At the same time the remaining two Upper Sind District Central Banks at Sukkur and Larkana were amalgamated under the name of Upper Sind Central Co-operative Bank Ltd. One year later the Upper Sind Central Co-operative Bank was also amalgamated with the Sind Provincial Co-operative Bank Ltd. thereby completing the amalgamation process. As from 1st July 1935 the Bank worked as a full fledged Sind Provincial Co-operative Bank, Ltd. with Head office at Karachi and branches at Hyderabad, Nawabshah, Mirpurkhas, Sukkur and Larkana. The first amalgamation of the Lower Sind District Central Co-operative Banks with the Sind Central Co-operative Bank led to a strong agitation created by interested parties and resulted in considerable withdrawal of deposits both from the Sind Central Co-operative Bank and the Lower Sind District Central Co-operative Bank. After the amalgamation, however, the public confidence was not only restored but the Sind Provincial Co-operative Bank began to grow more and more strong. The Board of Directors of the Bank was expanded from eleven Directors to twenty-three to include two representatives of each of the original District Central Co-operative Banks. In October 1936, a branch office was opened at Dadu, the head-quarters of the newly constituted Dadu district. The Bank had also two local branches at Karachi. Early in 1937 the Bank with its Head Office at Karachi, six branches in district towns in Sind and two local branches, had a working capital of over Rs. one crore and twenty lakhs.

(3) **The Crisis of 1937.**—By the end of 1936 there arose a controversy between the Registrar, Co-operative Societies in Sind, and the then Chairman of the Bank over certain matters of policy, with the result that there was a split amongst the Directors of the Bank. While the controversy raged the public deposits continued to be withdrawn so that between May 1937 and January 1938 no less than Rs. 40 lakhs were withdrawn from the Bank. The inevitable crisis was however averted by the Provincial Government coming to the help of the Bank with a loan of Rs. 8 lakhs and other measures to restore public confidence. In their communique dated 25th January 1938 the Government of Sind decided to take the following measures:—

- (a) to invite some person with wide experience of banking and of the Co-operative Movement to examine the affairs of the

Bank and to advise as to the manner in which its organisation and working could be improved;

- (b) to appoint, for as long as may be found necessary, an experienced officer of the Indian Civil Service as Registrar of Co-operative Societies;
- (c) to advise the Bank to take steps to provide for the constitution of a Committee of Management in supersession of the Board of Directors, the members of the Committee to be nominated by Government and adequately to represent the interests and command the confidence of both lenders and borrowers.

Accordingly, in February 1938 the Government invited Mr. V. L. Mehta, Managing Director of the Bombay Provincial Co-operative Bank, Ltd., to examine and report on the organization and working of the Sind Provincial Co-operative Bank Ltd. An experienced I.C.S. officer was immediately appointed as Registrar of Co-operative Societies in Sind and after the Bank had amended its byelaws, as desired by the Government, a committee of nine members was nominated by Government in April 1938 in place of the then Board of Directors. In addition to these measures the Provincial Government by a communique assured the public that Government would be prepared to guarantee any issue of debentures that may be necessary and pending such issue would be prepared to give further financial help to the Bank, if and when necessary.

In his report to Government on the organization and working of the Bank, Mr. V. L. Mehta made several recommendations of which the most important were:—

- (a) Detailed examination of debts due from members of agricultural societies with a view to ascertain the exact financial position of the societies, to write off bad debts, allow instalments for the frozen debts and scale down the existing debts to the level of repaying capacity of the members. To enable the Provincial Bank to allow long term instalments to agricultural societies which were necessary under prevailing circumstances, the Provincial Government should guarantee principal and interest of debentures to be floated by the Bank to make available long term capital.
- (b) Changes in the constitution of the Board of Directors at Head Office and at Branches and amendment of bank's byelaws to give effect to the same.
- (c) Formation of a Provincial Supervision Board for co-operative societies to more effectively co-ordinate and control the work of the field staff engaged in the recovery of old outstandings.

All the three major recommendations and most of the other recommendations were approved by Government and have been given effect to. To allow the nominated Committee sufficient time to prepare the necessary ground work the term of the Committee, which was to expire in April 1940, was extended upto September 1941. The work of the examination of the debts of agricultural societies, fixation of instalments against individual borrowers and concessions in interest and scaling down of debts of deserving members is now nearing completion. The Bank's byelaws providing for the future constitution of the Board of Directors have since been amended as desired by the Government and the Provincial Supervision Board with the Registrar of Co-operative Societies, Sind, as its ex-officio Chairman has been formed. These measures, together with several other reforms since introduced, have now placed the Bank on a firm footing. The crisis, in a way, helped the Bank which is now in a far better position than ever before. The nominated Committee has been doing good team work. The two I.C.S. Registrars, Messrs L. T. Gholap and G. V. Bedekar, have done their utmost to place the whole movement on a sound footing. The working of the Provincial Bank, the relationship of the agricultural societies to it, and the process of vitalisation of the primary societies have all been re-organised and given proper shape. All this would not have been possible but for the active financial and moral support of the Provincial Government during the most critical period in the Bank's history.

The Bank has during this short period of three years practically regained all the lost ground. The deposits have nearly touched the pre-crisis figure. The Bank has heavy surplus funds with the result that it has been able to reduce the interest rates to $\frac{3}{4}$ per cent for current deposits, $1\frac{1}{2}$ per cent for savings deposits and 2 per cent for 12 months deposits. The agricultural societies are being re-financed for current agricultural operations for which detailed rules have been framed. It is intended to start co-operative sale and marketing societies, in which work the new Registrar Mr. Yar Mahomed A. Memon is taking a keen interest.

The share capital and total reserves of the Bank are Rs. 8,89,000 and Rs. 10,45,000 respectively. The Bank has its own buildings at Karachi, Hyderabad and Larkana. The Bank transacts every kind of banking business on co-operative lines and serves both the rural and the urban population. It has a trained and qualified staff. The Committee of Management consists of experienced business men and landlords of long standing and wide influence.

We are sure the bank will continue to maintain its present progress and will be able to extend its activities and usefulness in course of time.

THE PUNJAB PROVINCIAL CO-OPERATIVE BANK

By

MULRAJ BHAI, M.A.,

Manager.

Formation.—In April, 1921 Mr. H. Calvert, I.C.S., the Registrar of Co-operative Societies, Punjab, addressed a letter to Local Government on the subject of the constitution of a purely co-operative Apex Bank exclusively under the control of *bona-fide* co-operators. With that letter he submitted a scheme for the approval of the Government. After describing the main features of the apex banks existing at the time in Burma, Madras, and Bombay and touching on the difficulties of converting one of the larger central banks into a Provincial Bank mostly because the individual members could not be persuaded to accept the model by-laws, he propounded a scheme on the following lines:—

(1) Shares to be sold to the registered societies only. (2) The value of each share to be Rs. 100/- (or Rs. 50/-). (3) Each Society to take one share at least, and to pay ten rupees for every year of its life. (4) So long as any debentures were outstanding, no dividend would be paid, all profits would go to a Sinking Fund to redeem debentures. (5) Debentures may be issued as required up to an amount not exceeding 3 times the paid-up capital, such debentures to be redeemed at the expiry of 16 years, and to be redeemable after ten years. (6) The Local Government to guarantee interest on their debentures at the rate of six per cent. (7) These debentures to be made Trustee Securities by an amendment of the Indian Trusts Act. (8) When all the debentures have been redeemed the sum thus required by the bank to be divided as share capital in proportion to shares held. (9) Thereafter, shares would carry dividend at the maximum rate of one per cent over the normal rate at which the bank was attracting deposits. (10) The Provincial Bank to be allowed to receive deposits for fixed periods, provided that 40 per cent of such money was held in Government Securities, or, in cash or in other approved liquid form, at call. (11) The Sinking Fund formed from the profits of the Bank to be invested in such securities as the Local Government may direct and held under the control of such Government. (12) The Local Government to be empowered to inspect and audit, and if default in payment of interest on debentures were made

for 21 days, to take possession of the business and assets. (13) Under the scheme, it would not be necessary for the Bank to put aside any reserve until the debentures were paid off, as the whole of the profits would be held in hand.

The Local Government sought the approval of the Government of India which agreed as to the desirability of establishing a provincial bank in the province and which suggested to the former to obtain by resolution the approval of the Local Legislature to the course which it had proposed to follow. Accordingly the Punjab Legislative Council passed the following resolution on the 20th October, 1923:—

“That the Council recommends to the Local Government

- (a) that a Provincial Co-operative Bank should be established;
- (b) that the Local Government should agree to guarantee interest at six per cent on debentures to be issued to a total sum of Rs. 20 lakhs and for a period not exceeding 25 years from the date of issue thereof, provided that the Bank enters into an agreement with the Local Government to redeem the debentures within the period named.”

The next step was registration of the Bank on December 16, 1924 by Mr. Calvert himself, although in view of the agreement which was to become the basis of guarantee for the debentures he took special care to obtain the previous approval of the Government (Ministry of Agriculture) to the draft by-laws, proposed by him before setting his hand to the certificate.

The Bank commenced business formally on February 1, 1925 with a capital of Rs. 1,11,000 but remained practically a book bank for the first eight months, settling down and going through the preliminaries with the assistance of its bankers *viz.*, the Imperial Bank of India and the Lahore Central Co-operative Bank. On 17th August, 1926 the Bank for the first time invited the Central Banks and Banking Unions which were then 106 in number and several of whom had already grown up to a respectable size, to bank with it. It would be of interest to reproduce a part of the Circular here:—

“The Policy of the Punjab Provincial Co-operative Bank, as laid down by Mr. Calvert and provisionally approved by the Directors, is that the Bank shall not ordinarily take fixed deposits from Central Banks and Unions of the Punjab, but after investing in Government Securities the money derived from its shares and establishing an overdraft account in the Imperial Bank of India, on the basis of this investment, shall take the surplus funds of Central Banks and Unions at a

comparatively low rate of interest, either in current account repayable on demand, or repayable at very short notice. The overdraft account in the Imperial Bank of India now amounts to a little over Rs. 1,00,000 and the Provincial Bank is prepared to accept experimentally any surplus funds which Central Banks and Unions have in hand up to a limit (for the time being) of Rs. 50,000 from each bank. The rate of interest paid will be four per cent and cannot be higher, since the Provincial Bank has to hold this money at all times available, and cannot distribute it in the form of loans for a fixed term to other Central Banks."

Inter-lending.—Another six months passed. In March 1926 the Bank offered to accept re-deposits of surplus funds from Central Banks for fixed periods in addition to current accounts with which it had started. But inter-bank loans which were regulated by the Registrar himself before the formation of the Provincial Bank continued as before. The only difference was that now these transactions were arranged and controlled by the Provincial Bank itself. When an application for a loan came to the Provincial Bank from a Central Bank or Union, the Provincial Bank being aware of these surpluses which were lying with the moribund Central Banks themselves or in its own possession as deposits made by other Central Banks, the first opportunity of lending their surplus naturally fell to these depositing banks. This went on for three years. With the growth of surpluses in most of the banks the complaints of non-investment of these funds became very insistent.

Ultimately it became extremely difficult for the Provincial Bank to reconcile the conflicting claims of the surplus banks. Some got a larger share in the investment of their funds simply because they clamoured most. Sir Malcolm Darling (then Mr. Darling), who happened to be Registrar between 1927 and 1929, found further support in his determination to put a stop to the evils of the system. He issued a circular on 14th February, 1929 withdrawing his sanction for future lending by one Central Bank to another in any shape whatsoever and making it obligatory on the Provincial Bank to accept without limit surpluses of the central institutions affiliated to it. This made the Provincial Bank a real balancing centre in the Province.

Debentures.—To the promoters it was the *raison d'être* of the Bank to find finance for mortgage banking in this Province. In 1926 there were 7 co-operative mortgage banks which had been granted loans for periods ranging between 5 to 10 years from 'Provincial Funds' placed at the disposal of the Registrar of C. S. to the extent of 2 to 4 lakhs of rupees every year. The Provincial Bank decided upon taking over these loans from the Local Government with the proceeds of a debenture

issue secured on its own assets. With this end in view two documents were executed on the 13th of August 1926 viz. (1) Articles of Agreement entered into between the Local Government and the Bank, and (2) Debenture Trust Deed between the Trustees on the one hand and the Bank on the other.

Terms of the Articles of Agreement.—Shorn of technicalities, the main terms of the Agreement were: (1) that the Bank shall have power to raise moneys not exceeding 3 times the amount of the paid-up capital of the Bank for the time being subject to a maximum of Rs. 20 lakhs by the issue of debentures charged upon the undertaking and general assets of the Bank; (2) that the Bank shall establish a Sinking Fund in order to provide for the repayment and redemption of debentures and to the credit of such fund there shall be paid at the close of each financial year profits that may have accrued to the Bank during such year; (3) that no dividend shall be payable to the shareholders of the Bank so long as any of the debentures shall remain unredeemed; (4) that the Secretary of State through the Local Government of the Punjab shall guarantee the payment of interest up to but not exceeding 6 per cent per annum during a period of 25 years or until such debentures shall be wholly paid off or redeemed whichever shall first happen but shall not guarantee the payment or redemption of any part of the principal money secured by such debentures.

Terms and conditions of the Trust Deed.—Similarly the chief provisions of the Trust Deed were:

(1) that the Sinking Fund and its investment shall remain under the control of 2 trustees one of whom shall be a nominee of the Government and (2) that the moneys secured by the Trust Deed shall be a first mortgage over and charge on the mortgaged premises and shall take precedence over all other moneys which may thereafter be borrowed by the Bank.

On 1st November 1926 the Bank whose owned funds were barely Rs. 4½ lakhs ventured to come out in the money market for sale of its series of debentures (which proved to be also the last) at par in a single denomination of Rs. 100. The rate of interest offered was 6% which according to the rate of interest then prevailing in the country and in view of the Government Guarantee being confined to interest alone, was considered to be rather low by some of the best financiers of the Province. The response was quick and unexpected. The Bharat Insurance Co., and the Peoples' Bank (both were ventures of the late Hon'ble L. Harkishen Lal who 3 years before as Minister in charge of Co-operation had piloted the resolution for the establishment of the

Bank through the Local Council) applied for Rs. one lakh each. Two applications for Rupees 20,000 came from the Bombay Province, one from U. P. and one from Ajmer. The rest were drawn from the professional upper classes of the Punjab. Being oversubscribed an allotment @ 80% was made to big applications. The proceeds were wholly lent to Mortgage Banks @ 6¾%. But the status of the debentures in spite of best efforts of the Bank could not be raised to that of the trustee securities. The floating charge given away to the debenture-holders on the property of the Bank with the additional stipulation that the Bank is not to be at liberty to create any mortgage or charge in priority to or *pari passu* with these debentures proved to be a fruitful source of embarrassment. The Bankers refused to accept the Government Securities of the Bank as cover for an overdraft or loan because the first charge over all the property of the Bank belonged to the debenture-holders, irrespective of the fact that the debenture floatation did not exceed Rs. 5 lakhs. In view of the persistently falling price of money it was resolved by the Bank's Executive Committee in August 1936 to redeem the entire debenture loan outstanding on the completion of 10 years from the date of issue thereof. With the previous approval of the Local Government and after giving out 3 months notice to the debenture-holders the principal money of the debentures was finally paid off on 1st February 1937, out of the accumulated Sinking Fund of Rs. 6,27,451 leaving a surplus of Rs. 127,451 in the hands of the Bank.

Management and Control.—The management of the Bank has been entrusted to an Executive Committee (Board) consisting of 33 Directors. Of these the Registrar of Co-operative Societies and the Financial Adviser to Co-operative Department hold office *ex-officio*, the rest are representatives of member societies elected at the General Meeting on the basis of one person for each of the 28 districts of the Province except Simla. The remaining 3 vacancies, including for the district of Simla, are filled up by the Registrar by nomination from among the representatives provided that 2 nominations shall not be made from one district. Ten members form a quorum. The Committee meets once in 2 or 4 months and decides only matters of broad policy and gives general direction. The conduct of routine affairs of the Bank is left to an inner body known as the Working Committee.

Working Committee.—This small Committee of 9 at present is appointed by the Executive Committee from among its own members. It meets once in 2 months and disposes of day-to-day matters of administration of the Bank. To it are delegated the following powers of the Executive Committee:—

(1) to issue new and transfer old shares. (2) to decide the terms, periods and rates of interest at which loans are to be given. (3) to decide the terms, periods and rates of interest at which deposits are to be received. (4) to contract loans with the sanction of the Registrar and to raise other capital as directed by the General Meeting. (5) to make appointments to the staff.

Cases of urgency and loan applications are dealt with by the President assisted by the Financial Adviser to the Co-operative Department within the general limits laid down by the Working Committee. These cases are then presented before the next meeting of the Working Committee for approval and further guidance if necessary.

General Meeting.—The existence of some 12,200 shareholders, of which 11,800 are primary societies scattered all over the Province which in one respect constitute the backbone of the Bank, raises difficult problems of Management. How to bring together to a common forum the representatives of all these small societies situated hundreds of miles away from the head-quarters of the Bank is a question which yet remains unsolved.

Under the authority of by-law 13, a device known as Sectional General Meetings on an identical agenda has been tried but without success. Curiously enough the difficulty experienced is not one of unwieldiness but of paucity. To remedy the defect several proposals have been put forward. One is to exclude all primaries from membership. Another is to retain them (as recommended by the MacLagan Committee) but to hold indirect elections with the 'tehsil' as the electoral unit and to finally summon not more than 150 delegates to the general meeting at Lahore. The problem is being earnestly tackled just at present and it is hoped that, before long, a workable solution would be found out.

**STATEMENT SHOWING PROGRESS IN THE NUMBER AND
THE CLASSIFICATION OF THE SHAREHOLDERS OF THE BANK**

Year (alternate)	Primary Societies. Agricultural credit	Non -Agri- cultural credit.	Secondary Societies including central banks, banking unions, industrial banks and unions.	Other societies (Non-credit)	Individuals.
1925	4750	25	75	10	Nil
1927	9528	102	111	22	Nil
1929	12243	200	122	50	Nil
1931	12678	220	132	60	Nil
1933	12645	220	132	60	Nil
1935	12619	207	133	52	Nil
1937	12198	197	134	46	Nil
1939	11996	189	131	43	Nil
1940	11844	186	131	43	Nil

NOTE:—Decline in the number of societies after 1933 is due to purchase of the shares of societies under liquidation from the Share Transfer Fund.

**STATEMENT SHOWING DISTRIBUTION OF ASSETS OF THE BANK
In Lakhs of Rupees**

Year (Alternate)	Investments in Govt. & other approved securities	Loans to Central Banks & Unions	Cash Credit to Central Banks & Unions	Loans to land mortgage banks	Total of cols 3, 4 & 5	Percentage of Invest- ments to total Deposits	Percentage of col. 6 to Total Deposits
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
31st Aug:							
1925	1.65	2.54	Nil	Nil	2.54	85.5	132
1927	20.84	5.06	2.88	7.29	15.23	85	50
1929	39.23	10.94	4.07	18.46	33.47	61	52
1931	32.79	46.11	6.60	19.06	71.77	35	75
1933	126.94	24.02	0.65	16.93	41.60	78	28
1935	95.74	27.10	1.17	15.68	43.95	79	38
1937	96.70	34.67	0.82	14.11	49.60	77	38
1939	91.97	40.83	2.13	13.10	56.06	74	45
1940	76.54	55.05	2.92	12.39	70.36	65	60

STATEMENT SHOWING PROGRESS IN THE RESOURCES OF THE BANK

(In Lakhs of Rupees.)

Year Alter- nate.	Share capital paid up.	Sinking Fund and other Reserve Fund	Funds.	Fixed Deposits. Members. Non-members.	Current Account 99% by members	Savings Bank Deposits. Members. Non- members.	Other sources such as loans from Govt. & Debentures.	Profits.	Working Capital.	Percentage of owned funds to total outside liabilities.
31st Aug.										
1925	2.30	Nil	Nil	1.63	Nil	Nil	Nil	.10	4.37	119
1927	6.30	.31	0.70	11.81	10.64	Nil	.02	.14	39.74	20
1929	10.30	1.01	30.42	4.90	9.61	Nil	.33	Nil	76.51	17
1931	11.18	1.08	56.39	7.09	12.05	Nil	.7	Nil	108.83	12.5
1933	11.27	1.18	115.63	10.53	18.69	Nil	.25	.89	176.08	8
1935	11.31	6.55	81.34	12.59	8.65	Nil	.27	3.11	142.74	14.8
1937	11.42	12.02	100.14	14.97	8.79	Nil	.53	.32	152.77	18
1939	11.44	14.56	83.71	17.42	6.91	Nil	.66	.38	153.63	21
1940	11.45	16.99	60.98	22.68	10.73	Nil	.42	.44	149.50	24.5

Note—Profits were wiped out between 1929 to 1931 by book losses arising from heavy depreciation in Government Securities. The whole amount written off however, returned to the Bank in 1935 on the sale of securities which had since recovered. The decline after 1935 is explained by the adoption of a new practice by the Bank. Interest accrued on loans due by weak banks is being taken to Interest Suspense Account which on realization is credited direct to Interest Received and Reserved Account without passing it through Profit & Loss Account.

The Banking Crisis of 1931.—The year 1931 marks an important stage in the development of the Bank and will be remembered in its history. The first serious test to which the Bank was put in its short life was the banking crisis of September 1931. The Bank succeeded in weathering the storm so skilfully that all doubts as regards its utility were set at rest. What follows is a brief description of the event extracted from the annual report of the Bank: "The Peoples Bank of Northern India Ltd. suspended payment on the 29th of September 1931. This was the immediate cause of the crisis. Britain's going off the gold standard, 3 compulsory holidays on 23rd, 24th and 25th September and universal economic depression were other concomitant factors. There was a distinct run on the co-operative banks in common with the joint-stock banks, which were situated at places having a branch of the Peoples Bank or of the Punjab Kashmir Bank which also closed its doors. They were Lahore, Gujrat, Gurdaspur and Narowal. The panic abated in 4 days' time but confidence was not fully restored. Withdrawals of fixed deposits on maturity continued for 4 months from some of the Central Banks. New deposits were out of the question. Lyallpur, Sargodha, and Jaranwala Central Banks were affected by hostile propaganda by interested parties. Gurgaon, Rewari, Rohtak, Karnal and Hissar Central Banks were handicapped by severe famines. The Provincial Bank extended its support freely to all those which applied for it. Calls for accommodation were made by Central Banks, large and small, in the shape of heavy drawings on the current accounts, cash credit limits and fresh loans. In several cases advances were made without application when it was discovered that fluid resources of certain Central Banks were drained by persistent withdrawals. All formalities were set aside and in most cases pronotes were obtained long after the moneys had been remitted.

Incidentally, the soundness of one of the findings of the MacLagan Committee Report, that inter-bank lendings should be prohibited because it leads to interlocking of funds, was amply proved. The creditor Central Banks pressed the debtor Central Banks for repayment of balances still outstanding as a legacy of the old regime. But not a single bank could pay. All of them had to fall back on the Provincial Bank which paid out Rs. 40 lakhs in a month's time. The thanks of the Bank are also due to the Local Government which readily consented to offer its guarantee for the Rs. 20 lakhs cash credit limit with the Imperial Bank at that critical hour.

Relations with Central Banks.—The Bank is the coping stone of the co-operative credit structure. The system forms a federated whole. Thus the essential function of the apex bank is that of co-ordinating and

balancing the activities of the members of the federation. The bank performs this service in various ways: (1) accepts surplus funds without limit from Central Banks and banking unions offering a reasonable rate of interest, (2) utilises the pooled funds in providing credit facilities to the member banks, (3) serves as the clearing house for the settlement of cheques, bills and drafts of the whole organization, (4) economises remittances from one place to another, (5) supplies skilled knowledge in all complicated matters of higher banking law and practice, (6) helps in buying and selling of gilt-edged securities by advice or by actual performance free of charge, (7) acquaints the banks with conditions of the money market and security market by circulars from time to time, (8) gives lead to the Central Banks by revising its own borrowing and lending rates or by otherwise changing its policy if financial conditions justify such a step, (9) encourages the study of principles of co-operation, and law and practice of banking among the staffs of the member banks. The Bank avoids competition with the Central Banks in all spheres of its operations and offers them preferential treatment.

The Central Banks on the other hand send regularly prescribed monthly returns to the Provincial Bank giving information about the following matters:—

(a) position of fluid resources (b) maturities of fixed deposits (c) seasonal recoveries from affiliated societies, (d) prevailing rates of interest, (e) bad and doubtful debts, (f) overdues of interest, etc.

The relations between the Provincial Bank and the Central Banks are based on community of interests, mutual good-will and co-operative spirit. The question of effective control by the one over the other has not so far been discussed.

Business of the Bank.—It is to be remembered that nearly 12,000 primary societies are shareholders of the Bank but the same societies are also shareholders of the Central Banks. With a view to avoiding conflict with the Central Banks and for other obvious reasons the Provincial Bank does not deal with primary societies at all.

Advances to Central Banks.—Loans to Central Banks are made according to their requirements on the security of their own promissory notes. They are not required to assign the pronotes or bonds of the affiliated societies to the Provincial Bank. The surplus Central Banks only borrow in a time of emergency unlike minus Central Banks, whose number has arisen, thanks to the continued fall in prices of agricultural produce, successive famines in some of the dry portions of the Province

and the nervousness of depositors as a repercussion of the Great War. The existing rate of interest charged on these loans is the Bank Rate (Imperial Bank) subject to a minimum of $3\frac{1}{2}$ per cent. The duration of a loan is generally 12 months, but the borrowing bank has the option to repay within that time. Extensions are granted for satisfactory reasons for inability to pay. Since 1932 half-yearly kists are fixed on the basis of the prospects of the harvest. The percentage of repayments is 29. Loans to banking unions are granted only in such cases where the parent Central Bank refuses to finance them or charges an excessive rate of interest.

Cash Credits.—Limits ranging from Rs. 2,000 to Rs. 30,000 are sanctioned to Central Banks and banking unions to meet their short-term requirements. These drawings are intended to be utilised, otherwise they are liable to be cancelled. Nor are the undrawn limits to be counted towards the prescribed standard of fluid resource. This rate of interest charged for this facility is Imperial Bank Rate, subject to a minimum of 4 per cent.

Overdrafts.—Temporary overdrafts without security are also allowed on current accounts and banks have permanent arrangements on the pledge of approved security. In addition to this all Central Banks have permanent overdraft arrangement with the branches of the Imperial Bank within their easy approach.

Long-term Loans.—Owing to the stagnant condition of the land-mortgage banks, practically no business is carried on now under this head.

Surplus Funds.—The only outlet for the employment of surplus funds is investment in trustee securities.

Advances to Individuals.—Except on the security of his or her own fixed deposit in the Bank no other facility can be afforded to individuals under the Rules.

Deposits.—Deposits are accepted from all parties in fixed, current and savings bank accounts. At present no interest is allowed on current accounts for individual customers, while on the same class of accounts for Central Banks 1 per cent is allowed on the daily credit balance.

Arrangements with the Reserve Bank.—A current account has been opened with this Bank which has recently opened a full-fledged Branch in Lahore. Negotiations are also on foot to establish a permanent con-

nection with this bank. The proposal is being considered to come on the approved list by agreeing to deposit free of interest with the Reserve Bank $2\frac{1}{2}$ per cent of the demand liabilities and 1 per cent of the time liabilities of the Provincial Bank. In return for this the Provincial Bank will be entitled to the same remittance transfer facilities as are enjoyed by the Scheduled Banks subject to certain other conditions.

Free R. T. Rs.—These facilities, which have been enjoyed by the Co-operative Movement over the whole of the country since its inception, have recently been withdrawn by the Government of India. The Local Government is being approached to compensate the Reserve Bank for the cost involved.

Arrangements with the Imperial Bank of India.—A permanent overdraft arrangement for Rs. 50 lakhs exists with the Imperial Bank of India against the security of Government Paper lodged with them. The rate of interest has recently been revised twice and reduced to bank rate, minimum 3 per cent. Two years before it was Bank Rate, minimum 4 per cent.

Cash Credit limit.—At one time the Bank could avail itself of a cash credit limit of Rs. 20 lakhs on the security of pronotes of approved Central Banks at 1 per cent above the Bank Rate, minimum 6 per cent. It was cancelled in 1931 apparently for want of drawings on it but really on account of the paramount floating charge created in favour of the debenture-holders.

Relation with the Indian Provincial Banks' Association.—The Bank is a regular member of the Association and is also represented on the Standing Committee by a delegate.

Dividend.—Subsequent to the redemption of the debentures a dividend at $4\frac{3}{8}$ p.c. was declared for the year 1938-39. 5 p.c.; for the year 1939-40 is being given. Accumulated dividend at $6\frac{7}{8}$ p.c. relating to the period of currency of the debentures has also been distributed in cash in place of bonus shares as was originally provided for in the scheme of debentures.

Overdue interest.—The amount has been calculated at Rs. 57,000 and is mostly due from the mortgage banks under liquidation. The amount is fully provided for.

Bad and Doubtful Debts.—The peculiar position of the Provincial Bank has led to the increase of doubtful debts. They have been recent-

ly estimated at Rs. 12.53 lakhs, the total amount on loan being Rs. 67.45 lakhs. This is amply provided for according to the prescribed standard under the two heads, Reserve for Bad and Doubtful debts and Interest Received and Reserved Account.

Land Mortgage Banks.—It is not proposed here to make a comprehensive survey of the growth of the mortgage banks in the Province. They will be studied only in so far as they come in the picture with reference to the operations of the Provincial Bank. They were 7 in number in 1926, 9 in 1927, 10 in 1929 and 12 in 1930. Of these twelve, 6 operate in wet areas and 6 in dry areas. Two having recently gone into liquidation, the number of those in the field is reduced to 10. It may also be mentioned that only 1 among these banks (the first to be registered) is with unlimited liability, the rest are with limited liability.

It is unfortunate that there appears to be no genuine future for the land mortgage banks in the Province. With the exception of 2 or 3, no bank is advancing new loans. Their entire energies are concentrated on the realization of frozen assets from the defaulting members. Some of the important factors responsible for the set-back may be summarized as follows:—

(1) *The limitations set by the Alienation of Land Act.*—Under this Act the land of notified agricultural castes cannot be sold to members of castes which are not covered by the notification. It can, however, be leased for a maximum period of 20 years. The status of a mortgage bank is that of a non-agriculturist in the eyes of the Act. Thus the land of an 'agriculturist' cannot form a satisfactory basis of long-term credit for him.

(2) *The changed level of low economic prices since 1929.*—It has been a difficult process for the agriculturist to adjust himself fully to it.

(3) *Lack of experience and foresight.*—Big loans out of proportion to the repaying capacity of the debtors were given, especially in some of the wet areas.

(4) *A long spell of drought and famine in the South-East Punjab.*—Both the banks in liquidation belong to this area.

(5) *The relative shortness or the length of loans.*—The smaller the period, the lower is the margin of saving of the debtor. 10 years in the first instance with a possibility of extension for another 10 years is too inadequate for the purpose. It ought to have been 20 plus 20, if necessary.

The following table indicates other facts relating to the indebtedness of the Mortgage Banks to the Provincial Bank:—

In Lakhs of Rupees

Year	Balance of out-standing loans	Percentage of recovery	Period of Loans	Rate of Interest	Security offered
31st Aug.					
1926	7.29	—	10 years	7 %	Bonds executed by the Mort. Bk. in favour of the Provincial Bank without any collateral security.
1927	8.29	12		"	
1928	13.62	16		6¾%	
1929	18.46	10		6½%	
1930	18.96	7		"	
1931	19.06	12		"	
1932	17.92	7		"	
1933	16.93	6		"	
1934	16.34	5	Extended for a	5½%	
1935	15.67	5	fresh period of	5¼%	
1936	15.22	7	10 years since	"	
1937	14.11	9	1934	4½%	
1938	13.76	5		"	
1939	13.09	5		"	
1940	12.39	5		"	

THE BENGAL PROVINCIAL CO-OPERATIVE BANK

By

RAI BAHADUR SANAT KUMAR CHATTERJEE,

*Director, Bengal Provincial Co-operative Bank Ltd.,**Professor, University Law College, Calcutta.*

The Bengal Provincial Co-operative Bank, Ltd., had its nucleus in the Bengal Provincial Co-operative Federation which was registered in February, 1918 and started its work in the month of April, 1918.

Before the Federation started work, it was the Alliance Bank of Simla Ltd., Darjeeling Branch, which used to finance the Co-operative Central Banks under the Cash Credit system. On the 1st of July 1918 the Bengal Provincial Co-operative Federation took over all the cash credits granted by the Alliance Bank of Simla Ltd., to the Central Co-operative Banks in the Presidency of Bengal and the total cash credits thus taken over was about 3 lakhs of rupees. Almost all the Central Banks in the province joined the Federation before the 31st December, 1918.

The Federation provided investments in its current and short term deposits at remunerative rates for several lakhs of rupees which would otherwise be idle in the hands of Central Banks for some months before the sowing season. The Federation was at its inception managed by a Board of Directors with the Registrar as its Ex-Officio Chairman. Mr. J. T. Donovan I.C.S., was its first Chairman.

In 1922 the name of the Federation was changed to the Bengal Provincial Co-operative Bank, Ltd. From this year non-official Chairman has been elected. Amongst others the following distinguished names may be mentioned as the holders of the office of the Chairman:—1. Mr. I. B. Dutt, Managing Director, Comilla Union Bank, Ltd. 2. Mr. S. R. Das, Advocate-General, Bengal. 3. Sir R. N. Mukherjee, K.C.I.E., K.C. V.O., (From 1927 to 1930). 4. Mr. J. N. Basu, M.L.A., Solicitor (From 1931 to 1934).

Mr. W. C. Wordsworth, M.L.A., Ex-Director of Public Instruction, Bengal and Assistant Editor, *Statesman*, is the present Chairman and has been holding office since 1934-35.

In 1923 the system of withdrawal by means of demand draft from current account was introduced. In 1928 the Savings Bank Department

was opened. Cheque system in the current account was introduced from 1st January, 1940.

The Provincial Bank financed the Co-operative Jute Sale Societies, but they did not prove successful and they had to be liquidated in 1930. The failure of the Jute Sale and Supply Societies had a repercussion on the Provincial Bank. The then Minister-in-Charge of Co-operation obtained a guarantee from the Government of Bengal for 3 years of a cash credit of Rs. 30 lakhs with the Imperial Bank of India. This was intended as a second line of resource on which the Bank may fall back in case of emergency. But there was no occasion to draw upon the same at all.

In 1934-35 in order to make good the entire losses sustained by the Provincial Bank on account of its investment in the Jute Sale and Supply Societies, the Government of Bengal granted a subvention of Rs. 24 lakhs in annual instalments of Rs. 2 lakhs for 12 years. Rs. 8 lakhs have been drawn up-to-date on that account.

The lending rate of the Provincial Bank to the Central Banks was at about this period reduced to an effective rate of 5 per cent on old long term loans in order that there may be corresponding reduction of interest to the ultimate borrowers.

For the last two years the Provincial Bank has changed its loan policy and has practically confined its business in advancing short term loans to the Central Banks for the purpose of supplying the necessary small credit to the actual cultivators for raising their seasonal crops. For the last two years both the Department and the Provincial Bank agreed that the future of the Co-operative Movement in this province depended on two important factors viz.—1. expansion of business on sound lines and 2. liquefying the frozen assets of the Provincial Bank and their realisation by instalments spread over a number of years. It was agreed that the ultimate goal of co-operative credit organisations was to undertake the supply of the entire rural credit for seasonal agricultural operations, so far as it was consistent with sound business principles. There are over 80,000 villages in Bengal, and as yet only about 25,000 of them have got co-operative credit societies, their membership numbering about 350,000; and even amongst these many of the solvent cultivators have not entered the co-operative fold. With the shrinkage of credit on account of the various legislative enactments like the Bengal Agricultural Debtors' Relief Act and the Bengal Money Lenders' Act capital has become shy and it was felt that the Government must substitute some alternative for supply of rural credit to meet the seasonal demand of the cultivators in rural Bengal.

The Government of Bengal accepted this principle and placed in the hands of the Provincial Bank a sum of Rs. 13½ lakhs in 1939-40 for advance of crop loans. The Provincial Bank advanced a sum of Rs. 20 lakhs (the balance out of its own funds) and could in that year realise the same in full and returned the Government advance with interest at the rate of 3¼ per cent. In the year 1940-41 the Government placed at the disposal of the Provincial Bank a sum of Rs. 55 lakhs for this purpose. The Bank drew a sum of Rs. 45.45 lakhs during this period. Of this a sum of Rs. 36.50 lakhs has been realised up-to-date and the Bengal Provincial Co-operative Bank expects that the major part will be realised, except a small amount invested in those areas where there has been total failure of crops and therefore some extension of time may have to be allowed.

For the year 1941-42, the Government has sanctioned a fresh loan of Rs. 60 lakhs for crop loans at the same rate of interest, viz., 3¼ per cent.

Besides the crop loans, the Provincial Bank is expanding its business in the marketing line. A few large multi-purpose societies have been formed, which are financed by the Provincial Bank and one of them has already a rice mill of its own and another is working in a hired mill. These societies get the crop of their members and also that of the members of the local crop loan societies. This is done by purchase outright at its inception, but once business relations are established only about 75 per cent of the value need be paid at the time of delivery and the balance may be paid after the sale of produce. The conjoint action of the Central Bank and the multi-purpose societies in the same area is calculated to effect "total co-operation" through the medium of the Provincial Bank.

Besides these large multi-purpose societies, the Bengal Provincial Co-operative Bank has been financing certain large fishery societies of which the deep sea fishery societies known as Chittagong Matsyajibi Samabaya Samity working in the Bay of Bengal and the Bidyadhari Spill Matsyajibi Samabaya Samity in the suburb of Calcutta may be mentioned.

The Bengal Provincial Co-operative Bank has recently refused to undertake long term commitments as finance to Land Mortgage Banks. There is a proposal pending before the Government for necessary advances from Government for the purpose till the money market improves, when Government guaranteed debentures may be safely floated at a reasonable rate of interest.

The present Board of Management consists of 21 members, out of them 18 are elected members, 3 from Calcutta and 3 from each of the

Commissioners' Divisions—not more than one to be elected from each administrative district. The Registrar nominates 3 members to the Board. There is a provision that these 21 members may, if they think it necessary, co-opt up-to 3 additional members to the Board. The present strength of the Board is 21.

The working capital of the Bank is Rs. 2,60,40,414. The paid-up share capital is Rs. 18,67,975 and the Bank has got a Statutory Reserve Fund amounting to Rs. 7,75,343 and a Special Reserve Fund Rs. 20,08,478.

The investment in the Central Banks amounted to Rs. 1,01,34,087 and in the Land Mortgage Banks Rs. 5,12,698 and the cash credit to the Central Banks and Societies Rs. 4,93,226 on 30th June 1940.

A copy of the balance sheet as on 30-6-1940 is appended.

THE BENGAL PROVINCIAL CO-OPERATIVE BANK, LTD.

Balance Sheet as on 30th June 1940.

CAPITAL AND LIABILITIES

	Rs. A. P.
I. Share Capital paid up	18,67,975 0 0
II. Reserves :—	
(a) Statutory Reserve	7,75,343 4 6
(b) Special Reserve	20,08,478 5 0
(c) Other Funds	8,27,798 10 6
III. Deposits :—	
(a) Current	16,05,614 7 5
(b) Savings Bank	17,63,273 10 1
(c) Fixed and other	1,22,33,602 11 11
(d) Employees' Provident Fund	53,413 1 7
(e) Employees' Security Deposit	25,800 0 0
IV. Loans and Overdrafts	74,81,079 4 9
V. Central Banks' and Societies' investment held by the Bank as Security and in safe custody—per contra	
VI. Interest payable	65,370 0 0
VII. Dividend due	3,33,202 1 7
VIII. Income Tax outstanding	17,160 10 6
IX. Cost of Management due	11,848 1 6
X. Suspense	307 3 0
XI. Balance transferred from Profit and Loss appropriation account	1,69,929 15 1
	58,080 12 4

TOTAL

2,92,98,277 3 9

PROPERTY AND ASSETS

	Rs. A. P.
I. Cash in hand and with Branch	74,505 9 0
II. Cash at Bank	24,391 0 1
III. Investment	77,51,570 0 0
IV. Loans and Cash Credit to C. Banks and Societies	1,50,65,091 7 4
V. Advances from Industrial Development Fund	13,890 4 0
VI. Dues from Societies (in liquidation)	29,85,383 12 4
VII. Loans to Individuals	1,66,249 15 6
VIII. Interest receivable	31,25,219 12 7
IX. Central Banks' & Societies' investment as per contra	65,370 0 0
X. Advance recoverable	7,193 5 6
XI. Branch adjustment	616 10 0
XII. Property	5,060 4 0
XIII. Dead Stock	11,574 0 9
XIV. Stock of Demand draft books, Home Safe Boxes, etc.	2,161 2 8

TOTAL

2,92,98,277 3 9

THE CENTRAL PROVINCES AND BERAR PROVINCIAL CO-OPERATIVE BANK

By

G. A. BHONSULE,
Manager.

The Co-operative Movement was started in this Province about 30 years ago; as time rolled on it was found necessary to provide for a central financing institution and a balancing centre for the Province. Mr. Crosthwaite, the then Registrar, stated in his report on co-operative societies for the year ending with 30th June 1912 as follows :—

“Our co-operative institutions are, as a rule, remote from and strangers to the great commercial concerns of these Provinces. Mr. Dewar, the Deputy Commissioner of Balaghat, pointed out that unless capital was forthcoming in larger amounts the movement in his District would starve. Similar warnings came from other districts. Moreover, it was clearly necessary to devise an elastic system, which would effectually guard against the danger of idle capital remaining with central banks during dull periods, by providing a clearing house. An inspecting agency which would supervise and control the work of Central Banks had also to be created. Having assured myself that the necessary share capital would be forthcoming from the public, I prepared a scheme which was first of all submitted to the Chief Commissioner, and thereafter discussed by a Committee consisting of the Financial Commissioner, the Director of Agriculture and Industries, the Hon'ble Sir G. M. Chitnavis and myself. I also journeyed to Allahabad and placed the scheme before the Directors of the Allahabad bank and obtained their support. The outcome of these efforts was the formation of the Provincial Co-operative Bank, an institution which is to be the immediate link between Central Banks and the money market. The capital asked for was five lakhs and this was speedily oversubscribed by the leading gentlemen of these Provinces. The first General Meeting of shareholders was to have been held on the 20th March; but as plague was prevalent in Nagpur, it had to be postponed until July the 15th, 1912, upon which date the Directors will be elected and numerous important details regarding practical organization settled. Before the close of the co-operative year, however,

54 THE INDIAN CO-OPERATIVE REVIEW (JAN. — MAR. 1941)

a considerable portion of share capital had been paid up, and by arrangement with shareholders this was at once invested in loans to Central Banks thus avoiding any loss of interest."

The Bank was registered on the 2nd April 1912 and is now running the 30th year of its existence. The capital was raised in the second year of the Bank's existence to Rs. 7 lakhs to meet growing demands. The Bank on the strength of the paid-up share capital and the reserve liability (called the guarantee liability) attached to the preference shares obtained cash credit of Rs. 10 lakhs from the Allahabad Bank, Ltd., Jubbulpore.

The first Board of Directors consisted of the following members:—

- (1) Diwan Bahadur Seth Ballabhdas of Jubbulpore,
- (2) The Hon'ble Sir Gangadhar Rao Chitnavis, K.C.I.E., Nagpur,
- (3) Rai Bahadur Seth Jeewandas of Jubbulpore,
- (4) Sir Kasturchand Daga, K.C.I.E., and
- (5) Agent, Allahabad Bank, Ltd., *Ex-Officio* Member.

Until the year 1917, the control of the Bank was in the hands of a body of Directors elected from amongst the individual shareholders. This conflicted with the basic principles of co-operation and it was deemed advisable to democratise the institution by placing the management in the hands of Directors consisting more of the co-operative element. As the first step in this direction, Preference Shares were redeemed in favour of societies and Central Banks and they were made the shareholders of the Bank. Naturally, their representatives were elected to work on the Directorate of the Provincial Bank.

In the beginning the Bank was not allowed to accept any kind of deposits and it had to carry on its business from the share capital and the amount borrowed from the Allahabad Bank, Ltd., Jubbulpore, against cash credit granted at 6 per cent per annum. This state of affairs continued till the year 1913, when it was found absolutely necessary in the interests of the movement to allow acceptance of fixed deposit. The Bank's resources were strengthened on account of acceptance of deposits. It completely repaid the overdraft of the Allahabad Bank and in consultation with the Registrar, invested Rs. 1,55,000 out of its surplus funds in co-operative banks outside the Province.

In 1916-17 the Bank really felt the strain on the money market caused on account of the floatation of the War Loan. The Directors

formulated and announced several schemes for facilitating the subscriptions of the War Loan and although there was a heavy strain on the Bank's resources the Bank played a prominent part in the War Loan in these Provinces. In the same year the expansion of societies was again taken in hand to create scope for investment of idle capital and the Governor of the Federation engaged special staff for organization of societies.

The year 1917-18 was unusually bad year for Berar, the cotton crops having failed badly. Repayments from those tracts were very meagre. The wheat districts too, had not had a very good year and repayments were less than usual. But on the whole, they were more punctual. This year the Directors created adequate reserves for depreciation of investments to adjust the face value of the Bank's investments with the ruling market rates. There was abnormal rise in the rate of exchange on London which necessitated carrying nearly Rs. 20,000 to Reserve for depreciation of investments in the 5 per cent British War Loan of 1929-47 for £11,073 and odd held by the Bank.

In the year 1918-19 the Bank carried heavy surpluses and though a number of societies were organised in the province, the demand for the loans was not commensurate with their number; because on account of very high prices of cotton and grain the agriculturists could satisfy their demand for cultivation and other expenses from their own savings.

As the Provincial Bank carried heavy surpluses it advised the Central Banks to organise societies. Consequently a large number of societies were organised in the beginning of 1920 and the demand for loans on the Provincial Bank was naturally very brisk. Though the cotton crop was excellent, the members could not repay as the prices of cotton crop fell off suddenly. All these circumstances led the Central Banks to ask for very large amounts from the Provincial Bank. As demand was brisk, the Bank had to draw on the Cash Credit of the Allahabad Bank to the full extent amounting to Rs. 2 lakhs besides borrowing demand loans from the Nagpur Branch of the Bank of Bengal to the extent of about Rs. 5 lakhs. During this year Rs. 20 lakhs was advanced and 12 lakhs recovered.

For some time it was felt necessary to make an attempt to tackle the problem of repayments of the old debts. A scheme was formulated in the year 1917 but it did not take shape till 1919, when over a lakh of rupees was advanced to the Akola Central Bank for financing the long term requirements of members of societies. The amount was advanced for a period of 16 years on the security of mortgage of lands

duly assigned to the Bank, and the loan was made repayable by equal annual instalments. The scheme was found to be defective in as much as for every 100 Rupees Rs. 15-4-4 was the annual instalment. Although the rate of interest was 9 per cent it worked out to be very high, in as much as interest had to be charged at 9 per cent per annum on Rs. 100 throughout the period of the scheme. Some of the members admitted to the scheme could, however, repay their loans in full within a couple of years, as they had bumper crops which brought them enough money to repay the mortgage debts in full. The Provincial Bank on the strength of mortgage security held by it raised a loan of Rs. 61,000 by selling debentures at par at 7 per cent.

This year the Bank with a view to encourage Central Banks to take up Savings Bank business agreed to grant cash credits to serve as a cover against it. The Mekhar Central Bank took advantage of this facility and a cash credit of Rs. 1,000 was granted to it. The Akola and Yeotmal Central Banks were granted similar cash credits for their savings bank business. Now, in the whole province, practically all the banks have been carrying on savings bank business, thus giving banking facilities to the general public.

The year 1919-20 witnessed heavy fluctuations in the rate of exchange. By the end of 1919-20 the rate was fluctuating between 1s. 10d. and 1s. 11d. As the Bank held British securities it had to provide for a very big amount of depreciation caused by exchange. A sum of Rs. 44,000 was added to the reserve for depreciation of securities thus raising the figure to Rs. 98,000. In April 1920, the Bank's head-quarters which was hitherto at Jubbulpore was shifted to Nagpur.

The year 1920-21 was one of crisis for the Bank. This year large number of societies were registered. During this year, the Government of India borrowed very heavily from the market. The consequent strain on the money market tended to check the flow of deposits to the co-operative banks of the Provinces. The central banks made large demand for money on the provincial bank for financing the requirements of the old as well as the newly registered societies. The bank had to make advances to central banks as they could not get money from elsewhere. To add to this difficulty crops failed in the whole of the Province due to the early cessation of rains. When the movement was in such a predicament, the Managing Committee of the Bank approached the Government to grant cash credit to the movement to serve as fluid resource against deposits. The Government readily responded and granted cash credit of Rs. 17 lacs to serve as a fluid resource against deposits and a further credit of 19 lacs for financing the move-

ment. During this year about Rs. 4 lacs were withdrawn by co-operative banks for repayment of deposits. Out of a sum of Rs. 19 lacs, not more than Rs. 12 lacs were drawn for financing the requirements of society members. The central banks and the Provincial Bank put up their rates of interest on deposits which enabled them to retain the old deposits and attract fresh ones. The Bank sold British securities this year as the rate of exchange was favourable.

On the 26th October 1921 the Government appointed a Committee under the Presidentship of Mr. R. M. King, I.C.S., to enquire into the constitution of the co-operative banks, of the general working of rural credit societies, of central banks, the Provincial Bank and the Central Provinces Co-operative Federation. This Committee in its Report dated the 8th January 1922 recommended the liquidation of the Provincial Bank but the co-operators of the province advanced strong reasons for retaining the institution, and the Government, after mature consideration, decided to continue it.

The first half of the second decade marks contraction in loan business and rise in deposits and consequent carrying of heavy surpluses. In this decade the maintenance and investment of fluid resource of the Provincial Bank and the Central Banks was regularised. The Central Banks were asked to maintain adequate fluid resource for covering all sorts of deposits. The fluid resource of the movement began to be deposited with the Provincial Bank in the name of the Registrar. In the beginning the Provincial Bank paid interest on this amount at the rate of $5\frac{1}{2}$ per cent per annum. As the amount in the fluid resource increased, the Provincial Bank could not continue to pay interest at this rate. First the rate of interest was $5\frac{1}{2}$ per cent but it had to be reduced gradually, when the yield on Government paper held by the Bank to cover the amount became low. Reduction was effected gradually during the period of eighteen years commencing from 1921-22. Now the rate is $3\frac{1}{2}$ per cent per annum. Under this arrangement the fluid resource required to cover fixed deposits and only due during a period of 12 months was to be transferred to the Provincial Bank and the fluid resources for savings and currents were required to be maintained by the Central Banks independently in readily realisable assets such as deposits in postal savings banks, postal cash certificates, and government securities.

In 1920-21 the Bank commenced accepting savings bank deposits. This business became very popular in course of time. The growth of this business was steady till 1937-38. On 30th June 1938 the total amount held was Rs. 19 lakhs, but in subsequent years on account of Berar crisis and outbreak of war, the deposits declined consider-

ably. Now the Bank holds over Rs. 15 lakhs (15,45,290) and there are now no heavy withdrawals.

In 1923-24 the Bank reduced the rate of interest on deposits for periods over a year. Although there was a reduction in the rate of interest, there was no reduction in the amount of deposits. In 1924-25 there was a considerable rise in the loan business. The loans outstanding against the Central Banks rose to Rs. 18 lakhs as against Rs. 10 lakhs outstanding on 30th June 1924. In 1925-26 the loans increased to Rs. 26 lakhs as against Rs. 18 lakhs. But there were heavy demands from the Central Banks for finance and as crops failed in major parts of Berar resulting in poor recoveries the Bank felt rather diffident about its ability to finance the movement. So it had to arrange for money from other Provincial Banks. During the year a sum of Rs. 4 lakhs was taken as deposits from Provincial Banks outside the Province.

On the 15th and 16th January 1926 all the Provincial Banks met in a conference and passed two important resolutions, one dealing with re-discounting of bills either backed up by documents or by other tangible security or by crop loan by the Provincial Banks with one another, and the other relating to the starting of inland exchange business. These two resolutions were placed before the General Meeting of the Central Provinces and Berar Provincial Co-operative Bank held on 20th November 1926 which accepted unanimously the introduction of the inland exchange business. The business had been giving a steady income to the Bank.

This year the authorities of the Bank thought that the admission of wealthy individuals and businessmen to the membership of the Bank would bring it more and more in contact with business community and the investors and thus the resources of the Bank would be strengthened considerably. The Bank therefore released portion of its authorised capital in favour of individuals, who readily availed themselves of the opportunity and within a short period more than 500 shares were subscribed.

In 1928-29 the Manager of the Provincial Bank made an attempt to form a Co-operative Society of Grain Dealers of Nagpur but the merchants did not want to form one in as much as they thought that by joining the society they would not be able to maintain secrecy in their business. They, however, expressed their willingness to borrow money individually from the Bank. Under the byelaws then prevailing it was not possible to make loans to grain dealers on security of their grain and hence no attempts were made till 1939-40, when

the Bank by opening a pay office at Narsinghpur began advancing money to individual members on security of grain or other agricultural produce.

In 1929-30 the Bank re-fixed the instalments for repayment of loans outstanding against some of the Central Banks as overdues had accumulated against them and as the Bank had no other alternative than re-fixing their instalments. This year the Bank commenced making advances on security of Government Paper to individuals. This year also marks the opening of a Safe Custody Vault for keeping the Bank's own Securities which were hitherto kept with Imperial Bank of India and the valuables of the public. The safe custody vault has now become very popular with the public who greatly appreciate the facility made available to them at moderate charges. This year there was heavy depreciation of securities and the profits were transferred to the depreciation reserve this year. Naturally no dividend could be declared.

In 1930-31 the Government borrowed very heavily from the market with the result that the Government rate of interest was very high. "Money became scarce. There was heavy fall in the prices of securities and the consequence was that the Bank had to face considerable depreciation in the value of its gilt edged holdings, so much so that the whole of its profits earned during the year was with the exception of a small sum of Rs. 750 allocated towards meeting the depreciation." No dividend could be paid this year also.

In 1931-32 a very cautious policy was adopted by the Bank in respect of fresh finance. Advances for all reasonable requirements were, however, never refused to any Central Bank. This policy of the Bank elicited considerable criticism from the borrowing banks but the conditions of the year under review were so gloomy both in respect of outturn and the low level of commodity prices that the Directors felt it their duty to hold the strings tight.

This year the Provincial Government sanctioned the Bank's bye-laws enabling the Bank to make advances to individual share holders on the security of gold, silver, agricultural produce, life policies and securities mentioned in Section 20 of the Indian Trust Act. Inland Exchange business brought in Rs. 1,000 by way of commission. During the year the Bank's holdings in Government paper appreciated and the problem which exercised the Bank so much in the preceding year was solved without any special attempts on its part.

The year 1931-32 and succeeding eight years were years of world depression. This is marked by heavy overdues and low repayments.

But the Bank carried heavy surpluses for which new avenues of investment began to be explored. It made advances to individuals, but the problem of investing the heavy surpluses could not be solved. In order to find out better avenues of investment than those available the Bank decided to open branches mainly with a view to carry on business of making advances on security of grain or other agricultural produce. This period is further marked by large scale financing of the Central Banks. Some of the Berar Central Banks could not repay their deposits as they had not got enough cash resources. They had to make a request to the Provincial Bank for funds. The Bank readily came forward and made large advances to them and also to some of the Central Provinces Banks.

During this decade the Bank had to redeem shares of the face value of over Rs. 1 lakh under the provisions of the byelaw No. 24 as a result of compulsory redemption of shares held by defunct societies.

Since 1932-33 the Bank has been insisting on such Central Banks as can afford to have the overdues covered by mortgages of an equal value plus a reasonable margin. For fresh loans also the Bank insisted on having security either in the form of mortgages of lands owned by Central Banks or assignment of mortgages transferred to them.

In 1931-32 the Provincial Bank insisted on the Berar Central Banks to assign the mortgages given by the members of the societies but it was pointed out that there were a number of difficulties attached to this, and as such a *via media* was found out and the system of earmarking by the central banks of mortgages in favour of the Provincial Bank was introduced. In the year 1932-33 the central banks earmarked in favour of the Provincial Bank mortgages of lands of the aggregate market value of Rs. 5,63,000. The Registrar too on his part issued instructions to the Central Banks asking them to remit directly to the Provincial Bank the amounts recovered by them against the earmarked mortgages.

In 1933-34 two land mortgage banks came into existence, one at Amraoti and the other at Mehkar. The Bank advanced about Rs. 11,000 to these Banks. This marks a new era in the Bank's activities. Since this year the Bank has been functioning as the Central Land Mortgage Bank of the Province.

In 1934-35 there was a further reduction in the number of societies the registration of which had to be cancelled as they were going from bad to worse and consequent reduction in the Bank's share capital held by these societies. This year the Bank gave notice to individual

depositors to withdraw their high-rated deposits before due dates or accept lower rates of interest. With the exception of a small sum of about a lakh and half, deposits carrying high rates of interest were renewed. This Bank was, therefore, in a position to reduce the interest liability considerably which helped it to augment its profits. This year the Government allowed the Bank to make advances even to non-members on security of the Bank's deposit receipts, Government paper and debentures issued by it.

From 1935-36 onwards there is development of land mortgage banking business. During the year the Bank advanced Rs. 1,35,877 to the Primary Land Mortgage Banks. With a view to unload the sums advanced to the land mortgage banks, the Bank issued at 3¼ per cent the first series of its debentures of the face value of Rs. 1 lakh which were readily sold. In 1936-37 a second series of debentures were issued at 3½ per cent for Rs. 3 lakhs and these were readily sold.

In the beginning of 1937, the Bank completed the 25th year of its existence. It therefore celebrated its Silver Jubilee, which was inaugurated by His Excellency the Governor on the 13th March 1937. In the course of his speech, His Excellency complimented the Bank in the following terms. "The fact that the Bank has withstood the economic storm which swept the world and has come out of it unimpaired is a gratifying proof of its inherent strength." This year the title of K.B.E., was conferred on the Bank's Chairman, R. B. M. G. Deshpande in recognition of his devoted services in the cause of co-operation. In commemoration of the Silver Jubilee, it issued 10-Year Silver Jubilee Bonds thus placing before the public an attractive scheme of investment. The bonds were sold by the Bank from 17th March 1937 till November 1938. The total face value of the Silver Jubilee Bonds sold during this period amounted to Rs. 3,38,600. They were issued at Rs. 70-8-0 per hundred repayable at par after the expiry of 10 years. The yield on the Bonds is nearly Rs. 3-10 per cent, compound.

In 1938-39 the fourth series of debentures of the face value of Rs. 4 lakhs were issued at 3¼ percent. As the rate of interest was comparatively low, the Bank could not sell the whole lot and the unsold debentures aggregating to Rs. 38,500 were therefore held by the Bank in its investment folio.

This year the Bank advanced a little less than Rs. 2 lakhs at 3½ percent per annum to the Narsinghpur Central Bank for financing the requirements of grain dealers.

Since 1938, there began heavy withdrawals of deposits from the Berar Co-operative Banks. The Bank helped the Akola, Amraoti, Khamgaon, Malkapur and Morsi Central Banks in repayment of deposits taking security from them either in the form of mortgages of their lands or assignment of mortgages executed by the members of societies. Whenever the Central Banks had no security to offer the Bank had naturally to refuse to advance money. Besides, the Bank had practically passed beyond safety limit of long term financing and whatever advances that could be made to the Central Banks were not likely to be recovered within a short time.

As the Central Banks were unable to repay the Bank's debt, the Managing Committee of the Bank appointed a Sub-Committee to deal with the question of granting long term instalments for the repayment of the dues outstanding against them and some of the urban societies. The Sub-Committee made a report in September 1937 recommending long term instalments ranging from 12 to 16 years. The Sub-Committee's report was approved by the Managing Committee. Although long term instalments were granted to Central Banks, in the very first year there were defaults in as much as they had to meet withdrawals of deposits and naturally they postponed payment of instalment due to the Provincial Bank. Things dragged on like this till the middle of 1938, when some of the Berar Central Banks could not repay their deposits which became overdue. Nine central banks of Berar were not in a position to repay deposits and the Government at the request of the Provincial Bank and by notification dated the 6th October 1938 appointed a Committee on Berar Co-operation under the presidency of Mr. P. B. Gole, an Ex-Minister. The terms of reference were :—

(1) To examine the position of the co-operative movement in Berar in general and of the finances of Central Banks in particular.

(2) To suggest ways and means for a more remunerative management of the lands acquired by Central Banks, and

(3) To make proposals for financial accommodation to those Central Banks, which are in need of it immediately or for some years to come.

The Gole Committee submitted its report on the 15th February 1939. Its main recommendations include disposal of lands held by Central Banks and societies by lottery, supersession of managements of Central Banks, writing down of debts due to the Provincial Bank by Rs. 10 lakhs, repayment of liabilities by means of 3 percent 30-Year debentures bearing Government guarantee both for principal and in-

terest, conciliation of debts due by members and bearing by Government the loss caused by conciliation of debts. These recommendations did not appeal to the Government, which issued a communique in September 1939, setting aside the said recommendations. The Government formulated its own scheme of rehabilitation and reorganization of the movement. The following principles of re-organization were laid down by the Government :—

(1) That the conciliation of liabilities should be in the main voluntary and should not be forced on any party.

(2) That every effort should be made to limit the losses to depositors.

(3) That the scheme should carry within it the germs for the revival and growth of the Co-operative Movement, so that if it is accepted and loyally worked by the co-operators, there may be a chance for the Co-operative Movement to rehabilitate itself.

The scheme may be described in brief as follows :—

(1) To determine the repaying capacity of each member and to find out the amount which he would be able to pay within a period of 25 years.

(2) The present debts of members should be reduced to the amount to which they can be expected to repay in 25 years on the basis of their repaying capacity. In return for this the members would be required to surrender the lands in their possession, which, however, would be given back to them again on hire-purchase system. Members who do not agree to this proposal will have to be proceeded against coercively for the recovery of the sum outstanding against them.

In the above manner it would be possible to make an estimate of the amount which each bank may hope to be able to recover out of the loan due by societies in 25 years. The present value of this amount calculated at reasonable rate of interest would be the value realizable out of the assets of each central bank. The next step would be to conciliate the liabilities of each central bank due both to the depositors and the Provincial Bank.

It was not intended that the loss in conciliation should be written off, but preference shares were to be issued in respect of the said loss. To facilitate the conciliation of liabilities, the Government introduced legislation providing that if the creditors to whom 66 percent of the liabilities are due accept the scheme, it would be binding on the rest. After the voluntary conciliation of liabilities cash payment 'pro rata' would be made to the creditors out of the cash assets

held by the banks. The balance of the scaled down amount would be converted into debentures repayable in 30 years and bearing interest at 3 percent carrying Government guarantee as to the payment of interest for 30 years.

The proposals stated in the communique issued in September 1939 did not receive unanimous approval. Besides, on account of the outbreak of war, it was hoped that the economic condition of agriculturists would improve on account of the rise in prices of agricultural produce and that land prices would rise. The Government further obtained expert advice of the Reserve Bank of India. They also consulted expert co-operators of this Province as well as those of other provinces including the Hon'ble Mr. V. Ramadas Pantulu.

The Government issued a second communique on the 26th March 1940 and enacted legislation, amending the Co-operative Societies Act. The main provision of the Act was with regard to the passing of the scheme of compromise or arrangement. The Registrar was given authority to confirm any compromise or arrangement, provided that the assenting creditors represented not less than 51 percent in value of all the creditors affected by the compromise or arrangement. Secondly, the Registrar was given power of staying suits filed by creditors against central banks for repayment of deposits. The Provincial Government agreed to guarantee interest at 3 percent or at a stipulated rate whichever is lower on debts of central banks reduced by compromise or conciliation to the extent of debtors' capacity to repay in a maximum period of 20 years from the date such proposals are accepted. Further the Provincial Government agreed to grant an annual subsidy of Rs. 1 lakh instead of Rs. 50,000 as stated in its previous communique for a period of three years in the first instance to meet the deficit, if any, in the working expenses of the central banks. The future management of the banks was to be in the hands of representatives of creditors, nominee of the Provincial Bank, representatives of the central banks with their affiliated societies, shareholders' representatives and the nominee of the Registrar. So far four central banks in Berar and four in C.P. have adopted schemes in the meetings of their creditors and the same have been confirmed by the Registrar. Other banks which have suspended payments have also passed the schemes, but they are being revised at the instance of the central banks themselves.

The Managing Committee of the Bank and the Board of Directors in their meetings held on the 14th April 1940 resolved to support the scheme of rehabilitation fully and to co-operate with the Government

in implementing it. In that meeting it agreed to bear *pro rata* the loss caused by conciliation of debts, provided its rights as a secured creditor were not interfered with, and provided further that the loss did not exceed a sum of Rs. 10 lakhs. It is feared that the loss may exceed the figure of Rs. 10 lakhs, but the same will be known only after the Registrar's enquiries are over and the balance sheet of Central Banks, which are under the scheme, are drawn up. Fortunately, the Bank on account of its sound management and large savings effected in the past has been able to create big reserves, which will enable it to tide over the difficult situation and come out strong. To help the co-operative movement the Provincial Bank has agreed to undertake crop loan finance in Berar.

Land Mortgage Banks.—The following statement gives the figures of advances due by land mortgage banks from year to year :—

Year.	Number of land mortgage banks.	Amount of loans outstanding.
		Rupees.
1933-34	2	11,708
1934-35	2	29,290
1935-36	10	1,35,877
1936-37	14	3,59,553
1937-38	19	6,63,068
1938-39	19	10,88,540
1939-40	21	12,57,796
As on 30-4-'41	21	13,71,403

The Bank has advanced up to date Rs. 15,84,334, out of which it has recovered up to date Rs. 2,12,931. Out of total advances outstanding, a sum of Rs. 12,181-12-3 is overdue against the land mortgage banks. It is gratifying to observe that the land mortgage banks have put in strenuous efforts to effect recoveries as far as possible by persuasion. They have resorted to special machinery provided for in the Land Mortgage Banks Act only when all other efforts failed to bring in recoveries.

In the beginning the Bank advanced loans to land mortgage banks at the rate of 6½ percent per annum; and they in their turn advanced to their members at the rate of 9 percent per annum. In the middle of 1934 the rate was reduced to 5 percent to land mortgage banks and 7 per cent to their members and the period of the loan was extended

from 16 to 20 years. On 29th August 1937, the Managing Committee of the Bank resolved to grant $\frac{1}{2}$ percent rebate to land mortgage banks making punctual repayments. From 15th July 1938 the rate of interest was reduced to $4\frac{1}{2}$ percent to land mortgage banks and $5\frac{1}{2}$ percent to members. When the War broke out and the Bank had to sell debentures at an enhanced rate of interest, namely 4 percent it felt the necessity of raising the rate of interest on loans to land mortgage banks. The Managing Committee in its meeting held on the 14th January 1940, raised the rate of interest to 5 percent resolving further that the land mortgage banks should charge interest at 7 percent per annum to its members.

The Bank has so far issued six series of debentures of the total value of Rs. 15 lakhs. The first series was issued at $3\frac{3}{4}$ percent, the second at $3\frac{1}{2}$ percent, the third at $3\frac{1}{4}$ percent and the remaining three of the value of Rs. 7 lakhs at 4 percent per annum.

Sinking Fund.—Under the terms of agreement the Bank is required to maintain a sinking fund to ensure repayment of debentures on maturity. Adequate provision has been made by the Bank setting apart from its funds yearly contributions to build up the fund. This has been invested in Government paper with the approval of the Registrar, Co-operative Societies, who is the Trustee to the debenture holders. The Bank holds nearly Rs. 80,000 in the Sinking Fund to-day.

Growth of Deposits.—When the Bank was established it was not allowed to accept deposits from the public as already stated elsewhere. On the first of August 1913 the Bank opened deposit business. Between this day and 1914 Rs. 5,51,000 were received in fixed deposits while the central banks to whom alone the Bank offered the privilege of keeping current accounts deposited a sum of Rs. 1,21,000. In the very first year of the acceptance of fixed deposits, the Bank could reduce completely its overdraft with the Allahabad Bank and besides it had a heavy surplus which it deposited with co-operative banks outside the Province. In that year large deposits were received by the Bank from Feudatory States, Dufferin Fund and the Court of Wards. Various charitable funds were also held by the Bank. All these deposits could be secured by the Bank mainly through the efforts of Mr. H. R. Crosthwaite, the then Registrar of Co-operative Societies.

The volume of deposits exhibits the extent of public confidence which the Bank has secured. The deposits from the general public began to jump up steadily and at the end of 1921-22 the Bank held nearly Rs. 15 lacs, whereafter there has been a steady increase in their

flow till 1924-25. There was a spurt in 1925-26 when the deposit figure rose to Rs. 23 lacs. A steady increase is noticeable till the year 1928-29 but during the next two years the deposits again fell by nearly Rs. 4 lacs. The fall was mainly due to the fact that the Government of India was borrowing money at a very high rate of interest. In 1931, the Government floated $6\frac{1}{2}\%$ four year loan. Naturally, the public began to invest their amounts in that loan withdrawing their deposits from the Provincial and Central Banks.

The next eight years with the exception of the year 1934-35 when the Bank gave notices to individual depositors to withdraw their high rated deposits before due dates or to accept a low rate of interest then fixed by the Bank, witnessed a steady rise. Similar notices were given by the central banks to their depositors. The result was that fixed deposits to the tune of Rs. 3 lacs were withdrawn but in the savings bank there was an increase of nearly Rs. 4 lacs in that year.

The peak level of the deposits from the general public reached in the year 1938-39 when they rose to Rs. 73 lacs. So during the period of 9 years ending with 30th June 1938 the deposits practically doubled; but unfortunately thereafter on account of Berar debacle and the outbreak of war the depositors of the Bank became somewhat nervous and withdrew as much as Rs. 16 lacs. Some of the depositors withdrew money for investing it in industrial shares which immediately after the outbreak of the war offered them chances of making huge capital profits. The Bank felt no difficulty in meeting the withdrawals of deposits as immense liquid assets have been at its command since 1924-25. The Bank has all along been following the policy of caution and circumspection, and so except in the year 1921-22 it had had practically no difficulty in meeting withdrawals. The Bank now holds from the public deposits of the value of Rs. 56 lacs and from Central Banks and co-operative societies Rs. 13 lacs.

Relations with Commercial and Co-operative Banks.—When the Bank was established in the year 1912, it obtained a cash credit of Rs. 10 lakhs from the Allahabad Bank, Ltd., Jubbulpore, through the special efforts of Mr. Crosthwaite, the then Registrar of the Province. The cash credit was granted on the security of promissory notes of primary societies backed by those of central banks and further backed by that of the Provincial Bank. The rate of interest on the cash credit was 6% per annum. On the 30th June 1912, the Bank owed the Allahabad Bank Rs. 47,000 and odd. In the second year of the Bank's existence, the loan business of the Bank increased to Rs. 6,23,000 and hence the Provincial Bank had to draw upon that cash credit, to the extent of nearly

Rs. 3,20,000. On the 30th June 1914 the overdraft of the Allahabad Bank was Rs. 3,33,000. As the Bank was allowed to accept fixed deposits from the public, it was in a position to reduce the overdraft of the Allahabad Bank and besides to deposit Rs. 1,55,000 from the surplus funds with co-operative banks outside the Province. During the next two years, as the Bank began attracting larger and larger amounts of deposits, it did not need to borrow much from the Allahabad Bank; but in 1916-17 it had to draw upon the overdraft with that Bank on account of the tightness of the money market caused by the Government's floating war loans.

Besides the Allahabad Bank's cash credit, the Bank obtained a cash credit of Rs. 10,000 from the Bank of Bombay (now Imperial Bank of India) for the Akola Central Bank in the middle of 1918 on the security of promissory notes of the societies of an equal sum plus 25% margin backed by that of the Akola Bank for Rs. 10,000 and further backed by that of the Provincial Bank for a like amount. This cash credit was obtained for the Akola Bank for meeting its temporary requirements. These facilities granted to the Akola Central Bank continued till the end of the year 1922. Besides this small cash credit of Rs. 10,000, the Bank of Bombay, Akola, (amalgamated with the Imperial Bank of India in 1921) granted in the year 1918 a demand cash credit of Rs. 2 lakhs at its Akola Branch on security of demand promissory notes of the Berar co-operative societies of an equal sum plus 25% margin backed up by the Berar central banks' promissory notes of an equal sum plus 25 per cent margin and further backed up by the Provincial Bank's Pronote for a like sum. Interest on the cash credit was stipulated at 6% per annum to be charged on actual drawings only. The Bank did not find it necessary to draw upon that cash credit till August 1920, when on account of the heavy demand on the resources, it felt the necessity of getting the cash credit renewed. The first drawing on that account was in September 1920. The cash credit of Rs. 2 lakhs with the Imperial Bank continued till the beginning of 1916, when the Bank felt the necessity of getting it raised to Rs. 4 lakhs on the same terms and conditions on which the previous one was granted. The Bank continued to enjoy it at this enhanced figure till 31st March 1928, when the Imperial Bank reduced it to Rs. 2 lakhs, seeing that this Bank had stopped drawing money thereagainst during the period of six months ending with 31st March 1928. This cash credit continued till the year 1929, when the Imperial Bank cancelled it, as the Bank had practically stopped drawing upon it. The cash credit with the Allahabad Bank was also cancelled some time in the year 1923.

When the Bank's office was shifted to Nagpur in 1920, it began borrowing from the Bank of Bengal (Imperial Bank of India since Jan.

1921) Nagpur Office, on security of Government Paper at the Imperial Bank's minimum rate for demand loans. Some time later on the Bank felt the necessity of having accommodation with a bank in Bombay. It secured an overdraft account with the Bombay Provincial Co-operative Bank, Ltd., on security of Government Paper at the Bank Rate. That account has been very useful to the Bank mainly for developing its inland exchange business, and that of the central banks of the Province. It is already stated elsewhere in the article that since the year 1924-25 the Bank has been carrying heavy surpluses and the same were invested by the Bank from time to time either in Government Paper or in deposits with commercial and co-operative banks at the best possible rates of interest. The Bank's policy in this respect has been to invest money in terminable securities and in deposits for short periods, so that the question of providing for heavy depreciation should not arise. The Bank also invested its funds in Treasury Bills whenever it could get better rates of interest than those offered by commercial and co-operative banks on short term deposits. Now the Bank has deposits with big joint stock banks and apex co-operative banks of other provinces approved by the Registrar, Co-operative Societies. It has also opened current accounts with commercial and co-operative banks at different centres in India in order to facilitate the transfer of funds to and from on commission. The relation of the Bank with those banks has all along been cordial. When the Bank's inland exchange business and the business of making advances on security of agricultural produce develop in future the Bank hopes to have business relations with several offices of commercial and co-operative banks in India.

Inspection.—One of the special features of the Bank is that it arranges for the inspection of the central banks through one of the members of its senior staff. In the first few years of its existence the Manager used to be the inspecting officer. The inspections were very useful to the central banks in as much as the staff of the central bank received intelligent guidance from the inspecting officer of the Provincial Bank. As the Manager's presence was required at the headquarters all the year round the Bank appointed a special officer to inspect the central banks on the 1st December 1922. Since then the Bank has on its establishment an Inspector who visits central banks and urban societies which have been directly affiliated to the Provincial Bank. To the Bank he gives first hand information about the working and financial position of the inspected concern and to the latter it is very useful in as much as the staff receives instructions in the technique and practice of banking which enables them to maintain their books in an up to date manner and follow up to date banking methods.

70 THE INDIAN CO-OPERATIVE REVIEW (JAN. — MAR. 1941)

Training of Graduates.—Every year the Bank takes for training young Graduates in practical banking and after they are trained, they are given responsible jobs. A training for a period of two years gives them full knowledge of the working of the Bank and they are in a position to work in responsible posts. One such graduate has been managing the Pay Office of the Bank at Narsinghpur since January 1940. The Bank has decided to open four branches in the Province and these trained men will be provided for in these branches.

Library.—The Bank maintains a fairly big library of books on co-operation, economics, banking, currency, finance, law, book-keeping and several other subjects. The staff gets the benefit of this library. The authorities allow also students interested in co-operative activities to use the books of this Library without any fees. The Bank subscribes for a number of periodicals on co-operation and banking. Every year the Bank spends Rs. 200 to 300 on books and periodicals.

Special forms of Co-operation.—A Sub-Committee was appointed by the General Meeting of the Bank to devise ways and means for investing the Bank's surplus capital. The members of the Sub Committee were the Chairman, the Registrar, Co-operative Societies and the Late Sir Sorabji Mehta, one of the members of the Managing Committee and the ex-manager of the Empress mills. The Sub Committee recommended that landholders' societies, societies of grain dealers and housing societies should be organised and financed by the Bank. Mr. M. L. Kocher, one of the active co-operators of the Province organised two societies at Narsinghpur, one for the land holders, and the other for grain dealers.

A few co-operative housing societies were organised at Akola and Khamgaon. Mr. G. A. Bhonsule, Manager of the Bank organised a housing society at Nagpur. The first housing society was started by some of the pleaders of Akola. Another society also was started by pleaders at Khamgaon in 1926. A third one called the Ramdaspath Co-operative Housing Society came into existence in the year 1930. At Amraoti, a Housing Society of Government and Municipal employees was started, in the year 1928. The Housing Society at Nagpur founded by Mr. G. A. Bhonsule was registered in 1930. In the beginning, it did not receive any response from the public. Since the year 1930-31 the Society has been progressing steadily, on sound and safe lines. In the beginning the share capital of the Society was Rs. 1,400. Now it is over Rs. 1. lakh. Steady increase is found in its deposits. During the course of the last 10 years it has financed its members to the extent of nearly Rs. 8 lacs, and more than 200 houses have been built with its aid.

The older institutions viz., the Akola Housing Society and Amraoti Housing Society have been liquidated as they were not managed on sound and safe lines and co-operative principles were never observed. The loans advanced were practically beyond the paying capacity of the members. The liquidation proceedings are still going on. The Bank is likely to lose some money in the Amraoti Housing Society.

The above societies, however, could not absorb more than Rs. 3 lakhs out of the Bank's surplus.

Pension Payments.—Since June 1932 the Bank has been paying pensions to pensioners, charging a small commission for this service. Now more than 300 pensioners are taking advantage of this facility. Immediately after they present their pension bills, payment is made to them, and they are not required to wait in the Bank's office for more than 15 minutes to receive their pensions.

Deposits of Public Bodies.—In the year 1928 the Government placed this Bank in the approved list of Banks for depositing the Provident Funds of Municipal and Local Board Employees. They have thus shown their confidence in the soundness and stability of the Provincial Bank. These deposits amount to nearly Rs. 20 lakhs.

Constitution and Management.—When the Bank was started its shares were purchased by individuals, Court of Wards and the Allahabad Bank Ltd. Naturally the Bank was managed by a Board of Directors consisting of their representatives only. The co-operative element appeared on the scene only when shares were sold to central banks and their affiliated societies. The Bank redeemed portion of the share capital held by individuals in 1917 and allotted the same to central banks and societies. Naturally, the representatives of these bodies were taken on the directorate. Suitable amendments were made in the byelaws so as to include in the board, representatives of central banks. No direct representation was given to primary societies as the representatives of central banks also represented the interests of the societies. During the period of two years since 1917-18 the Board consisted of the Governor of the Co-operative Federation, nine representatives of the individual shareholders and one representative from each central bank together with its affiliated societies. This mixed board continued to function till 1918-19 when after the redemption of the remaining shares held by individuals, the individual element was eliminated from the Board, and since 1919-20 till the year 1925-26 the Bank began to be managed by the representatives of co-operative bodies only, viz. by the Governor of the Federation and 32 representatives, representing central banks together with their affiliated societies. When

in 1925-26 the Bank admitted to membership individual shareholders, naturally the directors representing them had to be taken on the Board. They were four in number. This constitution of the Board continued till the year 1934-35, when the Bank undertook the land mortgage banking business and commenced functioning as the Central Land Mortgage Bank of the Province. The Government, to guard its own interests, made proposals to the Provincial Bank for taking the Registrar, Co-operative Societies and the Financial Secretary as the *ex-officio* members of the Bank, of the Board and of the Managing Committee. In 1939 five representatives of land mortgage banks were taken on the Board. But they can attend the meetings only when business relating to land mortgage banking is transacted. To sum up the Board now consists of the Governor of the Federation, thirty-five representatives of the central banks, four representatives of individual shareholders, five representatives of land mortgage banks, the Registrar, Co-operative Societies and the Financial Secretary to C. P. Government.

As the Bank's Board became unwieldy, it was thought desirable to appoint a small committee of five to be elected by the Board every year from their own body. This was done in 1919-20. Necessary amendments were made in the bye-laws of the Bank in the year 1920-21 and since that year the Managing Committee became the virtual managing body of the Bank. In 1931-32 a proposal was made from some quarters that all the divisions of the Province were not represented on the Managing Committee and hence an additional seat be created in the Managing Committee. This was done in the year 1932-33 by raising the number to seven. When the Bank undertook financing the land mortgage banks by passing a resolution at its General Meeting held on the 16th September 1934, the nominee of the Government and the Registrar of Co-operative Societies were taken on the Managing Committee for the purpose of land mortgage banking business.

In 1936 the Registrar of Co-operative Societies was made an *ex-officio* member even for the purpose of other business of the Bank. An additional member was added to the Managing Committee to represent land mortgage banks by the Bank's Annual General Meeting held on the 19th February 1939. Now the Managing Committee consists of nine members consisting of six representatives of central banks including the Chairman, one representative of land mortgage banks, the Financial Secretary to Government and the Registrar of Co-operative Societies.

The Board meetings are generally held twice a year, while those of the Managing Committee once in a month. The meetings are well attended. The members do not get any sitting fees; but they are allowed to draw actual travelling expenses.

Future.—The Bank is not satisfied with the progress so far made. It is quite alive to its drawbacks. It has still to cover a long ground and to take an active part in the solution of problems relating to rural finance. Facile credit is no solution of the rural problem. The primary producer should get the highest possible price for his produce. Unfortunately no attempts have been made in this Province to tackle the problem of co-operative marketing. The Bank at the request of the Government appointed a Sub Committee to frame a comprehensive scheme of co-operative marketing. Information relating to the working of co-operative marketing societies in other provinces is being collected. As soon as this is done, the Sub Committee will commence its sittings and frame a scheme.

Since January 1940, the Bank has been financing traders of Narsinghpur, Kareli and Gotegaon towns situated in Hoshangabad District. During the period of first six months, it made a business of nearly Rs. 1,70,000. During this year it hopes to have at these three places over a total business of Rs. 4 lakhs. The Bank has commenced financing traders at Nagpur on security of their grain. This business and the inland exchange business will give the Bank additional income which will help it to gradually wipe off the losses caused on account of the Berar debacle. The Bank is thinking of doing urban banking business in rural areas also. As an earnest, it is going to advance about Rs. 15,000 this year to the Multipurpose Society at Dhangidana through its Pay Office at Narsinghpur. If this business proves profitable, attempts will be made next year to make advances in other rural areas of the Province.

To develop this business additional facilities have to be given to merchants. Big merchants who consign their grain to port towns or other big places for sale draw hundies against it. These merchants require discounting facilities. So long the Provincial Bank could not discount their hundies as there was no provision in the byelaws to do that business. Now the Registrar of Co-operative Societies has sanctioned the amendment to the byelaws allowing the Bank to discount bills of exchange, cheques, hundies etc., with his previous consent. This business will enable the Bank to develop the urban banking business. Now that the Provincial Bank will commence discounting hundies, big grain merchants will come to it for taking advances against grain.

The Bank functions as the real apex co-operative banking institution of the Province. It makes advances to central banks, co-operative housing societies, two societies of big land holders, salary earners' societies, crop loan societies and individuals. But no loan is advanced without tangible security. It is also a balancing centre and a clearing house for central banks. The central banks which have got surplus funds

deposit them with this Bank. They get on their Fixed Deposits made with this Bank, interest a quarter per cent more than the rates allowed to the general public. They also get an attractive rate of interest (3½ per cent) on their fluid resources and reserve funds and those of the societies deposited with the Bank in the name of the Registrar, Co-operative Societies.

The Bank effects transfers on behalf of the central banks at specially reduced rates of commission to their accounts maintained with other banks for facilitating their inland exchange business.

The Berar central banks which have suspended payments are not in a position to finance societies. The Bank has, therefore, decided to make advances to crop loan societies after getting them affiliated to itself. Although the Provincial Bank will be directly financing the crop loan societies the benefit of this business will also be reaped by the Central Banks. The Provincial Bank has agreed to part in favour of the Central Banks interest by way of commission at the rate of 3 per cent in consideration of the latter's rendering the former services in the matter of organisation, finance and effecting recoveries.

As already stated elsewhere in this article, the Bank is likely to lose over Rs. 10 lakhs as a result of conciliation of debts due by members of Berar societies. It has agreed to charge interest at the rate of 3 per cent to seven banks in Berar and at 2 per cent to two banks which have suspended payment. It has also agreed to charge interest at 2 per cent to three C. P. Banks which suspended payments and brought under the Government scheme. Naturally as a result of lowering of the rates of interest on loans, profits of the Bank will be considerably reduced in future. The Bank has already taken new branches of banking business. When it gets experience of the several lines of business that is being done under its present byelaws it will, with the previous permission of the Registrar of Co-operative Societies undertake other lines of banking business.

When the urban banking business develops fully, the Bank will be able to add considerably to its income and thus it will be possible for it to gradually reduce the losses that it will have to bear as a result of conciliation of debts, and lowering of rates on debts due by Central Banks.

Under the guidance of the distinguished co-operators who form the Managing Committee, the Bank will continue to grow from strength to strength and will in future serve the best interests of the urban as well as rural population with the same zeal and ability that it has shown in the past.

PROGRESS OF THE CENTRAL PROVINCES AND BERAR PROVINCIAL CO-OPERATIVE BANK.

(Figures are in hundreds.)

Particulars.	1911-12	1915-16	1920-21	1925-26	1928-29	1930-31	1931-32	1935-36	1938-39	1939-40
Share Capital	Rs. 2260	2994	6012	6058	6267	6130	5838	5360	5197	5186
Reserve Fund and Other Reserves	" 11	450	1017	3345	3729	2871	2892	10972	14066	14578
Fixed deposits from Central Banks and Societies	"	643	12181	8382	11226	6424	7622	11752	11040	10025
Fixed deposits from individuals	"	8546	10229	19946	25040	21551	28448	36316	51949	42336
Akola Mortgage Debentures	"		898	10						
Savings Bank Deposits	"		11	2558	5527	7013	6432	17848	18065	13781
Current Account Deposits	"	4162	166	966	3863	4821	4308	4406	4357	3711
Provident Fund Deposits	"	7	16	113	182	245	280	414	542	588
Registrar's Deposits	"		4020	31690	45067	48908	45400	54311	48125	46570
Silver Jubilee Bonds	"	420	7959	50977	71845	66483	70853	53374	2515	2596
Investments in Govt. Securities	"								65500	59670
Investments in Co-operative and Commercial Banks	"	7976	3418	—	10325	4775	1200	37750	28900	25950
Investment in fluid resource	"		515	6104	7065	7756	8125	9789	11175	11566
Loans and Cash credits due by the Central Banks and Societies on 30th June each year	"	2723	8428	26452	13107	21517	24620	32974	45791	41597
Loans due by individuals	"	4%	4%	—	—	169	376	424	1380	3587
Rate of dividend declared	"	7.5	164	6%	6%	—	6%	5%	4½%	4%
Profit of the Year	"		798	620	465	7	604	494	682	780

THE C. P. & BERAR PROVINCIAL

Statement of affairs as

S. No.	Assets.	Amount.
		Rs.
1.	Cash in hand with Bankers ..	2,85,611
2.	Fixed Deposits with Co-operative Banks earmarked against Registrar's Deposits ..	1,25,000
3.	Fixed Deposits with Co-op. & Commercial Banks other than above ..	34,85,000
4.	Govt. & other securities earmarked against Registrar's Deposits. (Market Value Rs. 37,79,740 -) ..	35,35,889
5.	Govt. Securities representing Reserve Fund ..	5,25,417
6.	Govt. Securities pledged with other Banks ..	1,50,000
7.	Govt. & other securities other than those mentioned against 4, 5 & 6 ..	30,768
8.	3¼% P. B.'s Debentures III series ..	38,000
9.	P. B.'s fluid resource deposited with the Registrar, Co-operative Societies, C. P. and Berar ..	11,97,220
10.	Loans & Cash Credit due by Central Banks and Societies ..	41,18,533
11.	Loans due by individuals ..	2,57,187
12.	Narsinghpur Pay Office advances ..	2,51,574
13.	Building, furniture and fittings ..	73,121
14.	Interest accrued to the Bank ..	1,99,263
15.	Other items ..	1,29,987
Total ..		1,44,02,570

CO-OPERATIVE BANK, LTD., NAGPUR.

on 30th April 1941.

S. No.	Liabilities.	Amount.
		Rs.
1.	Share Capital ..	5,08,848
2.	General & other Reserves ..	15,55,258
3.	Fixed Deposits from Central Banks & Socs. ..	8,61,608
4.	Fixed Deposits from persons other than above ..	38,30,499
5.	Ten Years Silver Jubilee Bonds (Face Value Rs. 3,38,600 -) ..	2,59,639
6.	Savings Bank Deposits ..	15,41,896
7.	Current Deposits ..	6,80,838
8.	Registrar's Deposit (Representing partly Reserve Fund of Central Banks & Societies and partly fluid resource of Central Banks and Provincial Bank). ..	38,86,813
9.	Registrar's Loan Deposits ..	4,71,683
10.	Registrar & Trustees Sinking Fund Deposit ..	1,744
11.	Land Mortgage Banks Dept. Account ..	1,42,938
12.	Provident Fund of P. B. & C. B. Employees and other like funds ..	3,78,143
13.	Sundry Creditors ..	37,614
14.	Interest due by the Bank ..	..
15.	Other items ..	2,09,462
16.	Bombay P. B. Overdraft ..	34,310
17.	Balance of profit ..	1,277
Total ..		1,44,02,570

THE MADRAS PROVINCIAL CO-OPERATIVE BANK

By

T. RAGHAVENDRA RAU,
Secretary.

The Madras Central Urban Bank Ltd., (the name by which the Provincial Bank was known till 1931) was started on its career in a period of fierce financial storm that overtook the snug complacency of the earning and saving community of Madras. Arbuthnot & Co., an English company of merchants who were also carrying on banking business on a large scale, crashed all of a sudden in 1906 ruining many a family. Its fall was about to bring down another English concern similarly constituted, but its devastating onslaught was stemmed by the timely interference of the public of Madras, who constituted a Committee of Management and elected Sir V. C. Desikachari as the Indian representative to manage the affairs of the Company and thus saved it and the public from ruin. Sir V. C. Desikachari has attained renown for his ability and financial integrity in dealing with funds belonging to public institutions.

Mr. (later Sir) P. Rajagopalachari, the first Registrar of Co-operative Societies, pitched upon Sir V. C. Desikachari to start, guide and control a financing institution for the Co-operative Movement. Sir V. C. Desikachari, who had a genius for finance, eagerly came forward to start a bank with a Board consisting of men in the forefront of public life in the city. He suggested for the Presidentship of the Bank Dewan Bahadur K. Krishnaswami Rao, who had been Dewan of Travancore and had just retired, and he held the office of the President till November 1921. As the Vice-President of the Bank was selected the Hon. Nawab Syed Mahomed, a member of the Imperial Legislative Council and the President of the abortive session of the Indian National Congress at Surat. Sir P. Theagaroya Chetty, who later became the leader of the Justice Party, and Mr. T. V. Seshagiri Iyer who later became a judge of the High Court, were the other members of the Board. Sir V. C. Desikachari was of course the secretary. Those were days free from communal bickerings.

Constitution and Management.—The Madras Central Urban Bank was registered under the Co-operative Credit Societies Act X of 1904 as an Urban Society on limited liability by the Registrar on the 23rd

November, 1905. The Act of 1904 did not permit the registration of a "Central" Bank as understood now and hence its registration had to be authorised by the Local Government under the special Section 29 of the Act on the 19th October, 1905. The name of the Bank at the time of its registration did not reveal the real character of the institution. It was more than "Central," as the term is understood in co-operative literature, since its area of operations even from its inception extended to the whole province of Madras. It was not "Urban" except in location; and it did not lend to individuals. Another peculiarity was that the term "co-operative" was not part of its name.

The Bank was started with the specific aim of financing all registered societies in the province of Madras. It adopted very simple bye-laws, 20 in number, and none but individuals held all the shares. After the report of the MacLagan Committee was published, there was an agitation for admission of societies as shareholders with consequent rights in the management. There was a furious controversy on this question and the individual shareholders stressed that the admission would spell ruin to the institution in as much as the societies which are essentially borrowers could not be entrusted with the management of others' funds.

There was pressure from the Government and a veiled threat to organise a rival bank. The outlook of the shareholders could be easily imagined. The ownership of the Bank was till then in the hands of individuals and additional shares were being floated at a premium. There was no limit placed on dividends, though the bank never declared at any time more than 12 per cent even while the profits permitted a better rate and the shares exchanged hands at high premium.

The Bank entered on its second phase with the passing of the resolution of the General Body, dated 31st March 1917, to admit co-operative societies as shareholders, with certain safeguards granted to the original individual shareholders who were styled preference shareholders. Provision was introduced for the elimination of the preference shareholders by purchase of their rights from profits at a fixed premium of Rs. 60 per share of the nominal value of Rs. 100. They were guaranteed a preferential dividend of 9 per cent, the maximum dividend under the rules in force, and a preferential right also to the capital in the event of liquidation. Another condition imposed was that the rate of interest on loans, the main source of income, should not be lowered without the sanction of Government. In return therefor, new ordinary share capital to the extent of Rs. 4 lakhs was created which could be allotted at par only to co-operative societies, and the representatives of societies were given three seats on the Board of Manage-

ment. The strength of the Board which was originally five was raised to seven in March 1910 and to nine in 1917 as part of the constitutional changes, throwing open the membership to societies, 3 places being reserved for them. The new constitution came into force on 1st April 1917.

After 20 months from the date on which the new constitution came into force, it was found that only 72 societies out of 2,816 had taken up ordinary shares for Rs. 12,900 and on the 30th June, 1920, the amount of paid up capital of the societies was only Rs. 14,620. Some societies had defaulted in payment of share calls also. The response by primary societies being discouraging, the idea of bringing them into the Madras Central Urban Bank was abandoned and the Registrar ordered the postponement of the purchase of preference shares.

The next step in the development of the Bank dates from July 1920, when it was decided that Central Banks alone should be admitted as members. Mr. Hemingway, the Registrar, in 1919 outlined a new scheme of federating the Central Banks into a central organisation of their own; in other words to convert the Madras Central Urban Bank into a real Provincial Apex Bank. The redemption of preference shares commenced in 1923 and was continued till 1925 when each individual was left with only one share of the face value of Rs. 100. The first Central Bank was started in January, 1909, and today there are 32 Central Banks affiliated to the Provincial Bank including the two whose area of operations was transferred from Madras to the new Orissa province but still financed by the Madras Provincial Bank in the absence of a Provincial Bank for Orissa. Of individuals, there are now only 184, each owning one share.

From 1st July, 1920, when the bank was transformed into a federation of Central Banks, the Board of Management was reconstituted. The strength of individuals on the Board was fixed at 50 per cent of the number of representatives of Central Banks, (each of which was entitled to send one) subject to a minimum of 12. Dr. S. Swaminadhan became the President of the Bank in November, 1921 after it was so transformed and held the office till October 1926.

The unwieldy size of the Board necessarily led to the creation of a smaller body to carry on the day to day administration of the Bank. This small body was designated the Executive Committee, which consisted of nine members and practically exercised all the powers of the Board. Till 1925, six members of the Committee had to be residents of Madras which therefore gave a great advantage to representatives of preference share-holders, though under the bye-laws there was no

bar for a representative of Central Bank with that qualification to get into the Committee. In 1925, there was again a wholesale revision of the byelaws which reduced the number of representatives of individuals on the Board to five and laid down that the majority of the members of the Executive Committee should be representatives of Central Banks and also limited the city residential qualification to the President, Vice-President and one other member, with the result that there were always six representatives of Central Banks on the Executive Committee. After the constitution was thus revised, the Hon'ble Mr. V. Ramadas Pantulu became the President of the Bank and held office till April 1941. Till 1938 the election to the seats on the Board was compartmental, i.e., the preference shareholders elected their representatives in a separate meeting and the Central Banks sent their representatives direct. The next stage was marked in 1938, when on the 7th August, 1938, the General Body resolved that the representatives of preference shareholders on the Board should also be elected by the composite General Body and prescribed the qualification of residence in the city only to two members of the Executive Committee. One of the two important office-bearers, the President or Vice-President, could be a representative of Central Banks.

Regarding the representation of Central Banks, the General Body, by a convention established in 1929, made the Executive Committee representative of the different districts by suitably grouping them. The Executive Committee in office for the triennium 1938-41 consists of only one representative of Preference Shareholders and eight representatives of Central Banks.

It is a recognised principle of co-operation that no member will have more than one vote or will be permitted to vote by proxy; but strangely enough the Act X of 1904 and Act II of 1912 permitted plurality of votes in limited liability societies. The constitution of the Madras Central Urban Bank was not changed till 1917 when societies were admitted and it was then that the principle of votes according to the number of shares held and voting by proxy was introduced with a view to safeguard the interests of the societies whose number was small though they had a large shareholding. The Madras Act VI of 1932 did not permit such deviations and the Local Government had to approve of the particular bye-law of the Provincial Bank under its special type of constitution. The plurality of voting and proxies were restricted to the General Body. Both in the Board and the Executive Committee, the rule of one man one vote is adopted.

Growth of Share Capital.—The original byelaws of the bank fixed the authorised share capital at Rs. 25,000 divided into 50 shares of

Rs. 500 each. No one could hold more than 2 shares each and the amount of share was payable in instalments of Rs. 50 as and when calls were made. On 31st July 1907, the limit of individual holding was raised to five shares of the nominal value of Rs. 2,500 and again in August 1910, the limit was raised to Rs. 5,000. It continued to be so till 1920 when the bank was converted into a federation of central banks and the maximum holding per central bank was fixed at Rs. 30,000. The Co-operative Act prescribes a maximum holding of Rs. 1,000 for any individual in the shares of a society but the Madras Central Urban Bank was treated with special consideration by Government.

Starting with a capital of Rs. 25,000 in 1905, part of which only was called up, it was successively raised to Rs. 50,000 in August 1908, to Rs. 1,00,000, in March 1910 and to Rs. 2,00,000 in September 1911. The face value of the new issue was fixed at Rs. 100 in 1910 and floated at a premium of 10%. In 1917 when societies were admitted, issue of new ordinary shares to the maximum of Rs. 4 lakhs was authorised thus raising the authorised capital to Rs. 6 lakhs and on the 6th October 1928, the maximum was again raised to Rs. 7 lakhs with a view to allot more shares to Central Banks to enable them to retain their seat on the Board under the bye-laws. The annexed table shows the growth of the share capital and reserve fund:

		Share Capital	Reserve Fund after audit
		Rs.	Rs.
31st March, 1906	..	4,200	5
30th June, 1910	..	82,000	10,848
" 1915	..	2,00,000	91,000
" 1920	..	3,44,120	1,58,700
" 1925	..	5,94,700	5,00,000
" 1930	..	6,19,750	10,23,000
" 1935	..	6,58,750	15,25,000
" 1940	..	6,65,600	19,00,000

The primary societies which held shares having been denied representation on the Board from 1920 were induced to transfer their holdings to the Central Banks. Still in 1937, there were 25 societies holding 83 shares and by a resolution of the Board, dated 4th December 1937, their shares were redeemed on 1st February, 1938. Thus the present share capital of the Bank Rs. 6,66,500 is held by 32 Central Banks and 184 individuals holding each one share of Rs. 100.

The Bank has been paying substantial dividends on the paid-up share capital. For the period ending 30th June, 1907 and 1908, a dividend of 10 per cent was paid and later at 12 per cent per annum till 1914, when the Local Government by a rule fixed the maximum at 9 per cent, which has been paid continuously.

Deposits.—The Bank has been very successful in the mobilisation of deposits. Except for short periods on two occasions, once in 1921 and a second time in 1931 and that for world-wide causes the Bank had never any difficulty in obtaining deposits. The Bank at its commencement was receiving only Fixed Deposits. This is as it should be, as in agricultural finance, the money gets locked up for a longer period than in commercial transactions.

The peak year under fixed deposits was in 1933, when it touched Rs. 110 lakhs. As mentioned elsewhere the loan business reached the peak figure of Rs. 123.5 lakhs in May 1930. Then the economic depression with phenomenal fall in prices of agricultural commodities set in. In 1931 the demand for loans fell and old loans were collected, resulting in unremunerative surpluses with financing banks, the refusal of fresh deposits and cutting down of borrowing rates.

From July 1911, the bank decided to open *Current Accounts* and then it was that the writer of this article entered service of the bank as Accountant. Interest was paid at 3% on daily balances consistently with the then fixed deposit rate of 6%. Till 1926, the same rate of interest continued, but as a consequence of reduction of rates all round, the rates passed through various stages at times varying between the two half-years of the calendar year and settled itself at one per cent for sums up to Rs. 50,000. Central Banks got interest on balances exceeding this figure at a reduced rate.

Next comes in importance the deposits of Reserve Funds of societies and Central Banks. With the stoppage of direct advances to societies, their reserve funds were made over to the respective Central Banks and at present the balance of deposits of about Rs. 33 lakhs represents primarily the reserve funds of Central Banks only. The deposits would have been more but for the fact that in accordance with the wishes of certain central banks, the Provincial Bank agreed to permit Central Banks to invest fresh accretions to reserve fund in debentures of the Madras Co-operative Central Land Mortgage Bank as the funds are available for long term investment. The rate of interest paid has been always higher in comparison to deposit rates. From 5 per cent per annum in 1911, it was raised to 5½ per cent in 1913 and 6 per cent in 1921. Thereafter it gradually dropped to the present level of 3 per cent.

Various other schemes of Savings Deposits for encouraging thrift have been opened; but two of them were suspended when it was found that the Bank could not offer attractive rates. *Prudential Deposits* (commonly known as Savings Bank accounts) came to be opened in 1916 on which rates of interest have been however reduced from 4½ to 2½ per cent. *Recurring Deposits* encouraging savings month by month for periods varying from one to seven years were accepted from 1913 to 1927. *Provident Deposits* on the same principles as recurring deposit accounts, but for periods ranging from 7 to 30 years, were accepted from 1924 to 1933.

GROWTH OF OWNED CAPITAL, DEPOSITS AND PROFITS

Year ending	Paid up Share Capital	Deposits and other borrowings	Reserve Fund after audit	Book Profit
	Rs.	Rs.	Rs.	Rs.
31st March, 1906.	4 200	500	5	20
30th June, 1912.	2 00 000	18 99 973	42 000	42 537
30th June, 1920.	3 44 120	50 72 146	1 58 700	70 054
30th June, 1925.	5 94 700	1 00 80 867	5 00 000	2 10 298
30th June, 1930.	6 19 750	1 63 44 933	10 23 000	2 44 140
30th June, 1935.	6 58 750	1 49 48 420	15 25 000	2 04 461
30th June, 1940.	6 65 600	2 28 55 768	19 00 000	2 38 206

Loan business and policy.—The Act of 1904 did not prohibit loans to individuals by the Madras Central Urban Bank but in keeping with the object of the promoters of the bank, lending was restricted to co-operative societies. The original byelaws of the Madras Central Urban Bank did not provide for loans to individuals. In August 1908, however, the byelaws were amended enabling the bank to grant loans to individual members of the bank on the security of their deposits or on Government Securities, to the extent of 90 per cent and 80 per cent respectively, reserving a very safe margin for fluctuations, judged by the standards of commercial banks.

The first Co-operative Central Bank in the province was started in 1909. Till 1920, loans were granted both to Central Banks and to societies in districts where there were no Central Banks. From 1920 onwards loans were issued only to Central Banks. In November 1920 special permission was granted by Government to lend to non-member depositors against their deposits and in January 1931, the privilege was

extended to loans on pledge of Government Securities as well. Government has, however, reserved to itself power to withdraw at anytime the concession so far as it relates to non-members. The Madras Act VI of 1932 permits loans to any individual on the security of debentures of co-operative societies.

The Madras Provincial Co-operative Bank has during the last 35 years helped various kinds of co-operative societies with loans which may be classified as under:—

1. Rural finance.
2. Long term or mortgage finance.
3. Industrial finance.

From the early years up to 1920, the bulk of loans granted by the Bank to primary societies and Central Banks were of a long term nature, ranging from 7 to 10 years. In 1921, and 1922 owing to financial stringency during the postwar period, only short term loans were granted to Central Banks (Loans to societies having been stopped after the conversion of the Bank into a Provincial Bank); but with the easing of the financial position, grant of long term loans for 5 to 12 years was resumed, though loans for periods of five years began to preponderate. Since 1927, the bank's policy has undergone a definite change and loans are granted mostly for a period of 1 to 3 years and in special cases up to 5 years, as will be seen later.

Rural finance.—So long as the Provincial Bank was directly financing societies, the scheme resembled the Takavi Loans of Government. It was a simple procedure. The loan was granted initially for 2 years on the recognised assumption that if 1/10 of the principal together with interest was paid at the end of every year, the borrowing society was entitled to automatic extension for another year. Therefore all loans to societies were virtually for 10 years.

When Central Banks came to be constituted, it was expected that they would take over the financing of societies within their jurisdiction, and the Madras Central Urban Bank would lend only to societies in areas where Central Banks had not been organised. There was a controversy whether the Central Banks should take over, as a matter of course, all the loans of societies till then advanced by the Madras Central Urban Bank, without investigating into their financial condition or whether the Central Banks had any option to pick and choose. The Madras Central Urban Bank insisted that Central Banks should have no option as the ultimate responsibility for all loans was laid on the Co-operative Department. However, it ended in the Provincial Bank being left with a few loans to live and liquidated societies but the loss incurred by the

bank in bad debts has been very small, viz., Rs. 8,635 for all these years. None of societies' loans are outstanding at present.

The terms of transfer of societies' loans to Central Banks were that they should undertake to clear the entire dues in 7 years and execute their own promote with interest at 7% per annum while the loans to societies carried interest at 7½%, the difference being appropriated by the Central Banks. All the Central Banks which undertook such liability to the extent of Rs. 19.2 lakhs have cleared their dues except only two operating in dry tracts which owe the Provincial Bank still a sum of about Rs. 20,000 under such loans (i.e., transferred loans).

The scheme of long term loans as applied to societies was not the same as that for Central Banks. The Central Banks were asked to repay the loans mostly in five years and they were not subject to extension year by year. Till 1921 which proved to be a critical year, no difficulty was experienced by the Provincial Bank, but in that year it had to refuse long term loans. Though issue of long term loans was resumed after 1922, the continuous growth of overdues in societies led to the necessity of enquiring into the objects of loans, and restricting them to productive purposes. Propaganda by periodical conferences led to the revision of policy by the Provincial Bank. The adherence to the above principles is marked by the departmental revision of the forms for preparation of annual accounts in 1925. Till then, the Central Banks had been continuing the scheme of 10 year loans to societies, and there were violent protests against their discontinuance from central banks especially in dry areas like Chingleput, North Arcot, Anantapur, etc. The Provincial Bank was unwavering and by persistent advocacy of the benefits of its policy was able to carry conviction to all the affiliated central banks in course of time. Co-operative opinion has now settled down to the conviction that the central banks and the Provincial Bank handling short term funds can at best undertake short and intermediate loans extending up to 5 years and that discharge of prior debts, reclamation and improvement of land, etc. form the proper field for land mortgage bank finance. Subsequent to 1922, there was another period of financial strain on the Provincial Bank in 1931, when Britain went off the Gold Standard. Till then, there was a regular inflow of deposits, but during the period preceding the crisis the scare on the public was so great that there was a rush of applications for loans from Central Banks for repayment of deposits. The Provincial Bank itself, nearing the tether of its entire resources, was compelled to apply for a short term loan of Rs. 10 lakhs from the Imperial Bank of India which, after some correspondence for about two months, was ultimately refused. But even before the refusal, the Government stepped into

the breach as the situation had become serious, the Provincial Bank having declared that loans for normal financing of societies was temporarily suspended and was holding up applications for repayment of deposits in abeyance for want of funds. The peak figure under loans to Central Banks, i.e. 123.5 lakhs was reached in May 1930. But the situation calmed in a few months and from July 1931, the history of the Provincial Bank's finance has been one of surpluses and a steady reduction of deposit rates and lending rates side by side.

The loan policy of the Provincial Bank from the time direct loans to societies were stopped has been that of recognising the autonomy of Central Banks and leaving them to make their own arrangements without external aid for repayment of deposits. While there is no rule that no loan should be granted to Central Banks for repayment of deposits, the Provincial Bank has successfully maintained the view that if central banks after disbursing loans to primaries from deposits approach the Provincial Bank for a loan to return those deposits, it might result in the Provincial Bank being involved in the financial difficulties and lead to indiscriminate loans by central banks.

The period between 1929 and 1931 also was one when restrictions came to be imposed by the Imperial Bank on the credit facilities till then granted to co-operative banks. Since the inauguration of the Co-operative Movement, Government and the Department were able to influence the Imperial Bank, functioning as the State Bank, to grant adequate credits to the banks. The Imperial Bank had granted a credit limit of Rs. 17 lakhs to the Bank apart from separate limits to Central Banks on the cover of co-operative paper. In 1920, the Imperial Bank tried a scheme of concentrated overdraft to Central Banks on the guarantee of the Provincial Bank, but the scheme was however suspended after one year's trial. The cash credit of Rs. 17 lakhs on co-operative paper was sought to be curtailed in 1929 and the Imperial Bank decided that the limit will be extinguished in 5 years in equal instalments and that renewal of fresh credits would be granted only on the cover of Government Securities. The immediate repercussion of the proposal was one of wide protests from the co-operative banks. The Provincial Bank organised a joint protest and directed the Central Banks not to comply with the circular of the Imperial Bank in lodging Government Securities and undertook to supply the retrenched credit. This state of affairs did not last long, as the Provincial Bank and the Central Banks realised the value of keeping outside resources. To-day the Provincial Bank has a drawing limit of Rs. 37 lakhs with the Imperial Bank of India secured on Government paper. Other Central Banks in the aggregate have a drawing limit of Rs. 27.6 lakhs. Central Banks have secured from the

Provincial Bank cash credit facilities to the extent of Rs. 33 lakhs. The nature of security lodged as cover by them is analysed below:—

Rs. 16.0	Lakhs on Co-operative paper.
Rs. 8.8	Lakhs on Debentures of the Central Land Mortgage Bank.
Rs. 4.4	Lakhs on Bank's deposits.
Rs. 3.8	Lakhs on Government Securities.

Rs. 33.0 lakhs.

A major portion of the credits still stands on co-operative paper. There has been no refusal till now if the circumstances showed that additional accommodation was required for maintenance of statutory fluid resources. It can be safely averred that the Provincial Bank provides directly or indirectly the entire fluid resources of the co-operative movement in the Province.

From the year 1936, the Provincial Bank has been granted a drawing by the Reserve Bank against Government paper. The Provincial Bank failed in its endeavour to secure accommodation on the pledge of the debentures of the Madras Co-operative Central Land Mortgage Bank, though the principal and interest thereof are guaranteed by the Madras Government.

The original bylaws of the bank fixed the maximum lending rate at 7 per cent and the borrowing rate at 6 per cent. The first loan application dealt with was that of the Big Conjeevaram Weavers' Union. The President entered his dissent at the un-remunerative rate of interest compared to the deposit rate. He expressed that there should be at least a margin of 2 per cent between the borrowing rate and lending rate and that the bylaws should be amended early. This was done at the next General Body Meeting. From 1906 to 1920, the loan rate stood at 7½ per cent to societies. In places where Unions were started, the Bank was granting a rebate of one-fourth per cent on the interest collected, to the Unions for supervision charges. When Central Banks were granted loans the rate of interest to them was fixed at 7 per cent. These rates continued till July 1920. It would look strange but it was so that at the first meeting of the Board composed predominantly of Central Banks the rate of interest on loans to Central Banks was raised temporarily to 7½ per cent and it was in force till July 1923 when it was again lowered to 7 per cent. The course of loan rates has been one of gradual reduction since then except for a short period of six months from January 1931. The present rate of interest on loans is 3½ per

cent per annum. The reduction in lending rate from 7½ to 3½ per cent has been effected in the course of 7 years from 1931 to 1938 and the margin available to the Provincial Bank is now about half per cent. This drastic reduction in the lending rates during a period when additional direct financial help to the tune of Rs. 3.2 lakhs was rendered to Central Banks by way of subvention and subsidies has not affected adversely the profit-earning and dividend-paying capacity of the Provincial Bank.

The amount of loans outstanding against societies and central banks was regularly on the increase, year by year till 1925, when it reached Rs. 82 lakhs. There was a fall in subsequent years till 1929, when there was again a rise and in 1930 the peak figure of Rs. 123.5 lakhs was reached.

Then came the crisis of 1931 and growth in overdues. Subsequently there was a rather steep decline, but by the 30th June 1934, most of the loans were collected leaving only Rs. 5.3 lakhs outstanding. The period also marks a corresponding rise in—investment in G.P. Notes totalling about Rs. 147 lakhs.

An outstanding feature of the short term rural finance of the Provincial Bank is the system of advance of loans on the pledge of produce raised by members of societies. It is part of the scheme known as "controlled finance." It aims at financing the members of agricultural societies through all stages of their occupation, viz., from the stage of cultivation to the final stage of marketing of the produce under adequate safeguards for the application of the loan for productive purposes and its repayment out of the sale proceeds of the produce. These loans are usually repayable in nine months and rotate rapidly. Such loans advanced by the Provincial Bank in the last three years are as follows:—

1938-39 :	Rs. 40.14 lakhs.
1939-40 :	Rs. 62.35 lakhs.
1940-41.	Rs. 81.07 lakhs.

(to end of April 1941).

Land Mortgage Bank finance.—Before the starting of the Central Land Mortgage Bank, there was a proposal in 1928 to entrust the financing of the long term needs of agriculturists through a net work of primary land mortgage banks, to the Provincial Co-operative Bank making it the managing agent for the floatation of debentures similar to conditions that were obtaining in Bombay. But this did not materialise. A beginning had already been made in 1927 to obtain long term money by the floatation of uncovered debentures. Against an offer of Rs. 5 lakhs

at 5 per cent and an issue price of Rs. 95, Rs. 2,14,600 were subscribed for and the issue was closed. The money obtained was primarily utilised to grant loans to primary land mortgage banks, for 20 years on their debentures. The Central Land Mortgage Bank was registered in December 1929 and began to issue debentures with Government guarantee. The Provincial Bank now holds investments in those debentures of the aggregate face value of Rs. 15.72 lakhs. The investment in the debentures of the primary land mortgage banks was stopped, and against a sum of Rs. 1.55 lakhs, so invested, there is at present a balance of only Rs. 78,000 outstanding on date. The debentures issued by the Provincial Bank were redeemed in full by 1st December 1940.

Industrial Finance.—The Provincial Bank has been attempting to help societies, other than agricultural, whenever required. In October 1919 it gave a loan to a co-operative leather goods society consisting purely of cobblers. After a trial of 3 years, it was found that the society did not work well and it had to be liquidated. An overdraft of Rs. 3,000 and a time loan of Rs. 1,000 due from the society were however fully recovered. The bank took a keen interest in the starting of a co-operative printing press in 1920 and took shares of the value of Rs. 1,000. The press worked well but languished for want of support from the members and was on the verge of liquidation. It has, however, been rehabilitated and is again working at a profit.

But by far the most important venture on the side of organising an industry based on agriculture is that of financing the co-operative sugar factory at Vuyyuru, Krishna District. The scheme was worked out with great care and is an attempt to provide credit facilities for large scale operations. The agriculturists in a compact area which was investigated to be fit for cane growing joined together and pledged their lands to the society which in turn raised credit for its block expenditure to the extent of several lakhs from the Provincial Bank. It was in 1934 when the Provincial Bank, finding that the management of certain Central Banks which were not working well were superseded by the Registrar, took power under its byelaws to finance primary societies directly with the Central Bank as the agent of the Provincial Bank for disbursing and collecting the loans with the approval of the Registrar. The finances required by the Vuyyuru Factory which has a crushing capacity of 800 to 1,000 tons of cane per day could not have been easily provided by a Central Bank. The Provincial Bank advanced a sum of about Rs. 14.5 lakhs during the first two years of its working for block expenditure. Besides this sum considerable advances are made year after year on the security of sugar manufactured by the factory and recovered from

the sale proceeds of sugar. In the first three years after it began crushing, it went through various vicissitudes incidental to an area where sugar cane growing was introduced newly; and the raising of excise duty and internal competition left little profit. On date the factory owes to the Provincial Bank under advances for block expenses a sum of about Rs. 6.5 lakhs. It has turned the corner and shows signs of becoming a successful enterprise. Its progress is being watched with interest and its success would stimulate the organisation of similar industries in other areas.

LOANS OUTSTANDING AND INVESTMENTS IN G.P. NOTES

Year ending.	Loan to Societies.	Investments in G. P. Notes.
	Rupees	Rupees
31st March, 1906	2,000	...
30th June, 1910	9,21,650	...
30th June, 1912	20,91,553	66,852
30th June, 1920	50,48,687	3,33,427
30th June, 1930	1,15,13,462	58,26,627
30th June, 1934	5,30,279	1,46,91,095
30th June, 1938	42,28,937	1,26,47,282
30th June, 1940	1,01,76,649	1,25,63,330

Schemes of subvention and Subsidy to Central Banks : Subvention.—

The scheme of financing societies spread over the entire province and the slender profits earned rendered the bank entirely dependent on the Registrar for obtaining the financial particulars of the indebted and borrowing societies and the bylaws also were framed accordingly. The Bank successfully contended in later years, even after its position had improved considerably that it was not its business to engage any inspectorial staff for the supervision of societies. But at no stage did it relax the careful watch kept over the societies and Central Banks; and after the Bank was transformed in 1920 into a Provincial Bank it continued to draw the attention of Central Banks to the growing overdues in primary societies. From 1926 it introduced a systematic review of progress reports and arranged half yearly conferences of Central Banks. It impressed on them the need for an immediate investigation into the state of borrowers and societies and their rehabilitation or reorganisation by judicious grant of extension in deserving cases with proper safeguards and adequate security. As the Central Banks did not show much pro-

gress the Board of Management framed a scheme of rectification and consolidation in April 1930 and sanctioned financial aid for a period of 3 years to all the Central Banks undertaking to engage special staff for the purpose. The budget for 1930-31 provided an allotment of Rs. 50,000 in aid of rectification work. The amount spent during the three years ending 30th June, 1933 came to Rs. 1,33,690. The three year plan having been worked out the Provincial Bank had to continue the financial help thereafter on a limited scale to certain banks which undertook special schemes for rehabilitation and to others financially weak. The scheme enabled the Central Bank to make a detailed estimate of their bad debts and to draw up a cautious programme of development for future years. The total expenditure by the Provincial Bank under this head for the 10 years 1930-40 amounted to Rs. 1,97,507. The detailed examination brought to light the initial defects in the financing of members of societies, such as want of proper estimate of the ryots' needs and repaying capacity, the unproductive nature and purpose of the loans and the inadequacy of the time allowed for repayments. It proved to be an impossible task to meet the entire debt requirement of members. The conviction was forced on the Central Banks that only short term requirements of members could be met from short term deposits and that long term needs could not be satisfied by loans from short term funds at their disposal but by only land-mortgage banks obtaining long term money.

Subsidy.—The Provincial Bank is also helping the Central Banks financially in the matter of developing crop finance and marketing. From the year 1935-36, subsidies have been granted with a view to organise loan and sale societies and help the ryot to secure better prices for his crop by holding up for better markets. These grants are all distributed to Central Banks. Such grants amounted to Rs. 1,14,525 for the six years ending with 1940-41.

Fluid Resources.—The Bank maintains fluid resources to cover the demand at the following rates prescribed by Government.

Current deposits	.. 40 per cent.
Fixed deposits maturing next 30 days	.. 50 per cent.
Prudential deposits	.. 25 per cent.
Undrawn cash credits	.. 50 per cent.

The high percentage of Government securities enables the bank to maintain liquid resources at a high level.

Bankers' Clearing House.—With a view to facilitate clearance of cheques and bills incidental to the growing business under current de-

posits the bank found it necessary to join the Madras Clearing House in February 1933 and continues to be a member thereof.

Relations with Central Banks.—The Bank has completed 35 years of working in November 1940. It celebrated its Silver Jubilee in June 1931, and just prior to that it was decided that the name of the Bank should be changed to its present name, the Madras Provincial Co-operative Bank, Ltd., to be in keeping with its status and functions.

The Bank has interested itself in organising periodical conferences of its affiliated Central Banks at which their representatives meet and discuss matters of common interest. The first few Conferences from 1921 to 1925 were held at the office of the Registrar and the later conferences are being held under the auspices of the Provincial Co-operative Bank from the year 1926. Till 1931, the conferences were held half yearly and thereafter annually. It is at these periodical conferences that decisions on important questions of policy are arrived at and though the resolutions passed at the conferences do not have any statutory binding on the Central Banks, they all adhere to them loyally. At the second conference held in October 1926, the Central Banks agreed to regulate their rate on deposits to a maximum of half per cent lower than the lending rate of the Provincial Bank and this principle has been adhered to till the Conference in 1940 decided that Central Banks might offer rates not exceeding the lending rate of the Provincial Bank as per suggestion of the Registrars' Conference held in December 1939. A scheme for the collection of cheques and bills and issue of drafts between Central Banks was adopted.

A controversial issue between Central Banks and the Provincial Bank was the right of the Provincial Bank to inspect the affiliated central banks. The Townsend Committee had recommended that every financing agency should be given power to inspect the working of its affiliated societies. The Board of Management of the Provincial Bank passed a resolution in April 1928 by a big majority adopting the recommendation of the Committee, but a few banks tried to question such a right. The matter came up before the General Body of the Provincial Bank with a view to enact a byelaw compelling a constituent central bank to submit to such a procedure. The object of inspection by the Provincial Bank was to study the condition of each bank for mutual benefit, and it was agreed at the General Meeting that a resolution approving the procedure would do. This happily ended the controversy and all the banks have agreed to their inspection by the Directors of the Provincial Bank. There is now a separate section in the Madras Co-operative Societies Act VI of 1932 providing for such inspection.

Relations with Departmental Officers.—Sir P. Rajagopalachariar, the first Registrar though not actually on the Board helped the bank considerably in its early stages and was instrumental in effecting a smooth change of the constitution when societies had to be admitted into membership. Dewan Bahadur R. Ramachandra Rao who succeeded Sir P. Rajagopalachariar as Registrar lived next door to the Bank and when not in camp carried his office work in the bank premises, thus reducing to a minimum the correspondence between the Bank and the Department as not even to necessitate a telephone call. The same gentleman, when he joined the Board after retirement, received unstinted support from the bank for his rural reconstruction work at Rasipuram in Salem District which later became the nucleus for starting prohibition in that area, when Sri C. Rajagopalachariar became the Premier of the Province. It was during the term of the third Registrar, Dewan Bahadur L. D. Swamikannu Pillai, that the relationship between the Bank and the Department was somewhat strained, as the Registrar wanted to effect a change in the constitution and policy of the Bank.

The Bank from the beginning took its firm stand on not having any thing to do with the inspection of the borrowing societies. The Bank held the view that in as much as its transactions were scattered over the whole presidency, it could not find all the money required to maintain the inspecting staff. Secondly, it was out of the revenues of the province that the Government maintains the Co-operative Departmental staff and it is therefore their business to conduct the inspection of societies. It was held that the sole responsibility for recommending societies to the Bank for obtaining loans rested with the Department. Still as a measure of compromise and trial the bank agreed to maintain two inspectors for some time and met their salary and travelling allowance but they worked completely under the direction of the Department and submitted their reports to the Registrar. This was a short-lived arrangement and till this day the Bank does not maintain a single inspector on its staff.

The second point of difference was the question of Audit. The Registrar began to ask for payment for work done by the departmental staff. The Bank maintained that if it was called upon to pay, it would employ its own auditors. The Bank won on this point also.

The third point of difference was to have on the Board representatives of Central Banks. The Bank while reluctantly admitting two representatives declined to meet their travelling allowance. So, non-resident members were for sometime coming to the meeting at their own cost.

When Dewan Bahadur L. D. Swamikannu Pillai's term as Registrar expired, an English Civilian, the late Mr. F. R. Hemingway was appoint-

ed as his successor for the first time. He was the most genial of all Registrars and did much to restore the good relationship between the bank and the department that existed during the period of the first two Indian Registrars.

Almost all the Indian Registrars on retirement have joined the Board of the Bank and served the institution at one time or another—Dewan Bahadur R. Ramachandra Rao, Dewan Bahadur L. D. Swamikannu Pillai, Rao Bahadur A. Vedachala Iyer, Rao Bahadur M. K. Venkatachariar, Dewan Bahadur K. Deivasikhamani Mudaliar and Rao Bahadur M. Giriappa.

Common Good Fund.—Out of the Common Good Fund, the bank has given the substantial sum of Rs. 1,30,500 to the Madras Provincial Co-operative Union for co-operative education, propaganda, Rural reconstruction schemes etc. Besides it has given Rs. 20,000 for boys' and girls' education, Rs. 5,150 towards relief of sufferers from earthquakes, floods, famine and fires, Rs. 11,750 to libraries, hospitals and poor homes. Apart from this, it has enabled the Hon'ble Mr. V. Ramadas Pantulu to attend as the first Indian delegate the International Co-operative Congress at London in 1934 and visit co-operative institutions in England and the Continent. Mr. K. C. Ramakrishnan who attended the International Co-operative Congress at Paris in 1937 and made a study tour in parts of Europe and Mr. K. L. Narasimha Rao, who visited Great Britain and Europe for the study of co-operation and the Bank's Secretary, Mr. T. Raghavendra Rao who visited Japan for a similar purpose received money grants. It also deputed one of its directors, the late T. Adinarayana Chettiar, to study the marketing of crops in South India who published his account in a brochure entitled, "Co-operative Marketing of Agricultural Produce in South India." It has endowed a sum of Rs. 3,000 to the Madras University to constitute a Prize Fund in memory of its late Secretary, Mr. V. C. Rangaswami for the award of a prize for the best post graduate thesis on Rural Economics including Co-operation. Its walls are adorned with portraits not only of its past presidents but also of the foremost leaders of Public Life in the country.

Building and Library.—From its building fund accumulated out of profits, it owns two big buildings which in addition to serving as accommodation for banking business, provide guest rooms for its directors and co-operators coming from all parts of the country. A meeting hall is nearing completion.

Its library is well-equipped with books on co-operation, banking, economics and allied subjects and a large number of journals and dailies.

Staff Welfare.—The Bank has started a Provident Fund for its employees and it provides them with free medical relief. It has also provided facilities for the running of a canteen for the staff. There is a co-operative society for the employees. They have formed themselves into a Fellowship and group themselves for work under various heads for common benefit.

The Bank has some ambitious schemes in view, viz.

1. To open a Women's and Children's Department in the bank.
2. To run a co-operative kitchen on the model of Nutritious Foods Distributing Co-operative Society in Japan to provide midday meals to the subordinate employees working in offices and factories.
3. To maintain a Co-operative Sanatorium, Rest House and Hospital near Tambarain to serve the employees of all co-operative concerns.

The Future.—What of the future that is in store for the Madras Provincial Co-operative Bank? If an All-India Co-operative Bank is to be started, the Madras Provincial Co-operative Bank may well provide the nucleus for such organisation as the Premier Provincial Co-operative Bank in India. It has potentialities for expansion to cover any area or reach any limit. Let not any unworthy motive interfere with the evolutionary process of the Bank and divert or impede its progress from out of its own dug-out channels and its own measured levels! We are fortified in our hope by the following observations of the Registrar of Co-operative Societies in his administration report for the year ended 30th June 1940: "The Madras Provincial Co-operative Bank must now be counted among the major banks of the country. It worked on sound business lines and was in many respects a model for other provinces."

THE B. & O. PROVINCIAL CO-OPERATIVE BANK

By

M. ALI AHSAN,
Inspecting Officer

The B. & O. Provincial Co-operative Bank, Ltd., with its headquarters at Patna, the capital of the province, was established in 1914. Since then Orissa has become a separate province. But the original name is being retained for certain reasons although the Bank, in actual practice long ceased to have anything to do with the financing of the Movement in the newly created province of Orissa. So far as its previous dues against the central banks of Orissa are concerned the matter was settled at a conference of the two Provincial Governments and the Provincial Bank, according to which the Orissa Government have undertaken to pay a large portion of the amount in eight equal yearly instalments. Two instalments have already been paid.

The office of the Bank is located in a building of its own, which is quite commodious and commands a prominent view. It is situated on one of the main thoroughfares of the town and is in close proximity to the business quarters and important Government offices and Courts.

Inauguration of the Bank.—At the time the Provincial Bank was started, there were in the province 8 Central Banks and 578 primary credit societies with a working capital of Rs. 8 lakhs. The need for such an apex bank was badly felt to supply Central Banks with liquid capital at a reasonable rate of interest, and more particularly for a backward area like Orissa. Such a bank was also needed to provide an outlet for the surplus funds of some of the Central Banks in the slack season. Besides, the policy pursued in Bihar was to redeem all outside liabilities of members of the primary societies. It was held that members must be saved from "the unnecessary and heavy charges which they have to pay for loans to the village mahajans" and freed from outside liabilities in order to enable them to focuss their attention entirely on the improvement of their condition, morally and materially, within the co-operative fold. Subsequent events have demonstrated the unwisdom of over-generous finance but it cannot be doubted that the sponsors of the Movement were inspired with the best of intentions. It was in circumstances like these that the B. & O. Provincial Co-operative Bank, Ltd., was registered under the Co-ope-

rative Societies Act (Act II of 1912) in 1914 with a view to finance co-operative societies throughout the province and to serve as a balancing centre for the banks. In the beginning its share capital consisted of the sum of Rs. 20,000 paid in sums of Rs. 5,000 by each of the four guarantee shareholders, each of whom held guarantee shares of Rs. 1,00,000. The guarantee of these share-holders consisted in each standing surity for a cash credit of Rs. 1,00,000 from the Imperial Bank. The total cash credit so sanctioned to the Provincial Bank by the Imperial Bank was Rs. 4,00,000. With this and the paid-up share capital of Rs. 20,000 it started work as the apex bank of Bihar and Orissa in April 1914. For this accommodation the Provincial Bank paid a guaranteed dividend of 6 per cent per annum on the paid up amount and a commission of $\frac{1}{2}$ per cent per annum on the unpaid amount of guarantee shares.

Constitution and Management.—The supreme authority of the bank is vested in its General meeting of the shareholders, and the executive authority in the hands of a Board of Directors consisting of not less than 10 members to be elected annually at the General meeting. The qualification of a Director is that he shall hold shares in the Bank of the face value of not less than Rs. 1,000, with the exception of Directors representing Central Banks and societies holding shares in the bank. The Registrar of Co-operative Societies is an Ex-officio Director. Besides, to ensure smooth and speedy despatch of work the formation of a small Working Committee consisting of not less than 3 Directors is also provided. The Working Committee is vested with most of the powers of the Board which meets once in three months. The Chairman, the Managing Director and the Registrar of Co-operative societies are members of the Working Committee of the Board. In both the Board and the Working Committee the majority of the Directors are representatives of Central Banks. At the meetings of the Board and the Working Committee the Registrar is usually present. About the influence of the Registrar in the decisions of the Board of the Provincial Bank, the B. & O. Committee on Co-operation observed as follows. "The Registrar as the head of the field staff, on whose information the Bank depends for judging the wisdom of lending to Central Banks and as the only channel for enforcing the demand of the Bank on the borrowing banks, has generally an effective voice in all important matters of policy and even of detail. His advice is never disregarded though on discussion with his fellow-Directors he occasionally modifies it."

Working of the Bank.—It is interesting to note that for about a decade in the beginning, the Bank was functioning as a 'Book Bank.' It

handled no cash itself but operated on the cash credit of Rs. four lakhs granted to it by the then Bank of Bengal, now the Imperial Bank of India. All payments were made by cheques on the local branch of the Imperial Bank. The cash credit of Rs. 4,00,000 guaranteed by the four guarantee share holders, viz., the Maharaja Bahadur of Darbhanga, the Maharaja Bahadur of Hathua, Raja Kirtya Nand Singh of Banailly and Raja P. C. Lal Choudhery of Purnea enabled the Bank to adequately meet all demands for assistance in its initial stages and function as a 'book bank' without the cost of maintaining a large staff to carry on cash transactions. The Imperial Bank also charged interest to the Provincial Bank on daily balances in the cash credit account at $\frac{1}{2}$ per cent less than its usual rate in view of the excellent security offered by these magnates of the Province. The authorised capital of the Bank now stands at Rs. 20,00,000 divided into 4000 ordinary shares of Rs. 500 each. Of these 2,922 shares have been subscribed; amount paid up is Rs. 5,84,000, the uncalled amount being Rs. 8,76,600. How the paid-up share capital, Reserve fund and the Working capital of the Bank rose gradually at various stages will be easily seen from the statement given below :—

Year.	Share Capital (Paid up) Rs.	Reserve Fund Rs.	Working Capital
1914-15	52,900	1,312	2,98,839
1919-20	1,16,800	38,734	8,94,952
1924	2,41,400	1,45,910	37,88,201
1930	5,76,600	2,81,400	77,63,107
1935	6,11,200	7,07,000	1,08,91,000
1940	5,84,000	8,37,909	89,66,000

The recent fall in share capital is due to the adjustment of share money of Central Banks and societies liquidated towards the dues of the Bank. Regarding the heavy fall in the amount of the working capital, it will be sufficient to say that the period following 1935 was a critical period in the history of the Movement in Bihar. Very few of the Central Banks held any fluid resources of their own, and recoveries from societies during this period reached the lowest figure on record. As a result, many of the Central Banks were unable to meet the due demands of their depositors. Panic and dissatisfaction spread all round with the result that heavy withdrawals of deposits from all co-operative banks

commenced and very few could survive this shock. The failure of many Central Banks to meet their obligations could not but, in the nature of things, have its reactions on the credit of the Provincial Bank also. There was heavy rush of withdrawals and consequently a heavy fall in the working capital.

The statement below will show the total amount of deposits held by the Bank at different stages of its working. Till 1935 it will be seen that the deposits were always going up.

Year.	Deposits held from	
	Individuals	Central Banks and Societies
	Rs.	Rs.
1925	35,07,000	8,74,000
1930	54,63,000	12,85,000
1935	68,97,000	13,79,000
1940	35,08,000	9,34,000

In the Report on the Working of Co-operative Societies in Bihar for the year 1938 the Registrar observed: "Until and unless the Movement is rehabilitated, the credit of the Provincial Bank which has sunk to a low ebb, due to the failure of many Central Banks to meet their obligations, cannot be restored and the drain is likely to continue. It is however believed that the drain, though steady, has not been as heavy as it might have been due to the good reputation so far enjoyed by the Bank and the announcement made by Government about the rehabilitation of the Movement at the last Co-operative Congress."

Since then it is gratifying to note that an authoritative announcement has been made by Government in the form of a communique regarding the rehabilitation of the Movement and the assistance to be rendered to the Provincial Bank. But as there is some delay in giving practical shape to the scheme, the situation in regard to drain on the Provincial Bank has not ceased altogether, as was expected. There can, however, be no denying the fact that the communique has gone a long way in restoring the *status quo* of the Bank.

It must also be mentioned here that it would have been impossible for the Bank to meet the heavy withdrawals without the financial assist-

ance which was received from the Government of Bihar in the form of loans—first in 1934 of Rs. 20 lakhs, and again in 1939 of Rs. 10 lakhs given for the repayment of deposits. The Government were also pleased subsequently to suspend (the recovery of) the instalments on the first loan as well as the interest on the same, in view of the difficulties of the Bank to pay. The second loan of rupees ten lakhs was given without any instalment fixed for repayment. The total amount due to the Government on account of the above loans stands at Rs. 23,08,000.

Advances to Societies and Central Banks.—Except in special cases, no loan is granted by the Bank to the primary societies direct. The only exception is the co-operative societies among the Paharias who are the aboriginal tribes living on the hills of Raj Mahal in the district of Santal Parganas. Their chief produce is Sabai grass, which is sold to the Titagarh Paper Mills through local agents. These local agents were also the chief money-lenders to Paharias and they used to charge a heavy rate of interest which barely left anything for the Paharias out of the price. There are now 38 societies working among them directly affiliated to the Provincial Bank. The societies have proved a real boon to the Paharias and it will be no exaggeration to say that they are now leading a more happy and prosperous life. Out of these 38 societies, 12 are placed in A class and the rest in B or C class. Ten societies have become entirely independent and borrow no money from the Bank. The Statutory Reserves of these societies at the end of 1940 stood at Rs. 6,350, members' deposits at Rs. 1,927 and their paid-up share capital at Rs. 2,327. At the close of the year not more than Rs. 10,000 was owed by all the societies combined to the Provincial Bank. The recovery in 1940 was 94.2 per cent in principal and cent per cent in interest. This is not a mean achievement particularly for a backward tribe.

To Central Banks, the advances made are of three kinds:—

1. *Cash Credit* upto a maximum limit of Rs. 15,000 (secured on general assets). Rate of Interest charged by the Bank is 6 per cent while that allowed to constituents on their floating deposits was 2½ per cent, now reduced to 1½ per cent. Limit is renewed, or otherwise regulated annually, on the recommendation of the Registrar.

2. *Maximum Credit.* This is allowed up to a maximum of twice the amount of the sanctioned cash credit and bears the same rate of interest. This credit is also sanctioned subject to the recommendation of the Registrar and is withdrawable by transfers to the cash credit accounts on a previous notice of at least a week.

Handwritten notes and stamps: "M-2, N35", "N41.2.1", and a circular stamp with "93722" inside.

3. *Loans.* All loans to the Central Banks are also advanced on the recommendation of the Registrar. Due to the bad condition of most of the Central Banks practically no loans are being advanced now.

A comparative statement of total advances due against Central Banks under loans and credits is given below :

Year.	Loans.	Cash & Maximum Credit.	Total.
	Rs.	Rs.	Rs.
1930	37,80,079	5,40,623	43,20,702
1935	52,57,000	9,12,000	61,69,000
1939	47,37,222	9,58,500	56,95,722

Recoveries from Central Banks are not at all satisfactory. The Central Banks when faced with heavy withdrawals practically stopped making repayments to the Provincial Bank in a desperate attempt to save their credit. Subsequently, when it was found that it was a hopeless endeavour, many Central Banks held meetings of their creditors under the provisions of Section 24-A of the B. & O. Co-operative Societies Act, 1935, and arrived at a compromise with them, which on being approved by the Registrar was made legally binding on all concerned. The main utility of such a compromise was that all creditors were treated alike and none could force the Central banks into liquidation, as the recoveries as and when made were to be distributed pro rata amongst all the creditors. These compromises invariably led to a great sacrifice by the Provincial Bank in the matter of the future rate of interest. In several cases interest had to be sacrificed entirely and in others the rates were drastically reduced. The cumulative effect of all this was that the average rate on loans to Central Banks was reduced to 3.61 per cent as against the average rate of 4 per cent on deposits. But in the larger interests of the Movement, the Provincial Bank had to agree to the arrangement in every case. These creditors' meetings were mainly designed to serve as a stop gap arrangement pending the final rehabilitation of the Movement, and this purpose they have fully served.

It must also be mentioned here that till 1934 the Provincial Bank had no independent agency of its own to enquire into the affairs of the Central Banks. In 1935, as one of the conditions attached to the Government loan of Rs. 20 lakhs, two qualified inspectors were appointed for the purpose. It was further laid down by the Government that in case of any future loans or accommodation to be given to the Central

Banks, the bank should as a measure of additional safe-guard satisfy itself fully about the safety of the loan, irrespective of the Registrar's recommendations. The conditions of the Central Banks thereafter were fully examined by the Inspectors and the reports received from them were found very helpful in clarifying the position in which the Central Banks were placed.

Another very important feature of the Bank's working in recent times was the assumption of the management of four Central Banks besides two Traders' Banks in the year 1936-37. This step was taken with the complete approval and concurrence of the Registrar. The authorities of those banks as well as their creditors having expressed their desire that the managements should be taken over by the Provincial Bank, the latter had no option but to do so. Subsequent results of their working have, however, shown that it was all to the good that this was done. Not only recoveries have improved appreciably, but a number of other problems facing those banks—especially land affairs which the banks had acquired in the process of execution of award and liquidation proceedings against societies have since been settled quite satisfactorily. Below is given a table to show comparative cash recoveries in three out of the four Central Banks. The condition of one Central Bank was very bad for long before and so no improvement could be made in it beyond disposal of almost all the lands held by the Bank.

Name of the Bank.	Cash recoveries.		
	1938	1939	1940
	Rs.	Rs.	Rs.
1. Fatwah Central Union ..	21,467	27,001	53,730
2. Jehanabad C.C. Bank ..	22,003	33,075	48,084
3. Shaikhpura C.C. Bank ..	10,261	11,482	17,829

From all the Central Banks repayments to the Provincial Bank for a number of years before they came in its direct charge were almost next to nothing. In the time of the Provincial Bank's management although recoveries are required to be distributed *pro rata* to all the creditors, the share of the Provincial Bank in the distribution has naturally been more for the reason of its being the single biggest creditor.

The reasons for these improvements are no other than the observance of some very elementary business rules, viz.:—(1) Examination of individual loans in the societies and systematic action against bad and wilful defaulters; (2) Granting of remissions towards interest as found justifiable on the merits of each case and realising the balance of dues quickly in cash; and (3) Proper control over the paid staff.

The Chief Executive authority for the management of the Central Banks is vested in the Managing Director, subject to the approval of the Board in certain specified matters. The day-to-day administration is carried on by the Inspecting Officers, under the orders of the Managing Director. The management is carried on through a local Advisory Committee, consisting of five to six members, with the local S.D.O. as Chairman and the Inspecting Officer as a member of all the Committees. The other members are drawn from among the shareholders of the Central Banks concerned. The Committee is invariably consulted on all matters regarding finances, and their recommendations have been found to be very helpful and practical.

The staff of these Central Banks are directly under the control of the Provincial Bank.

Some Acknowledgements.—Among the original founders of the Provincial Bank were men of outstanding position in the public life of the Province. Mr. B. A. Collins, then Registrar of Co-operative Societies, and Khan Bahadur Mohiuddin Ahmed, then Deputy-Registrar and later Registrar, Co-operative Societies were, on the official side, the heart and soul of the movement. The Hon'ble Rai Bahadur Sheo Shankar Sahay was the first Chairman of the Bank. The late Sir Syed Ali Imam was Chairman for seven long years. The present Chairman, Dr. Sir Syed Sultan Ahmed, who has been holding the office for the seventh year in succession, is well known all over India. He has been truly a friend, philosopher and guide. Among others it would be hard to make a distinction, but mention must be made of Rai Bahadur Mihir Nath Ray, who was for 21 long years the Managing Director of the Bank and served it with a true public spirit. Not only the Bank, but the Movement owes a great debt to Rai Bahadur Syamnandan Sahaya, the present honorary Managing Director. He occupies an unique position in the public life of the Province. Though a premier landlord with plenty of business of his own, he is devoting much of his time and thought for the improvement of the conditions of the movement. His wide experience of men and things and his business talents have sustained the Bank in the most difficult period of its existence. It is due entirely to his guidance and firm control that the

management of Central Banks, in the direct charge of the Provincial Bank, has proved a success. As Chairman of the Rehabilitation Committee constituted by the Government, he made outstanding contributions towards the formulation of the rehabilitation scheme. The services he has been rendering will ever remain a source of inspiration to workers both paid and honorary. Finally acknowledgment must be made of the valuable services rendered to the Bank by Mr. V. M. Thakore, the paid Secretary of the Bank. His sound and able management of the Bank's affairs has been repeatedly acknowledged by successive Registrars as well as the authorities of the Bank.

Cost of Management.—The comparative statement below gives the total cost of management during the last five years.

Year.	Total cost. Rs.
1936	.. 43,626
1937	.. 42,767
1938	.. 39,912
1939	.. 41,393
1940	.. 37,915

The proportion to the working capital works out at below 0.50 per cent.

Scheme of Rehabilitation of the Co-operative Movement in Bihar.—

As published in the Government communique, the place assigned to the Provincial Co-operative Bank in the scheme of Rehabilitation is as follows:—"Government will bear the losses of the Provincial Co-operative Bank in giving effect to the Rehabilitation scheme and will give such other financial assistance and support as may be necessary. In view of the nature and extent of the financial responsibility involved, Government will assume necessary control over the Provincial Bank at least for a number of years during the period of Rehabilitation and appoint an experienced Banker, to be called the Banking Adviser, who will work as the Managing Director and will be primarily responsible for advising Government on the banking side of the business....."

The position of the Provincial Bank is thus fully secured now. But whatever the future order of things and whether the agricultural credit system is aided by the State or not, stability must necessarily depend on the stability of primary societies and the efficient working of Central Banks.

The scheme of Rehabilitation of the Co-operative Movement in Bihar envisages a thorough overhauling of all the component parts. The scheme has been welcomed and prominent co-operators have publicly expressed their satisfaction. The general desire was to see the end of an impasse which had been eating into the vitals of the Movement. It is to be hoped that the lessons of the past will be fully utilised and kept in view in building up the future edifice of the Movement. If the Movement is to play its destined role in the economic regeneration of the country as it must, it is most essential that sound rules and principles should no longer be a mere matter of theory but should always be put into practice vigorously. Here I would quote a very wise and sincere observation made by the late Khan Bahadur Mohiuddin Ahmed, Registrar of Co-operative Societies, Bihar and Orissa, in one of his administration reports: "The attitude of the public is much the same. All, or nearly all, bless with their lips; most are interested; a fair proportion will take shares, invest money or sit on board. A few, a very few, do some real work. This is probably the way of the world, and it is perhaps foolish to hope for more. To wait for a millenium of social service or to build up a system which depends on the honorary labour of a large percentage of the educated classes, who can have but little pecuniary interest at stake, would be chimerical."

However sound rules and regulations in themselves may be, the ultimate success of their execution must depend very much on the type of men who are to manage the affairs and of those who have to supervise and control. If this is done on honest and efficient lines, there is no reason why the Movement in Bihar should not bring in its train a promise of enduring vitality and growing usefulness.

THE MYSORE PROVINCIAL CO-OPERATIVE APEX BANK

By

Y. SREENIVASAIYA, B.A., LL.B.,
Advocate, Mysore.

The Mysore Provincial Co-operative Apex Bank celebrated its Silver Jubilee in March 1941. It was started in November, 1915, with its head-quarters at Bangalore, the seat of the Government of Mysore. From its very inception it enjoyed the sympathy of the Registrars of Co-operative Societies and the support of the public. In the very first year it had as its members 504 individuals and 308 co-operative societies out of a total of 800 for the whole State. Such a large proportion of societies could never have joined the Bank but for the persuasion of the then Registrar, Mr. M. A. Narayana Iyengar, whose foresight, earnestness and enthusiasm in the development of the movement is gratefully acknowledged by every co-operator in the State. Within six months the Bank was able to attract deposits to the extent of Rs. 1,25,000 and to issue loans to the extent of nearly Rs. 2 lakhs. Its career was one of steady prosperity till the world economic depression affected it adversely since the year 1930-31.

It is not to be supposed that before the Provincial Co-operative Bank was started, there was no facility for financial aid to the co-operative societies. There were both local and provincial co-operative organisations already in the field. At the end of 1915-16, there were 15 Co-operative Federal Banking Unions, most of which confined their jurisdiction to a single taluk. There was also a District Central Bank at Mysore city which had jurisdiction over the whole of the Mysore District; and above all there was a Central Co-operative Bank at Bangalore with jurisdiction extending to the whole of the State.

Indeed the purpose of the Central Bank of Bangalore, started in 1908, was, as its very name suggests, to finance the societies. But since individuals also were eligible for membership and borrowing, it was an organisation whose sole object was not the financing of co-operative societies. It was a credit society providing credit facilities both to individuals and societies, with no special leaning to either class of members. It was mainly guided by business considerations of safe investment, quick turnover and good profit.

The procedure prescribed for granting loans to individuals is different from the one followed in the case of societies. In the former case the Managing Committee can at its own discretion sanction the loan, whereas in the case of societies the recommendation of the Registrar is indispensable. It is natural for a committee to follow a course which is less restrictive of its powers, and therefore the Central Bank was finding an outlet for its funds in granting loans to individuals and postponing the applications of the societies, probably till all the formalities were complied with. Since its jurisdiction extended to the whole State, individuals wherever they resided, could become its members and borrow on the security of their own assets. Thus a member of a village society who wanted a loan quickly could, instead of applying through his society, directly approach the Bank resigning, if necessary, his membership in the local society. The weaker members of the societies would suffer if the more prosperous amongst them could borrow from the Central Bank independently of the society. The constitution of the Central Bank was thus defective so far as the interests of the member societies were concerned.

The Federal Banking Unions were too weak financially to be able to meet the demands of their societies in full without the aid of the Central Bank. These Unions to which the Central Bank had to sanction loans to enable them to distribute funds in their turn amongst their applicants, were mere instruments of additional cost and delay to the borrowing societies and therefore were not calculated to be either popular with or serviceable to the societies.

But co-operative societies were multiplying by leaps and bounds from 1911-12. Whereas there were only 208 societies in 1911-12, the number rose to 800 in 1915-16. More than 660 of these were agricultural co-operative societies. They could not be satisfied or assisted to start work if they could not get their financial requirements readily from a financing Bank. The Registrar who took the responsibility to bring them into existence in such quick succession could not shirk the responsibility of assisting them to get the funds they required. He felt that a society which would "be a Society of Societies found by them, worked for and by them and consulting no interests other than what are strictly co-operative in character" should be separately started and therefore took a leading part in the establishment of the Provincial Co-operative Bank.

But the existence of two financing banks both of which had co-extensive jurisdiction over the whole of the State led to mutual friction. Attempts were therefore made to amalgamate the two Banks. In spite of the Registrar, the shareholders of the Central Bank, it is said, over-

threw the recommendation of the Sub-Committee in favour of amalgamation. No attempt was made again in this direction.

The conflict between the two Banks soon came to the notice of the Government, which directed that the business of issuing loans to societies be divided fairly and impartially between the two banks according to their resources and that one half of the number of applications at least received by the Provincial Bank should be transferred to the Central Bank. As this arrangement did not work satisfactorily, the Government directed in May 1916, within about six months after the Provincial Bank was started, that in order that each Bank "may have its own separate and distinct sphere of operation" and "develop fully the field of investment and co-operative organisation therein" the Central Bank should confine its lending operations to the Districts of Bangalore, Kolar and Chitaldrug, and the Provincial Bank to the remaining five districts. At the time the order was passed, there were 300 societies altogether in the districts allotted to the Central Bank and 500 in those assigned to the Provincial Bank. The idea of single provincial financing bank for the whole State was thus in practice upset.

For a time this arrangement was followed by both the Banks; but even this device was felt to be unsatisfactory. Because the number of societies that were members of the Provincial Bank were far in excess of those of the Central Bank (vide table A below), loans sanctioned to societies between 1917-18 and 1923-24 by the Central Bank exceeded for a number of years those sanctioned by the Provincial Bank. It is evident that the Registrar who had to make recommendations on the loan applications to the respective banks was keen to see that he did not expose himself to the charge of being partial to one of the two banks. The total amount of loans sanctioned by the two banks for the several years when the 'partition' scheme was in force was rather small as can be seen from the following table:—

TABLE A.					
The Provincial Bank.			The Central Bank.		
Year.	No. of Society members (Agrl.)	Loans issued.	No. of Society members (Agrl.)	Loans issued.	Total Loans issued.
		Rs.		Rs.	Rs.
17-18	380	70,000	110	99,356	169,356
18-19	393	53,523	118	82,389	135,912
19-20	401	85,586	136	147,616	235,196
20-21	383	121,384	129	72,463	193,847
21-22	390	65,633	132	60,511	126,144
22-23	398	35,572	141	57,411	92,983
23-24	420	88,666	161	21,572	60,238

In the year 1920 the Government appointed a Co-operative Enquiry Committee presided over by the late Sir Lalubhai Samaldas. The Committee was to consider, in addition to other questions, whether an intermediate Institution like the District Central Bank was necessary and whether both the Provincial Bank and the Central Bank should be allowed to function as provincial financing organisations as heretofore. In the year 1923 the Committee reported that it was unnecessary to have an intermediate central bank in the State and that the Central Bank, Bangalore should be either amalgamated with the Provincial Bank or converted into a mere urban bank and that a single Provincial Apex Bank should be formed and exclusively empowered to grant loans to societies. The recommendation of the Committee was accepted by the Government, and the Provincial Bank was converted in 1925 into the Provincial Co-operative Apex Bank, and the Central Bank was prohibited either from admitting societies afresh as members, or granting loans to those that were already its members. The Federal Banking Unions were all abolished gradually, and the District Central Banks have also been awaiting their final closure by the Government.

During the six years following 1925 there was a rush of societies in the Apex Bank for membership and loans. The Apex Bank followed at that time a liberal policy of granting loans as the following table shows:—

TABLE B.

Year.	Society members	Loans issued.	Total Loans outstanding.
		Rs.	Rs.
1925-26	563	1,76,073	6,35,757
1926-27	618	3,11,407	8,14,668
1927-28	710	4,98,956	11,89,560
1928-29	785	7,46,383	18,88,979
1929-30	863	8,61,679	23,11,559
1930-31	922	7,71,091	26,86,640
1931-32	954	1,75,371	26,21,395

The world economic depression gave a set-back to the business of the Bank, as disclosed by the figures for 1931-32. Since the year 1930-31, the Bank shows a gradual fall in its business and working capital, though the number of societies enrolled as members is increasing year by year. This leads one to the conclusion that fresh loans are being advanced mostly to new societies that are being admitted and that older societies are not in numerous cases borrowing again from the Apex Bank (Vide table C.)

TABLE C

Year.	Number of members (societies only)	F.D.	Total working capital.	Loans issued to societies.	Loans recovered.	Balance of loans due.	Percentage of overdues to demand.	Net profits.
			Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)		Rs.
29-30	863		24.93	27.86	8.35	23.11	54.9	48,405
30-31	922		29.13	33.54	7.71	26.36	60.4	41,526
31-32	954		35.12	39.85	1.75	26.21	86.8	20,843
32-33	964		37.55	42.43	1.76	25.88	87.4	21,764
33-34	975		35.63	36.87	1.08	24.55	88.5	20,885
34-35	976		33.15	37.58	0.98	23.17	81.0	14,546
35-36	988		31.68	38.18	1.36	22.89	89.4	5,023
36-37	985		31.98	37.69	1.81	22.21	74.6	4,982
37-38	1001		29.24	34.97	1.76	22.26	77.9	54
38-39	1024		25.29	31.01	1.98	22.55	79.1	14,641
39-40	1063		23.21	31.02	2.13	22.41	77.1	34,213

The Government have authorised investment in the Apex Bank of the funds of the Local Bodies, *Muzrai*, and Trust Institutions in the State.

The Bank has not attracted much of the spare funds of the Movement. Though the working capital of the movement has been, for the past many years, far above Rs. 2 crores, as the following Table D shows, the deposits of societies in the Bank never went above Rs. 8.20 lakhs and have indeed been declining year by year.

TABLE D.

Year.	Total working capital of the movement.	Increase over the previous year's capital.	Deposits of societies in the Apex Bank.	Govt. loans.
	Rs. (Lakhs)	Rs. (Lakhs)	Rs. (Lakhs)	Rs. (Lakhs)
29-30	169.25	16.87	2.52	—
30-31	189.32	20.08	3.73	1.15
31-32	203.77	14.45	6.40	1.15
32-33	223.09	19.32	8.20	1.01
33-34	217.60	-5.39	8.13	.15
34-35	231.05	14.45	7.89	.15
35-36	236.05	5.0	4.34	.15
36-37	240.29	4.24	5.43	.15
37-38	258.47	18.18	5.50	.15
38-39	263.10	4.63	5.39	.15
39-40	264.19	1.09	5.19	2.15

As the issue of loans since the year 1931-32 was very much reduced on account of the overdues, which sometimes was as high as 90 per cent of the demand the Bank not only refused to receive fresh deposits but even refunded the old deposits as they matured. We find that the deposits, which in the year 1931-32 reached the highest figure of Rs. 37.55 lakhs, have gradually been reduced year by year till in the year 1939-40 they amounted to about Rs. 23.21 lakhs; or, in other words, they fell by about Rs. 14.34 lakhs within the period of nine years. The Bank which had not drawn for a number of years the loan of Rs. 1.5 lakhs, sanctioned by the Government for the purpose of financing housing societies, drew it fully in 1939-40. Further it got sanctioned by the Government in the same year a cash credit of Rs. 5 lakhs, a portion of which also it drew in the same year.

Strenuous efforts are being made to recover the overdues from societies. The result has been encouraging latterly. The slight improvement in the price of some of the agricultural commodities, such as rice and cocoanuts for the last one year, has been reflected in the improvement of recoveries. We read in the Silver Jubilee Report of the Bank, that the recovery during the first six months of 1940-41 ending with December 1940 was Rs. 1.43 lakhs towards principal and Rs. .59 lakhs towards interest. This total sum of Rs. 2.02 lakhs towards the dues of the Bank exceeds twice the recovery during the corresponding period of the previous year, which itself was far better than those of many of the years immediately preceding. It is expected that the recoveries during the coming years will be encouraging and reduce the percentage of overdues very appreciably.

The Bank followed from the beginning the policy of considering accrued interest as profit in preparing the profit and loss account. With the accumulation of heavy arrears in respect of principal and interest due from the indebted societies, it was felt to be unsafe to believe that all accrued interest would be recovered without fail; consequently in the year 1937-38 the Bank changed its policy, and decided to take into account only the interest actually recovered. Naturally there was a fall in the net profit realised during the transition period, though from the year 1938-39 the balance is being regained. The profit calculated on cash basis in 1938-39 was Rs. 14,129 and in 1939-40 it was Rs. 34,312.

Many of the moffusil societies, especially urban credit societies, have been utilising the local branches of the Mysore Bank for keeping their surplus funds. The greater part of these funds is kept in current account or accounts that carry a very low rate of interest. If the Apex Bank opens branches at least in bigger cities and towns it is very likely that such branches may serve the double purpose of providing centres of

pooling for local co-operative money and serving as agencies for collecting dues from indebted societies in the neighbourhood. In spite of repeated resolutions of the Co-operative Conference for very many years, the Apex Bank declines to open branches—not even in Mysore city where there are 50 societies possessing nearly Rs. 40 lakhs of working capital and a turnover of more than Rs. 1.5 crores. The Provincial Bank of Bombay works with branches in numerous centres. The idea is neither new nor impracticable.

Loans are advanced at different rates of interest to different classes of societies. Loans to agricultural societies for lending to agriculturists to meet the current agricultural needs are advanced at 5 per cent. The housing societies are charged 5½ per cent. In other cases the maximum rate is 7½ per cent. Cash credits are given to societies, the rate of interest charged depending upon the nature of the business of the society. Marketing and producers' societies generally get the loan at a concession rate. The bye-laws fix the maximum rate at 3 per cent above the highest rate on fixed deposits payable during the year.

The maximum rate of dividend that was fixed at 6 per cent in the original bye-laws has been now raised to 7½ per cent to preferential share holders.

The constitution of the Bank is as follows:—

It has got preferential share holders, who are individuals who cannot borrow otherwise than on the security of their own funds in the society; and ordinary share-holders which are co-operative societies. The value of a share is Rs. 100 for both preferential and ordinary shares. A preferential shareholder cannot hold more than 10 shares.

Originally the Board of Directors had not less than seven and not more than 10 members, of whom not less than half were required to be representatives of affiliated societies. Theoretically it was permissible to have no representatives of the preferential shareholders on the Board. Later on the number of Directors was increased to 14, of whom one was to be a member co-opted by the Board, one president elected by the General Body, and the remaining 12 also elected by the General Body annually, of whom, as mentioned before, half at least were required to be representatives of co-operative societies. In the elections of the members of the Board both the preferential share-holders and ordinary share-holders have one vote each. Proxy voting has been prohibited under the Act.

On the recommendation of the Chandrasekhara Iyer Committee of 1936, the Government have framed a rule under the Co-operative Act

prescribing the composition of the Board of Directors. The shareholders have no power now to interfere with its composition. Under the said rule the Board consists of 15 members, of whom one is the president elected annually subject to the approval of the Government. The Government nominates 2 members, who may not be even the members of the bank. Of the remaining 12, two seats are for the preferential shareholders, five for urban societies and five for the rural ones. The Directors representing these separate classes are elected by the shareholders of the respective classes only. Amongst the 12 elected Directors one representing the preferential shareholders and two each out of the Directors of urban and rural societies respectively retire by rotation. The bye-law of the Bank prescribes that lots should be drawn to determine which of the Directors should retire. The retiring Director is not eligible to stand for election for the succeeding year.

The chief executive officer of the Bank is, according to the standing rules, the Secretary who shall not be a member of the Board but a salaried wholtime officer, appointed by the Board of Directors subject to the approval of the Government.

The promoters of the Provincial Bank intended at first that it should be not only a financing centre but also an Institution for Supervision, Inspection, Audit, and Education. They included amongst the objects of the bank the following items also:—

Clause (B). To supervise Co-operative societies affiliated to it by frequent inspection and audit and maintain the purity of their co-operative principles.

Clause (C). To spread co-operative knowledge in the State by the delivery of lectures, the publication of bulletins and pamphlets, holding of Taluk, District and Provincial Conferences and the opening of co-operative libraries and reading rooms.

Clause (E). To organise a co-operative service for the benefit of persons working as office-bearers in societies.

For sometime it conducted conferences with the assistance of the Department, published pamphlets and bulletins and also inspected societies. It maintains a library. But its work in these directions has not been considerable. For a period of 3 years prior to the formation of the Co-operative Propagandist Institute in 1924, no provincial conference was held. Ever since the establishment of the Institute, the Bank has not undertaken any of these functions except inspection. The bye-laws have been so amended later on as to omit these items from the objects of the bank.

With the establishment of the Land Mortgage scheme, the policy of the Bank has been more or less to confine itself to the advance of short term and intermediate term loans, except in the case of Housing Societies. The Land Mortgage Societies have, on the whole, advanced more than Rs. 10 lakhs since the year 1929-30, which in a way accounts for the reduction in the volume of loans issued by the Apex Bank during the period. The policy of the Bank latterly has been in the direction of avoiding, as far as possible, loans to redeem heavy prior mortgage debts and confine the transactions to objects which enable the borrower to discharge the loan within the period granted to him. At present the President of the Apex Bank happens to be the President of the Central Land Mortgage Bank also. It is hoped that he will be able to formulate a policy by which the two institutions will be able to function usefully, without mutual overlapping.

THE TRIVANDRUM CENTRAL CO-OPERATIVE BANK

By

K. VELAYUDHAN PILLAI.

Member, Standing Committee,
Indian Provincial Co-operative Banks' Association.

The Trivandrum Central Co-operative Bank Ltd., the Apex Bank of the Co-operative Movement in the State, was the first co-operative society organised in Travancore under the Co-operative Regulations. The Regulation was drafted under the inspiration and guidance of late Sir P. Rajagopalachariar, the first Registrar of Co-operative Societies in Madras, when he was the Dewan of Travancore. The draft Co-operative Bill was published in the Government Gazette dated 9-7-1912 and introduced in the Legislative Council on 13-10-1912. It was passed on 3-3-1914 when the late Sir M. Krishnan Nair was the Dewan of the State. Immediately he selected the late Mr. C. Govinda Pillai, one of the ablest officers, as the first Registrar of Co-operative Societies and he was deputed for training in British Indian Provinces. On his return after the training, he organised the Central Co-operative Bank and registered it as the first co-operative society in the State on the 23rd November 1915.

Though it was the first Co-operative Society in the State the Bye-Law No. 2 quoted below will show that its object was mainly to finance the primary societies and develop the Co-operative Movement in Travancore.

Bye-Law No. 2 is as follows:—"Its main object shall be:—

- (a) To develop co-operative societies in Travancore.
- (b) To finance co-operative societies started in Travancore and to carry on banking business with such societies.
- (c) To control societies when affiliated by careful and regular inspection, and
- (d) To encourage thrift, self-help, mutual trust and confidence among its individual members."

Only in the last clause (d) provision is made to encourage individuals. In the clause under Loans also it was stated that they were in-

tended chiefly to finance co-operative societies. Since it was the first society provision was also made for lending money to individuals. But the Bye-Laws safeguarded that individual members should not predominate over the Institution. It was stated therein that out of 1000 shares originally prescribed for the bank not more than 500 should be allotted to the individuals, and out of the 7 members of the Board of Management not less than 4 should be the representatives of the societies when their number exceeds 50. Thus it will be evident that though it was the first co-operative society in the State the organisers intended that it should be the financing bank for the Movement in Travancore.

The first general body meeting of the bank was held on 5th Makaram 1091 M.E. (Jan. 1916). It was presided over by the late Dewan Bahadur A. Govinda Pillai, a retired judge of the Travancore High Court. The first Board of Management of the Bank was constituted that day with the late Dewan Bahadur S. Padmanabha Iyer, who for some time had been the acting Dewan of the State, as President, and the late Mr. A. Sri Narayanan Thampi, the son of His Highness the Maharaja Visakom Thirunal, one of the most celebrated Maharajas of Travancore, as the Secretary. The Bank opened its offices the very next day at the residence of the Secretary, with a capital Rs. 20 contributed by the President as entrance fee towards his shares. At the close of the first year the bank had 69 individual members and 16 society members contributing respectively 361 and 16 shares of the value of Rs. 100 each. The amount collected during the year in the shape of share capital was Rs. 8,340. Within a few months after the organisation of the Bank the Government was good enough to contribute a sum of Rs. 50,000 as a loan for 10 years. During the year the bank advanced Rs. 37,560 as loans to the societies and Rs. 150 as loans to the individuals. The loans were first advanced for two years at 9½ per cent interest per annum with a rebate of 2 per cent for punctual repayment. Slowly but steadily the transactions of the bank grew. Yet for the first five years the bank had to limit its transactions within the amount secured as share capital and Government loan. The deposits from the public came but slowly. When once the public began to trust the bank, the deposits began to pour in. In 1920, it had only a deposit of Rs. 230. In 1925 it grew to Rs. 2,27,480, in 1930 it was Rs. 11,94,000 and in 1935 it increased to Rs. 16,39,000. That was the peak year, so to say, for the bank. That year the bank had 711 society members, with a subscribed capital of Rs. 7,68,600, a paid-up share capital of Rs. 1,55,250, outstandings under loans to the value of Rs. 12,27,236, a working capital of Rs. 23,00,000 and a total turnover of Rs. 87,50,000. In 1924 there was a devastating flood in Travancore and to give relief to the sufferers, the Government kindly lent them large

sums of money, out of which Rs. 2,00,000 was lent to the members of the co-operative societies through the Central Co-operative Bank.

With the growth of the bank on its material side, changes were introduced from time to time in the method of its working and in its constitution. To begin with, the business of the bank was confined to the lending of money to its members. Slowly but steadily its sphere of activities was enlarged and now the bank does all sorts of general banking business not prohibited by Co-operative Regulation or Rules. The office of the bank was shifted to a rented building in the heart of the city of Trivandrum. A few years hence it acquired its own premises. In due course such alterations and enlargements were effected as to make the bank building one of the most attractive and beautiful in the city. The hours of business were confined to the evening to start with. A little after it acquired its own building, in order to give additional facilities to its constituents and to enlarge its general banking business, it had to keep open its offices from 10 A.M. to 4 P.M.

A small bank opened with an honorary part-time Secretary and a clerk developed in the course of fifteen years into an institution having several departments supervised by a Manager and controlled by a full-time Secretary. The growth of society members and their transactions necessitated the institution of a field staff to inspect and regulate the working of the societies which had borrowed from the Bank. When funds increased and the co-operative societies could not make use of all its available resources, the bank began to serve the purpose of an urban bank in the city. A large number of individuals joined the Bank and loans were issued to them on personal security. Even then the bank was left with very large surplus. This induced the bank to assume to itself the function of a land mortgage bank to advance intermediate loans, from 5 to 7 years. The bank thus advanced about Rs. 4,00,000 on the security of landed properties. The meetings of the Managing Committee, which were ordinarily held once a month or even at longer intervals, had to be held once a week, often even twice or thrice a week, each sitting lasting for 3 to 4 hours. The general body meetings seldom attracted the attention of the members in the beginning. For want of quorum it was not possible to hold some of the meetings. But as business increased, members began to take keener interest and meetings were largely attended. Some of the meetings were attended by 400 to 500 members and the time devoted at such meetings extended for several hours, so much so that the late Mr. G. K. Devadhar in his Report on Co-operative Movement in Travancore remarked with reference to one of the meetings he attended that "It is amusing to note here, in passing, that its sittings lasted for full 25 hours spread over three days,

and this suggests the urgent need of framing bye-laws to regulate elections and the conduct of annual general meetings."

The bye-laws of the bank originally provided for a Board of Management with seven members, four representing the societies and three individual members. During the course of working it was found that to safeguard the interest of societies, they must have greater representation. Hence provision was made in the bye-laws to constitute a Board consisting of 21 members, 14 representing the societies and 7 representing the individuals. With the enlargement of the Board of Management, an Executive Committee was constituted with 5 members to attend to the details of the work in the bank. As the general body meetings had the power to thwart the decisions of the Board, and the meetings of the general body were more largely attended by individual members, the societies demanded plurality of votes at such meetings to their representatives, so that they may have a preponderating voice in deciding questions of policy. Finding that their demand was right in a bank which was organised and conducted for the benefit of the societies, the bye-laws were amended accordingly, even though the principle of "One man one vote" had to be given up. When an urban bank for the city was organised and the membership of individuals in the Central Bank was discouraged, the conflict of interest between the societies and the individuals ceased and hence the principle of exercising only one vote by every member has recently been restored.

The bank prospered under the management of a Board consisting of high retired officials, able public men commanding the confidence of the country and experienced co-operators possessing missionary zeal. The position of the bank then has been described in the Devadhar Committee Report thus:—"At the end of 1108 M.E. (1933) only about Rs. 12 lakhs out of a working capital of over Rs. 20 lakhs had been absorbed by the members of the bank (individuals and societies) and about Rs. 8 lakhs was invested with banks and the Government at rates of interest lower than those paid by the bank for deposits." The surplus the bank thus enjoyed for several years continuously was not destined to last long.

Slowly but steadily the deposits and the transactions of the Bank began to decline. In 1935 they stood at Rs. 16 and Rs. 87 lakhs. In 1940 they came down to Rs. 7 and Rs. 25 lakhs respectively. The prime cause for this decline may be traced to the very success of the bank and the enviable position it commanded among the banks in the State. Naturally any Registrar would like to wield patronage over such an institution. Especially when the Registrar happens to be new to the office, his ambition for power would be greater. The Board of Manage-

ment resisted the interference of the Registrar. When confronted with resistance, the Registrar tried to dislodge the officers concerned from the Board. When defeated in this attempt the only course open to him, as expressed by Sir M. Habibulla, the then Dewan of Travancore, to a Deputation which waited upon him was to "strangulate the bank." The economic depression which set in by about 1930 and the consequent incapacity of the rural societies to make payments to the bank gave him a handle. He worked upon it and in this campaign of his, he was assisted by some ambitious individuals who hoped to come into power with the assistance of the Department. The campaign to demolish the faith of the investing public in the bank succeeded and the bank has thus come to grief.

Even though the financial position of the Bank now is unenviable, it is not bad. The balance sheet published by the bank for the year 1939 shows that its assets come to Rs. 14,59,705 made up as under:—

	Rs.
Cash in hand and in Banks	44,772
Investments in Government Paper	1,01,545
Loans and Overdraft due by Societies	6,80,946
Loans and Overdraft due by Individuals	4,10,636
Interest due	1,53,849
Other Assets	67,957
Total	14,59,705

The liabilities of the Bank that are to be paid out to others come to only Rs. 11,91,377, made up as under:—

	Rs.
Deposits	4,13,886
Reserve Fund and other Funds of Societies	3,09,213
Loan from Government	1,82,500
Overdraft from the Imperial Bank	94,447
Other debts due to outsiders	51,231
Paid-up share capital due to members	1,40,100
Total	11,91,377

The balance of Rs. 2,68,328 belongs to the bank itself, consisting of the Reserve Fund, Building Fund, undisbursed profits of the Bank etc.,

which are not returnable to any one. Hence unless the bank is to incur a loss exceeding this amount the interest of the creditors will not be affected. Even if according to the conditions of Debt Redemption Acts, the debtors are to avail of the concessions allowed to them, the bank cannot lose more than Rs. 2½ lakhs. Then, the capital of the bank will be secure and the timely repayments will be assured. The creditors including the share-holders will get back every anna in their rupee. In the matter of making payments also, the anxious days appear to be almost past. Out of the outside liabilities of about Rs. 12 lakhs, only Rs. 4½ lakhs is due to deposit holders. It seems that the Government have sanctioned an advance of Rs. 2 lakhs more to meet such liabilities. By careful handling it is expected that the bank will soon overcome the crisis.

The bank had been extremely fortunate to secure the services of very many leading citizens of Travancore to manage its affairs from the very start. I have already mentioned the names of the gentlemen who took part in the organisation of the Bank. Within the space available it is not possible to give the names of all who helped its progress. But not to remember at least a few will be a sin. Rao Sahib Udarasiromani T. Padmanabha Rao, and Rajyasevapravina G. Parameswaran Pillai (now a Judge of the Travancore High Court) during their long regime as President and Secretary secured to the Bank the confidence of the investing public. Rao Bahadur K. Narayanan Pandalai and Mr. E. Subramania Iyer during their regime, later on, as President and the Vice-President brought to the Bank the characteristics of a co-operative institution, and upheld zealously non-official control. Mr. R. Vydia-lingom Pillai as Registrar (now retired) took great personal interest in the progress of the bank and rendered all assistance necessary for its growth. Mr. M. K. Govinda Pillai, the President now in office, had been associated with the management of the bank from its very start. He is striving his utmost to reconstruct and rejuvenate the bank. The co-operators in Travancore have reposed their confidence in him, believing that he will be able to achieve success through his ability and the unique position he holds in the Bar, in society and among the investing public.

THE INDORE PREMIER CO-OPERATIVE BANK

By

W. T. KARAMBELKAR, B.A., LLB.,
Secretary.

In 1914, a decade after the introduction of the Co-operative Movement in British India, the Government of Indore promulgated the Indore Co-operative Societies Act of 1914, modelled on the Co-operative Societies Act of 1912 which was in force in British India. The movement has since then gradually grown with the assistance and facilities afforded by the State. His Highness the Maharaja Sir Tukojirao III was graciously pleased to extend all necessary support for the initiation of this beneficent movement.

On the 15th of October 1915 the first primary agricultural co-operative credit society was registered. After opening 22 primary agricultural co-operative credit societies, the Co-operative Department felt it necessary to organise a co-operative central financing institution for our State. With this object in view the Indore Premier Co-operative Bank was started on the 14th of March, 1916, with a capital of Rs. 51,747: Share Capital Rs. 1320, Deposits amounting to Rs. 5100; and the total working capital of Rs. 51806; the number of affiliated societies was 22 with membership of 449. Now at the end of the financial year, 30th June 1940 the position in these respects was as follows:—

	Rs.
Share Capital	138,565
Reserves	189,867
Deposits	1,960,832
Total Working Capital	2,595,944
Loans to Agricultural Societies	1,222,244
Share-holders	1,371
Affiliated Societies	523
No. of Village Societies	491
No. of members of Societies	10,532

The working of this Bank was practically entrusted to the staff of the Registrar till the end of the year 1920-21. Since then the Directors have been conducting the business of this Bank, with the Bank's own

staff. Since 1921-22, the Bank stopped advancing big or long term loans that might take years for their recovery. Even loans of intermediate type expected to be repaid within five or six years were discontinued from 1924-25, and by next year the policy of advancing only short term loans, that are termed as economic or productive loans, which are repayable from harvests ordinarily within a year has been adopted and scrupulously adhered to. The study of rural economic conditions and experience of rural finance enabled us to develop a sound system of financing short term advances for raising winter, summer and wet crops. The fixation of credits and maximum limit of loans to a member of the primary agricultural credit society and of giving advances within these limits are now governed by a policy settled on the basis of this experience and in consultation with the leading panchas of the societies and unions. The Registrar of Co-operative Societies is associated in the settlement of these policies and they are revised with his consent according to the needs of the time. An organisation has now been developed which is elastic enough to adjust financing to the local needs of the different tracts of the State. Branch banking has been introduced since 1926, which has brought the borrower into close contact with the financier and has provided a suitable agency on the spot for close supervision and guidance of affiliated societies. These branch offices contribute to educational activities and to the focussing of the views of the representatives of societies. All this enables this Bank to formulate its policies of business and help the societies in their development of Banking Union Centres in due course, and they would be managed purely by representatives of societies themselves.

Re-organisation.—Agriculture has suffered a very severe setback by the recent world wide economic depression and naturally the agricultural credit societies and central financing and trading institutions had to pass through a severe crisis. Overdues in respect of principal and interest are a common feature throughout India. Depression has, in fact, revealed the weakness and defects in the working of the movement. It has certainly brought home to the co-operators the immensity of the problem and has shown beyond doubt the necessity of adhering to the sound principles of co-operative credit. The importance of the moral aspect of co-operation has been fully recognised, and it is expected that the movement will purify itself and get infused with the real spirit of co-operation. This Bank has not been free from this problem of overdues. The advances made in the initial stages of its business were of the so-called long term type. In consequence of the series of bad years in respect of partial or total failure of crops and low prices of agricultural produce, the advances have become frozen. The

most important reasons which led to the inflation of overdues are the following:

(a) Inordinate delay in obtaining awards and in their execution through the Amins, due to want of adequate and special staff for recovery officers.

(b) Sudden fall in the prices of agricultural holdings caused by the restrictive and prohibitory provisions of the Land Revenue and Tenancy Act of 1931, which does not allow mortgages or sub-leasing of holdings and restricts sale to bonafide agriculturists only. Though the principles underlying this Act may, in the long run, be beneficial to the agriculturists, yet the Act coming into force simultaneously with the world-wide economic depression and immediately after the general enhancement of land revenue by a settlement effected two years before it has hit the poor agriculturists very hard. Their credit has gone down to the lowest level.

The remedies that have been thought of for realisation of these overdues may be briefly summarised:

- (a) Separation of these overdues in a separate Bank to be organised for such business of long term type;
- (b) Provision of long term funds for 20 to 25 years without interest for this new Bank. Such funds can only be had from the Government;
- (c) Pooling of the reserves of the affiliated primary agricultural credit societies and the Indore Premier Co-operative Bank for granting remission and other concessions for scaling down individual debts;
- (d) Fixation of long term instalments of such scaled down debts of the members on the basis of their paying capacity within a period of 25 years.

A scheme on these lines has been submitted before the Government and representations have been put up before them for the required State-aid. The Government in October 1940 appointed Mr. K. Rangaswami Naidu, Joint Registrar of Co-operative Societies, Madras, to advise in the matter of the reorganisation of the Movement in the State. His report is awaited.

Though the final solution of this question is pending before the Government for more than twelve years, this Bank and its affiliated societies have already commenced to grant liberal remissions in interest and principal. Since 1928-29, this Bank has remitted interest to the tune of Rs. 2½ lakhs and written off the principal to the extent of Rs. 14,500. The socie-

ties have also adopted the policy of giving concessions in interest to their members, so far as their reserves permitted and in many deserving cases have totally cancelled interest. But this is not enough unless the State comes forward to extend necessary monetary help to rehabilitate the movement.

In 1931, a very important amendment was made in section 19 of the Indore Co-operative Societies Act 1914, which provides that after the Government dues in respect of land revenue and other kinds of demands, the outstandings of the co-operative societies against a member have a first charge over that member's properties, both movable and immovable. But the Act based on the All-India Act of 1912 requires much more changes to suit the present requirements and the question is being handled by the Department.

This Bank has modified its bye-laws from time to time according to necessity and has begun to do banking and has introduced a Department of Finance for advancing loans to its members on tangible securities such as gold, silver, produce and approved goods and shares.

The Bank has been fortunate in securing the continuous services of self-sacrificing honorary workers and the cordial co-operation of the Registrar of Co-operative Societies. Hence this Bank has been able to occupy the present prominent position in the money market of Indore and rendered real relief to the members of co-operative societies.

Ever since the Bank's management has been taken over by the Board of Directors, the Bank has tried to be self-reliant in all respects. The policy of financing short-term needs against securities was initiated by it; unlike in some British Provinces and Indian States, the official guidance or financial assistance from the State could not be had in the same manner and to the same extent as is found in those provinces or States. The Bank had to maintain staff for recovery of the dues from the members of the primary agricultural societies. The work regarding filing disputes, execution of awards, making compromises, the education of and supervision over the societies and their members, in fact all phases of the co-operative activity in respect of the Bank and its affiliated societies and their members are being looked after by this Bank.

This Bank with the help of the Registrar of Co-operative Societies has organised a Central Co-operative Institution for education and propaganda called the Indore Co-operative Central Association and has also started another Central Institution called the Indore Co-operative Central Sale and Supply Society for helping the agriculturists and members of village co-operative societies in the sphere of trade. The Bank has been materially helping these institutions. The Indore Co-operative

Central Association has been receiving substantial monetary contributions for its activities. The services of the directors and the staff of the Bank are also placed at its disposal for conferences and meetings of unions and for such other propaganda and educational activities of this Association. The Indore Co-operative Central Sale and Supply Society, despite the help from this Bank and the State, did very little business chiefly on account of the economic depression and had to be liquidated due to heavy losses. Such a society was expected to play a great part in raising the income of members of village societies, in the collection of arrears and even in introducing practical ways of enforcing thrift by running Bij Bhandars among members of agricultural credit societies.

The problems before the Bank for being tackled are :—

(1) The question of heavy overdues of long term type referred to above and the long term loan free of interest from the State.

(2) The appointment of special recovery officers to execute awards against societies and their members.

(3) With the transfer of the long-term dues to a separate institution, this Bank can play the role of an apex bank, as is contemplated in the scheme of 'arrears bank,' and would confine itself to short term finance, as is done at present in the new branches with the idea to develop intermediate credit in due course.

It has been observed that only short finance for agricultural operation to the members of the primary agricultural credit societies is not paying enough to maintain necessary branch staff. Experience has shown that the small investments in these branches for a period of five to six months do not yield sufficient income to cover the expenditure with regard to payment of interest on deposit-money utilised by the branches and with regard to the management expenses for an adequate staff in those branches. The bank had, therefore, submitted representations to the Government to kindly grant subsidies for maintaining adequate staff and loan on nominal rate of interest and also grants for educational and propaganda activities which are vital for the proper development of the movement in the newly expanded tracts.

With the separation of the long term over-dues this Bank will have to expand its business in new tracts not yet explored. The idea would be to expand the movement throughout the State. A study of economic conditions in different districts of the State will give an idea that in at least two districts the movement would not be economically successful for a number of years. These districts are Rampura-Bhanpura and Nemawar. Though in other parts of the State this Bank would, with the

help of subsidies mentioned above, try to develop its activities by organizing new societies and branches, yet in these backward tracts the Bank will have to solicit further help from the State. It is possible that in the initial stages for a few years, the movement in these backward tracts may be started with the help of Government finance managed by the Bank on agency lines. During these years experience would show whether the movement there would economically be a success or not. If it is seen that it can run, the Bank should undertake responsibility of financing the societies there on its own account, the Government finance being repaid.

(4) The expansion of the movement throughout the State for extending facilities of cheap credit initially for short term and subsequently for medium term would not completely meet the problem of the agriculturists. That problem has to be tackled on all sides, with the provision of short, medium and long term finances at moderate rates of interest, the provision of marketing of their produce to enable the members to get fair return for their labour and capital, so as to liberate them from the clutches of the wily mahajan of the village.

In the absence of suitable organization for the marketing of produce, the Bank with the permission of the Registrar of Co-operative Societies has undertaken this activity for the last three years. The Bank opens Adat Shops at suitable centres for the sale of produce during the season. Experience shows that these shops can run well. But the need of a central organization for this activity is strongly felt. The present Cotton Market Rules also require certain amendments.

(5) A question regarding the merging of other central banks in the State with this Bank is also under consideration and a move in that direction has been made for merging of two central banks.

Statement showing the Growth of the Indore Premier Co-operative Bank.

Year	No. of members			Reserves				Loans due by				Working Capital							
	Indi-vidual	Soc-iety	Shares	Fixed Deposit	Saving deposit account	Current	Statu-tory	Bank's own-fund	Loan	Man-agement ex-pen-ses	Bank's	Govern-ment Secu-rities	Other Privilege Agr. Co-op. Society	Other Securi-ties	Against tangible Securi-ties				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1920-21	500	119	57920	369742	148506	...	27893	...	76897	5312	13591	...	...	...	738335	...	...	718238	2221363
1921-22	507	119	63905	384536	185669	...	44837	...	...	6301	17834	...	...	501530	651533	...	...	714939	2233158
1922-23	477	119	69030	428059	219994	...	61036	...	...	7344	15822	23403	...	149105	612193	...	...	81549	2083706
1923-24	510	140	78500	453506	234576	...	70598	4073	...	8552	15337	6116	74343	50717	722792	13145	912	83523	2742350
1924-25	560	141	90185	478020	235708	...	78334	9368	...	9038	21381	557	74343	98571	73303	15034	3113	915570	3031645
1925-26	575	148	101090	563736	261460	...	88391	15153	...	9919	19335	103037	74343	91034	774279	9733	2333	1077331	3153778
1926-27	576	212	109655	691200	345221	...	99249	22355	...	12918	23047	219200	74343	123412	852170	10323	3752	1327404	4753543
1927-28	577	252	118570	976306	378102	...	110756	31636	...	19503	18349	503422	183429	61362	877153	19333	6547	1627334	7553038
1928-29	602	252	122100	862071	373575	...	122915	37384	...	21533	13779	41555	24035	10300	830117	47059	2510	1521213	8072123
1929-30	583	255	126050	929764	411662	...	127514	50371	...	22511	20522	354650	295572	15910	830320	41933	125449	1625557	7657254
1930-31	655	326	129137	959357	395922	27778	132775	51545	42450	25625	21755	322534	251554	19205	907715	61732	218495	1731405	9533374
1931-32	612	365	131000	1067783	384924	13912	133215	42253	39773	24128	27333	319215	230050	15500	951738	95011	163229	1833314	9733758
1932-33	678	389	133025	1238786	463357	29953	100000	87152	21455	23529	24431	130193	452733	15500	900221	74113	33704	2135520	12903800
1933-34	694	443	134162	1310701	531050	30347	105108	72307	...	27711	27438	131590	593901	16149	103337	65743	417950	2271027	16552322
1934-35	724	446	134687	1433398	574865	36492	112955	65238	...	30857	27338	43553	621532	15350	104515	70395	552250	2453333	15223373
1935-36	753	446	135550	1464335	533127	55553	119034	50730	141238	34052	31970	210535	770230	17100	1071155	69224	323335	2331539	18323351
1936-37	788	479	136525	1515987	563647	49325	127927	41257	25000	34911	34323	250252	757339	17100	1043137	72573	27550	2513721	15110101
1937-38	791	508	137137	1588408	522492	60155	135552	30710	215300	33452	37973	331994	703278	17100	1034950	62153	418529	2733293	18452317
1938-39	807	519	137962	1563562	461918	45531	145146	45734	97763	37737	34534	193513	721946	17100	1154550	64538	311012	250418	1543137
1939-40	848	523	138555	1416183	475639	69009	103634	81233	234253	34560	23039	133455	721945	21525	1153010	61713	350500	250014	1545357

THE RESERVE BANK'S ADVICE TO LAND MORTGAGE BANKS ON SINKING FUND AND A HIGH MARGIN

By

V. S. RAMASWAMI IYER, B.A.,
Madras Co-operative Service (Retired)

When dealing with the importance of specialisation, L. R. Dicksee, himself a Britisher, refers to the "illimitable conceit of the Britisher who in his heart of hearts thinks that he can do everything without the assistance of specialists." He writes "We shall no doubt muddle through in the majority of cases, in the typical British way, but at the usual heavy expenditure in the way of lost energy and lost wealth".¹ This characteristic muddling through of the Britisher is found in the organisation and the working of the land-credit institutions in the Madras Presidency. This great and difficult problem, requiring much technical knowledge and for the study of which a special Commission was sent from America to Europe, has been rather haphazardly started and worked in Madras. A critical examination of the working of the Madras Central Land Mortgage Bank and the Primary Land Mortgage Banks, particularly the way in which long-term debentures are floated and redeemed without much forethought or continuity of policy, reveals the regrettable fact that no expert in mortgage-banking has had a hand in its shaping. It is a pity that the Reserve Bank, from which we naturally expect some expert advice and guidance, seems to be lacking in persons who have made a special study of land-credit institutions.

The very constitution of the Madras Central Land Mortgage Bank with the bye-laws of ordinary co-operative credit societies providing for democratic control by a large body of individual share-holders having no common need or interest is defective. As regards state aid, the Government guaranteed interest alone at first and then both principal and interest. At first debentures were issued for relatively short periods, withdrawable after notice. Now are issued twenty-year debentures, non-withdrawable for the first 10 years. Under existing conditions it is a mistake to have issued all of them for 20 years. What are they going to do with the large amount of repayments of principal that may be received year after year during the first 10 years, when they

1. *Business Organisation*, p. 59.

have been made non-withdrawable? When invested, it may not yield the debenture rate of interest. This mistake will be realised in course of time. When a suggestion was made for the issue of debentures with varying periods of maturity, the authorities of the Central Land Mortgage Bank were unable to appreciate the suggestion. Then again, the Bank was obliged to fix 1 per cent more than the debenture rate as the maximum dividend payable on share capital. The Government insisted on the Bank carrying forward 40 per cent of the net profits to the Reserve Fund. Now, on the advice of the Reserve Bank, the Local Government have directed the Bank (1) to create a special sinking fund for each issue by setting apart sums annually which at compound interest will at the end aggregate to the amount of the issue, and (2) to provide for a 3 per cent margin between the debenture rate of interest and the ultimate rate charged to the borrower. Since the debentures are guaranteed by Government the Bank has no option left but to obey. The Bank has accordingly created a sinking fund for each issue. Let us examine closely this scheme of a scientific sinking fund.

A brief description of the present method of flotation of debentures and their redemption may be given here. The borrowers mortgage their lands for the amounts borrowed by them in favour of the Primary Land Mortgage Banks. These Banks transfer these mortgages to the Central Land Mortgage Bank, which issues debentures on the security of the mortgages so transferred. The Madras Land Mortgage Banks Act specially authorises the Primary Land Mortgage Banks to receive payments on behalf of the Central Land Bank. The repayments towards principal are under the control of the Trustee, who is the Registrar of Co-operative Societies, and they are sent to the Central Land Mortgage Bank intact from time to time. A register of mortgages is maintained by the Central Land Bank in which the repayments are noted. Each issue is kept separate. The total amount thus credited to the different issues is called the Debenture Redemption Fund. Debentures have been redeemed from this fund from time to time without allowing too much accumulation, in accordance with the conditions of issue. Thus the Debenture Redemption Fund of the Bank has been the *de-facto* Sinking Fund.

The statutory obligation to provide for the absolute security of debentures and their proper redemption is contained in Section 4 of the Madras Land Mortgage Banks Act. It lays down that "the debentures in circulation shall not exceed the total amount due on the mortgages plus the amounts paid under these mortgages." The Trustee, who is the Registrar, is in complete control of everything. The amounts of principal repaid constitute the Debenture Redemption Fund which is

under his special charge. This is the most important provision and forms the foundation for the issue of debentures and their proper redemption.

The Royal Commission on Agriculture have advised in connection with mortgage banks that since contracts and agreements have to be made for pretty long periods, much forethought is necessary in drawing them up and continuity of policy is essential.²

I. SINKING FUND

Sinking Fund is a fund created by means of periodical instalments, invested in securities and accumulated at compound interest. The object of such a fund is to provide a *definite capital sum* at a *definite date* wherewith either (a) to redeem a liability or (b) to replace an asset. In regard to the creation of such funds, L.C. Cropper states that the annual instalments are not a charge on profits, but they cannot be paid other than out of profits.³ Companies, Corporations and Governments which borrow large sums by the issue of debentures adopt this general method. Though the main principle is the same for all, different classes of institutions adopt different methods. The sources from which the periodical instalments come and the calculation of the annual instalments according to the periods of maturity etc., differ according to the business and convenience of the institutions. But in all of them there is the *definite sum* and there is the *definite date* of maturity. Hence their chief concern is only to get this definite sum on the definite date. But the annual instalments are found from profits in companies, from income in Corporations and from Revenue in Governments. The factors involved, viz., the definite sum, the definite date, and to a certain extent, the annual profits or income are constant. Some provision may have to be made for the variations in the return from investments. Everything is regular and precise and so susceptible of accurate treatment that the method may be called a 'Scientific Sinking Fund.' Is the sinking fund recommended by the Reserve Bank really one of this type?

In the case of the Madras Central Land Mortgage Bank these factors are not so definite and constant and there are also many points at variance between the operations of this Bank and those of other institutions cited above. The main object of our Land Bank is not profit, but service to the borrowers who are agriculturists. The Sinking Fund

2. Report, p. 466.

3. *Higher Book-keeping*, p. 51.

has to be formed not from the profits or income but from the amounts of principal repaid by member-borrowers. The borrowers of the Primary Banks have been given the privilege of making advance payments of their loans if they can. Even the entire loans may be repaid in full at any time. In fact this phenomenon inconvenient from the standpoint of the Bank, may be expected in land banks whenever there is a steep fall in the market rate of interest. This is only natural, as the borrowers would like to convert their debts bearing higher rates of interest to those bearing lower rates. These repayments from members must necessarily go to the Central Land Bank in the usual course; and that bank, can ill afford to keep these heavy sums in the Sinking Fund for a large number of years. Because the rate of interest on Sinking Fund investments would be generally lower than the debenture rate there would be heavy loss on that account. Hence these banks are obliged to find every opportunity to redeem debentures, either by purchase in the open market or after notice, or by fixing the date of maturity earlier according to the expected annual principal repayments.

It is only with a view to avoid such losses that land banks provide for the withdrawal of debentures after notice. Even according to the revised conditions in Madras, they are withdrawable after 10 years. Thus the major portion of the issue should have been redeemed long before the *definite date*. When there is no definite sum due on the definite date, how could the annual instalments be calculated? Thus the factors which are pretty constant in companies etc.—*definite date* and *definite amount* and pretty *definite income*—are indefinite here. Thus the problem differs very much from the companies. Hence they cannot follow the ordinary plan of the 'Scientifically devised Sinking Fund' and must adopt a different plan.

On account of the indefinite factors mentioned above, the creation of a sinking fund and the redemption of debentures, without hardship to the ultimate borrower on the one hand and without loss to the Central Land Bank on the other, are not simple. The method to be perfect should (1) enable the borrowers to get money at as cheap a rate as possible and repay in convenient instalments with liberty to pay in advance at any time, (2) cause no loss to the bank, which means no loss to the borrowers themselves as this is a co-operative concern and (3) offer such facilities to investors as would attract funds at cheap rates. These objects cannot be achieved by means of a cut and dry scheme of Sinking Fund and the high margin of three per cent. enunciated by the Reserve Bank.

The Reserve Bank seems to be afraid that the Central Land Mortgage Bank may not find it easy to pay for the debentures at the time

of maturity. As stated already, a major portion of them would have been redeemed, from out of the repayments made by borrowers towards principal. If at all, there might be an insignificant balance due to defaults. It should be remembered that the Land Mortgage Banks Act provides for summary recovery procedure for the collection of instalments. Therefore, the Reserve Bank's fear is unfounded, and is due to a misconception of the real problem of the land banks. They seem to have placed the Central Land Bank on the same footing as companies and corporations which spend away the borrowed capital and may not be able to redeem the debentures in time or borrow again if necessity arises. In the case of the Central Land Bank so long as the mortgages are there, if the basic statutory obligation that the debentures in circulation shall not exceed the value of mortgages *plus* the debenture redemption fund is followed the balance of mortgages must be there and debentures can be floated again to that extent.

This will be made clear by a concrete example below. Let us assume that debentures to the extent of Rs. 2,00,000 have been floated and they are being redeemed from the repayments of principal from time to time.

The Basic formula is :—

Debentures in circulation = Mortgages + Repayments.*

Debentures in circulation	Mortgages	Repayments
Rs. 2,00,000 =	Rs. 2,00,000 +	Rs. ... At the time of Issue. 1
Rs. 2,00,000 =	Rs. 1,00,000 +	Rs. 1,00,000 .. when Rs. 1,00,000 has been repaid. 2
Rs. 1,00,000 =	Rs. 99,000 +	Rs. 1,000 .. when Rs. 1,00,000 Debentures have been redeemed 3
Rs. 10,000 =	Rs. 9,000 +	Rs. 1,000 .. in the 19th year when all but Rs. 10,000 Debentures have been redeemed 4

* Instead of *shall not exceed*, equal to has been taken. It can be easily understood and is also not incorrect.

It may be seen that, for the unredeemed Rs. 10,000 debentures we have Rs. 9,000 in mortgages, and Rs. 1,000 in the sinking fund. The Bank can certainly raise money by floating debentures again on the Rs. 9,000 mortgages available, even though it may be at a higher rate. Therefore the fear of the Reserve Bank is unfounded.

The debenture issue of the Central Land Bank is more akin to the note issue of the Reserve Bank than the debenture issues by a corporate body. Instead of the bullion and the rupee or sterling securities, we have the mortgages of land, which are in no way inferior to those securities. The Bank's responsibility consists mainly in a careful adjustment of the withdrawal of debentures and fixing their maturities to suit the expected annual repayments of principal. The real problem for them is not to find money on the definite date but how best to invest the instalments of principal repaid, including the advance payments, and redeem debentures as early as possible subject to the conditions of issue. The bank is free to use only the interest received. It must in accordance with the statute keep the principal payments either in the redemption fund or must redeem debentures.

It should be clearly understood here that the entire arrangement to float and redeem debentures described above has been conceived as a whole, and everything designed to form one system. The laws and various agreements and contracts have all been framed and drawn up to suit this system.

Thus Sec. 4 of the Madras Land Mortgage Banks Act provides for the floatation of debentures and the creation of a special fund, made up of repayments towards principal to redeem debentures.

Sec. 31 of the same Act empowers the primary land banks to receive payments under the several mortgages and to grant valid receipts.

Regulations 9 and 10, framed by the Central Land Bank under section 38 of the above Act, provide for the prompt remittance of these repayments and the periodical settlement of accounts.

Clause 7 of the Trust Deed provides for the carrying forward of all principal repayments to a fund called the Debenture Redemption Fund—the real sinking fund.

Bylaw 40 of the Central Land Mortgage Bank and bylaw 48 (a) of the Primary Land Banks provide for the repayment of loans by 20 annual equated payments.

1. The mortgage deeds, executed by the borrowers to the primary land banks, and the assignment deeds, executed by the primary land banks to

the Central Land Bank, also provide for the repayments by annual equal payments.

Thus all laws, bylaws, contracts and agreements have been drawn up to suit this system. Any material change in the method at one stage of the system without a suitable alteration at other stages must end in difficulties and confusion. Did the Reserve Bank examine all this before giving their advice? Did they find any serious defects in the present system? Were they satisfied that the existing contracts and agreements would permit of their new method being introduced without alterations? Further examination in the following paragraphs will show that the Reserve Bank does not seem to have bestowed that serious attention on these points, which the importance of the subject requires.

It has been stated above that the foundation for the debenture issue is the formula: debentures in circulation shall not exceed the value of mortgages plus the amounts repaid under these mortgages. It may be stated here that the German law lays down that this relative equilibrium should be published periodically in their official gazette and in selected newspapers.⁴

The Reserve Bank has not stated anything about the Bank's debenture redemption fund. Do they consider that the accumulation of repayments to principal is not as good as their scheme of setting apart sums every year so as to aggregate to the required total at the end? What exactly is to be done with the annual stipulated repayments of principal and of the advance repayments? These perhaps are expected to be utilized in business, provided the required instalments are set apart. The Central Land Bank followed a plan of redemption of debentures, which was suitable to land banks and for which alone the law provides.

Let us examine the two methods by a comparative statement, taking a concrete loan of Rs. 1,000. The annual repayments in the ordinary course for the two methods are noted below.

Re. 1 invested every year at 3 per cent compound interest—a reasonable rate—will amount to Rs. 25·87 in 19 years and Rs. 27·68 in 20 years. (Annuity tables). Therefore, to get Rs. 1,000 at the end of 20 years according to the Reserve Bank plan we have to invest about Rs. 40 every year.

As the principal repayments from the borrower go intact to the Central Land Bank, and as they form the basis of this scheme they have been noted. With regard to interest what the Central Land Bank actually receives—5½ per cent—is taken into account.

4. German Land Mortgage Bank Act, 1899, Sec. 23.

The bank is floating debentures at 3½%. It lends at 5½% to the primary land bank, and the borrower gets it at 6½%. The interest is given at equated payments for the two rates—5½% and 6½%.

	The old method—D R. Fund		Reserve Bank's method		
	Interest		Principal	Principal	Interest at 6½%
	At 5½%	At 6½%			
	RS. A. P.	RS. A. P.	RS. A. P.	RS. A. P.	RS. A. P.
1st year	55 0 0	65 0 0	25 12 1	40 0 0	65 0 0
2nd year	53 6 8	63 5 2	27 6 11	40 0 0	62 6 5
3rd year	51 12 1	61 8 8	29 3 5	40 0 0	59 12 1
....					
....					
8th year	41 15 4	50 11 8	40 0 5	40 0 0	46 12 1
9th year	39 0 7	48 2 1	42 10 0	40 0 0	44 2 6
....					
....					
19th year	8 7 11	10 11 10	80 0 3	40 0 0	2 9 7
20th year	4 5 9	5 8 7	85 3 6		
			1,000 0 0	760 0 0	
Total accrued in 19 years at 3% is Rs. 1,034 8 0.					

It may be seen that while it is enough for the borrower to pay Rs. 90-12-1 every year, according to the old method, Rs. 105 should be paid in the first year according to the Reserve Bank method, which goes on decreasing to Rs. 42-9-7 in the 19th year. (For easy calculation 19 years has been taken).

While in the old method the total of all principal repayments amounts to Rs. 1,000 in 20 years, the total amounts to only Rs. 760 in the Reserve Bank method. But the sinking fund would have accrued to Rs. 1,034-8-0 at the end of 19 years, which will be more than enough to redeem the Rs. 1,000 debentures.

It may be seen that until the 8th year the repayments in the old method towards principal are less than Rs. 40 which is the annual instalment required under the Reserve Bank method. After that year it is more than Rs. 40, which excess need not go to the sinking fund and hence may be utilised otherwise. This will be against Section 4 of the Madras Land Mortgage Banks Act.

The old method avoids heavy repayments towards principal in the early years. Consequently less amounts will go to the sinking fund; and

this in turn will avoid the risk of loss that may arise out of larger amounts being kept in the same, due to fluctuations in the rate of interest. In the Reserve Bank's method larger amounts will be in the sinking fund and there will be greater risk of loss. Naturally this risk should be provided for by insurance in the shape of an additional levy of interest on the borrower. Thus that method must be more costly.

Though it may be possible to observe the basic formula in the earlier years, as years pass by, when greater attention is paid to the required annual instalments under the Reserve Bank method, the control over the principal repayments will become impossible. Because a mortgage of Rs. 1,000 will have to be cancelled after an actual payment of only Rs. 760, the balance having come from the compound interest.

There is no connection at all between the actual receipts as per contract, Rs. 25-12-1 towards principal in the first year and the Rs. 40 that has to go to the sinking fund in that year and every succeeding year. The first is on the equated payment of principal and interest, while in the second Rs. 40 is constant and the interest varies.

It is thus clear that the Reserve Bank method cannot work and is unsuitable to the Central Land bank.

The annual instalment of Rs. 40+Rs. 65=Rs. 105 is too high and far beyond the capacity of the borrower to be accepted as a business proposition. It may be seen from the above statement that Rs. 105 should be paid in the first year. It is an admitted fact that land does not pay more than 4 or 4½ per cent at the most. Thus the Rs. 2,000 worth of land mortgaged will fetch only Rs. 80 or Rs. 90 at the most, whereas in the other case Rs. 105 has to be paid. Where from should the balance come? It is bad business to expect it from other sources. It is also bad not to allow a decent balance to the borrower, after paying the instalments, to enable him to live. Again the borrower may die or something untoward may happen and the bank may have to take charge of the mortgaged property. There should be some margin to meet the charges of collecting rent in that case. Hence taking into consideration all these facts there should be an expected balance of about Rs. 25 over and above the annual instalments. Else it must fail as a business. In the method of equated payments, he has to pay only Rs. 90-12-1.

As the Reserve Bank method is not backed up by contracts it should not have been accepted. Unless it is backed up by proper agreements between the several parties it is impossible to work it up. To ensure the carrying forward regularly by the Central Land Bank of Rs. 40 every year the mortgage deeds of borrowers should provide for the repayment

of at least that amount towards principal. There should be a corresponding provision in the deed executed by the primary land bank to the Central Land Bank. To enable these changes to be done in the deeds, the bylaws of these two institutions also should be altered. Hence it is wrong on the part of the Government and the Bank to have accepted the principle without making the necessary alterations, assuming that the Reserve Bank method is better than the older method. Even so, it can be made applicable only to future issues and loans. The present method must continue for all the existing issues of debentures and loans.

However actual experience has shown that there was no difficulty to contribute the required quota to the sinking fund. For, the secret is that as against a demand of about Rs. 2½ lakhs nearly Rs. 7 lakhs have been credited to the sinking fund. (Page 5 of the Bank's report for 1939-40). This was found possible on account of some extraneous causes. Advance payments towards principal in some cases, appropriations from interest, which is generally more than the amount required to pay debenture holders etc., in the earlier years and the very large margin between the debenture rate of interest and the ultimate rate to the borrowers, all these account for this position. This should not be depended upon and taken as a proof that their method is sound in practice. It must be accepted by all that the adoption of a method not backed by contracts is bad in principle, especially when we are dealing in crores and for 20 years and more.

Before concluding, it may be helpful for the future management of the bank, to know what the oldest banks in the world (Landschaften of Germany) and those of more recent origin (The Federal Land Banks of the United States) are doing in the direction of redeeming debentures by sinking funds. The following extracts give in a nutshell what they do:

Nicholson writes in his famous report about the Sinking Fund of *Landschaften* :—

"There are as many divisions of the sinking fund as there are series of debentures and each division is subdivided into as many accounts as there are loans. Each instalment on a loan is posted to its proper account and accumulates at interest to the credit of the debtor, the aggregate amount being utilised in half-yearly cancellation of debentures belonging to the series. It is permissible to the debtor, as soon as the amount at his credit has reached a definite proportion of his debt from 1/10th to 1/4th to demand that his mortgage debt be reduced by that amount. (Page 54, Nicholson's Report).

Cahill reports on the same banks :—

"It is however the general rule that the contributions towards redemption are not applied to the immediate reduction of the debt but accumulated in a special fund."

"From the standpoint of the land banks, the importance of the sinking fund consists in the fact that it provides reserve security for the bonds in case of loss." (page 13 Cahill's Report)

The Reserve Bank will do well to note this point. Sinking fund is used to strengthen the security of Debentures in addition to their redemption.

In the Federal Land Banks of the United States the redemption of debentures is easily done without loss by fixing their maturities according to the expected repayments.

"The bonds are issued by the United States Treasury in denominations of 25, 50, 100, 500 and 1,000 dollars and run from a minimum of 5 to a maximum of 40 years The Registrar supervises the application of all payments of principal from borrowers to the mortgage bonds. The payments received by the land banks in respect of principal and interest constitute a Trust Fund, which is supervised by the Registrar."

If the Reserve Bank is not pleased to accept its mistake and withdraw its method, it might please itself by giving some additional trouble to the Central Land Bank. The Bank should calculate and watch half-yearly or yearly that their quota to the Sinking fund is added. The calculation of this amount will become difficult and complicated, as debentures are purchased in the market, or redeemed after 10 years. The definite amount will go on diminishing, and credit should also be taken for the already accumulated compound interest on the amounts, with which debentures would have been redeemed. All this will be sheer waste of time. Even then it will be a dead letter. The interest accruing on the Sinking fund is also going to give trouble. Should the Bank be allowed to take credit for it or should it accumulate? The Reserve Bank, it is hoped, will realize its mistake, and it will have to decide on this point sooner or later. Right and justice will prevail in the end, but the *muddling through* cannot be helped.

II. THE THREE PER CENT MARGIN

A margin between the borrowing and the lending rates is necessary to meet the administrative and other expenses, and also to provide for different reserves, to carry on the business on sound lines. There are many factors that should be considered in a land mortgage bank, before fixing this margin. Our foremost consideration here is the interest of the borrower himself. For the very bank has been created for him. His capacity to repay the instalments punctually depends upon the return

from land which is quite low. The margin, therefore should be as low as possible. There must be some balance also left to enable him to live. The present set of borrowers should not be taxed unnecessarily for the benefit of any future borrowers. Instead of concentrating all risks on the Bank itself it is desirable to distribute them as far as possible at different stages among the borrowers. With a view to err on the safer side the margin should not be fixed arbitrarily high without any data. The experience of land banks of other countries should be made use of. Has the Reserve Bank fixed the 3 per cent margin after taking into consideration all these points? To satisfy the borrowers and the primary and the Central Land Banks, it is desirable that the Reserve Bank publishes its findings in this respect.

Now let us examine these points critically.

1. No argument is necessary to show that our primary consideration is the borrower. Bankers are liable to err in this respect, as they naturally care more for themselves than for the borrowers. With selfish motives they may offer some convenience to them, but this should not be the interest on their advancement. It should be borne in mind that the Central Land Mortgage Bank and the primary banks are only intermediaries between the actual borrower and the debenture holders, created by human ingenuity for the special purpose of providing him with long-term money.

2. The next point is the capacity of the borrower to repay the instalments *punctually*. If for the sake of running the bank easily we fix the margin too high, the business itself will come to a standstill. There is not the slightest doubt that the business will meet with such a fate, if the 3 per cent margin is insisted on and the rate of interest on the debentures goes above 4 per cent. The ultimate source for the borrower is only land. How much does it pay? The net return from land is estimated at from 3 per cent to 4 or 4½ per cent. The recent Madras Committee has estimated it at 'about 5 per cent' (p. 180). So 4½ per cent is a safe rate. I give below a statement showing the balance left to the borrower in the return from land after paying the equated payments at different rates of interest at 3 per cent margin and then at 1 per cent margin.

LOAN OF RS. 1,000 (LAND VALUE RS. 2,000)—20 YEARS

Rate of Interest	Margin	Total	Annual Equated payment	Net-return		Net-return		Net-return	
				3½%	Balance	4%	Balance	4½%	Balance
3%	3%	6%	RS. A. P. RS. 87 3 0	70	—(17 3 0)	80	RS. A. P. RS. —(7 3 0)	90	RS. A. P. RS. 2 13 0
3½%		6½%	90 12 1	—(20 12 1)			—(10 12 1)		—(0 12 1)
4%		7%	94 6 3	—(24 6 3)			—(14 6 3)		—(4 6 3)
4½%		7½%	98 1 6	—(28 1 6)			—(18 1 6)		—(8 1 6)
5%		8%	101 13 8	—(31 13 8)			—(21 13 8)		—(11 13 8)
3%	1%	4%	73 9 3	70	—(3 9 3)	80	6 6 9	90	16 6 9
3½%		4½%	76 14 1	—(6 14 1)			3 1 11		13 1 11
4%		5%	80 3 11	—(10 3 11)			—(0 3 11)		9 12 1
4½%		5½%	83 10 10	—(13 10 10)			—(3 10 10)		6 5 2

It may be seen from the above statement that we have only a minus balance with a 3 per cent margin. We must see that there is a reasonable balance left for him to live and clear our loan. If this cannot be done the sooner he sells his land the better it is for him and for the bank. With a view to enable him to have a balance you may increase the period of repayment to 30 or even 40 years; or you may be more stringent in your valuation; or you may lend only 30 per cent of the value of land; or you may do anything which human ingenuity can devise to enable him to keep up his obligations and have some balance to live. But what you do must be fair at least on paper calculations, and not impossible, as it is now.

Here again, the return from land is not the same everywhere. Deltaic tracts pay only 3 to 3½ per cent. Dry parts pay more. But there is the risk of failure. The borrower in the deltaic parts cannot pay more than 5 per cent. If this rate is not possible for you to arrange, you can as well close your business there. Already the overdues from borrowers amounted to Rs. 1,52,563 on 30—6—1940. Out of this those that have been closed and decreed amounted to Rs. 1,30,423. The defaults are found in 49 primary banks out of 119. If the C.L.M.B. is forced to take possession of lands, as co-operative societies are now compelled to do, will the debentures command any market? In considering this point you should forget for a moment the Government Guarantee, and view the question without it. Thus the capacity of the borrower is the most important factor. Hence there is the absolute necessity to fix the margin as low as possible.

3. Lending on the mortgage of immoveable property up to 50 per cent of the value, is a very safe business. There is practically no risk at all. Still to cover up any small risk you have the share capital and reserve funds of two institutions. If you want further safety create a reserve liability which will not cost the borrower anything. This may be created either in the primary banks as in the United States, or in the C.L.M.B., or in both. But do not increase the margin.

It is on account of this safety that such debentures always command good confidence, greater than government securities in some European countries. During the last war even in India, the ordinary co-operative banks themselves commanded greater confidence than Government securities, as evidenced by the fact, that while Government had to double its rate of interest, Co-operative Banks were not compelled to raise their rates much. Hence there is no necessity to create a large reserve for bad debts in this business.

4. Then again, the very large volume of business (it is dealing in crores) without the necessity to increase correspondingly the cost of management does not warrant a large margin. In this business it is the annual valuation that is troublesome and costly. It is a mistake to mix it with the working expenses as the bank seems to be doing now. This may vitiate decision in the fixing of this margin. When once a loan has been disbursed, there is not much work to do. The annual verification of properties will be attended to by the primary banks. Punctual repayments should be insisted on and the law gives all the help it can do. Thus by spreading the costs over a very large sum, the percentage must work up to a small figure. The actual figures for 1939-40 show that about 27 per cent only is spent for administration, excluding of course the cost of Deputy Registrars. The German banks manage with a smaller percentage.

5. Equity requires that the present set of borrowers should not be taxed heavily, if we can avoid, for the convenience of the future borrowers. No doubt business principles require a margin to meet contingencies. But it should not be disproportionately high.

In this connection it may be interesting to know that some land banks of Germany go to the extent of returning a portion of the reserve or guarantee fund which they collect in addition to administration expenses. They give loans at the debenture rates.

Nicholson writes:

"Further in some banks the reserve belongs to the members. The banks' risks are solely those which arise from its debtors, and it is therefore deemed equitable that when a debtor has paid off his debt, he should be credited with what he has paid as a guarantee against any risks from his debt. It is usual in such cases to credit him with the amount for his last instalment." (page 61, Nicholson's Report).

This shows how scrupulously careful they are to safeguard the interests of the borrower.

6. In ordinary banking the whole burden to meet all the administration and other expenses and to provide reserves for all contingencies falls on the bank itself. In land banks it is not so. Since the borrowers are unable to bear a large margin, they should necessarily co-operate in the work of the bank. Not only the risk but also the work should be decentralized and the borrowers must bear a portion themselves. In some banks it is obligatory for a member to do bank's work gratis when called on to do so. All these are adopted only to have a low margin.

7. To fix the margin as *correctly* as possible we require sufficient data. But we do not have them as this is a new venture. The Govern-

ment Takkavi loans may give some idea and that too of bad debts alone. In this respect we are in a better position as we have the co-operation of the borrowers. The Reserve Bank with a view to err on the safer side might have fixed the margin at a higher figure. Special efforts to get data should have been taken.

8. We do not have data or experience. The next best open to us is the experience of other countries.

The German *Landschaften* are the oldest. They are the cheapest as co-operation is actually put into practice in the working. They have carefully shifted the risks on the borrowers. They lend at debenture rate. The compulsory sinking fund payment towards principal is only $\frac{1}{2}$ per cent. They collect administration expenses extra. Canil reports that "payments on this account (administration expenses) vary greatly both in amount and in method of calculation and levy." (p. 8). They vary from $\frac{1}{12}$ per cent to $\frac{1}{4}$ th per cent only.

In the State, Provincial and District Banks

"In order to cover the expenses of administration the interest charged to the borrower is higher than the interest payable upon the bonds by the bank. This margin is fixed according to circumstances but usually varies from $\frac{1}{4}$ to $\frac{1}{2}$ per cent."

In the United States 'the banks shall not charge a rate of interest exceeding by one per cent what they had paid for their last bonds'. (Vide *Agricultural Credit in U.S.A.* by A. I. Quershi, p. 45).

The agriculturists of America are big farmers and agriculture is carried on as a business proposition. In Madras the agriculturists are small men and agriculture also does not pay. In spite of these drawbacks, the margin has been fixed at several times the margin in America.

From what has been said above it is clear that the margin of 3 per cent is too high. If the debenture rate goes higher, say to 4 or $4\frac{1}{2}$ per cent, the fate of the land credit movement is doomed. The Government, having guaranteed the debentures is nervous and over-cautious, and is too ready to accept any suggestion from the Reserve Bank without adequate examination. That bank does not seem to give that serious consideration, which the subject deserves, although it is supposed to be its statutory duty. This is a very unfortunate position.

It is earnestly requested that the Reserve Bank and the Government will consider the difficulties pointed out in the foregoing paragraphs and try to remove them. A $\frac{3}{4}$ per cent or 1 per cent margin may be enough. If this is found insufficient in any year let a special levy be made which no one will grudge to pay. For heaven's sake let not considerations of prestige stand in the way of reducing the hardship caused by the *high* margin.

WAR AND THE CO-OPERATIVE MOVEMENT IN BIHAR

By

PROF. B. B. MUKHERJEE, M.A.,
Patna College, Patna.

The outbreak of the War found the Co-operative Movement in Bihar in the lowest ebb of depression. The total number of societies of all kinds had increased in 1939 from 7,246 to 7,762, but this increase included 469 Cane-growers' Societies. The classification of societies revealed that 87.8 per cent were either average or bad. The working capital of the 53 Central Banks in 1939 amounted to Rs. 160 lakhs of which Rs. 130 lakhs represented borrowed capital. Against the total demand for withdrawal of deposits amounting to Rs. 55 lakhs, the banks maintained fluid resources to the value of only 8.3 per cent. The realisations were inordinately low, the combined percentage of collection of principal and interest being 5 in 1939 as against 7.6 in 1937. In the case of 16 Banks the collection was below 5 per cent while 5 Banks collected even less than one percent. Fresh financing was very much restricted and only Rs. 1.84 lakhs were advanced to affiliated Societies. "Thus many of these Banks have long ceased to function as banking institutions and the delay in their rehabilitation or liquidation is resulting in cumulative deterioration and undue waste of their assets." The Provincial Co-operative Bank had to face a heavy withdrawal of deposits in 1939 and 1940 and the decrease in the total deposits in this Bank during the past 5 years represents over 29 per cent of its total working capital.

It was expected that the rise in prices due to the War would ease the strain on the Movement and speed up its recovery; but these hopes have not been realised so far. In January 1940 the Government of Bihar withdrew temporarily the control over the price of rice with a view to allow it to rise and thus give the rice growers a chance to improve their economic position. The control was resumed in April 1940 in order to prevent middlemen from pushing up the price unduly through the accumulation of large stocks. The price of rice, however, has further gone up due to the partial failure of crops in South Bihar and in the neighbouring Provinces. But with increase in the imports from Burma after May 1941 the prices are likely to fall.

The prices of many foodstuffs had a marked rise in the boom period in December 1939, but since then there has been a steady fall. With the

THE COURSE OF CO-OPERATIVE FINANCE IN MADRAS

By

K. C. RAMAKRISHNAN,
University of Madras.

An attempt is made in this paper to examine how far the supply of funds in co-operative credit institutions and their utilisation in loans and other investments have been made on co-operative lines and to subserve co-operative ends, as envisaged by the great leaders of the Movement. An outstanding defect of the Co-operative Credit Societies Act of 1904 was the lack of any provision for any central financing agency over and above the primary societies, rural and urban. The framers of the Act of 1904 laid so much emphasis on simplicity and elasticity that they did not desire to lay down any particular method of financing societies as the best or the most important. Perhaps they thought—judging from the provisions made for interlending between urban and rural societies—that “urban societies would gradually take the place of supervising and financing organisations with regard to rural societies situated in surrounding areas.” This was the idea underlying the experiments made by Mr. Dupernex in the United Provinces. He started urban banks in 1901 with offshoot rural societies around them dependent upon their financing—on the model of Mentone in Italy where, H. W. Wolff says, “as a matter of fact ‘urban’ and ‘rural’ banks were at that time leading a life of cat and dog and would not look at one another.” There were few primary urban societies which were fit to undertake this task in India. Separate urban banks had to be organised, in spite of the lack of provision in the Act, to finance the primary societies, especially the rural societies, which after the first flush of enthusiasm could not attract enough deposits for meeting their own demand.

The founders and administrators of the Movement in India had such profound faith in the capacity of the Raiffeisen societies to promote thrift and attract the savings of members and of non-members in the locality that the need for a central financing agency—except perhaps for an emergency relief—was not recognised. Nicholson stated that the main advantage of a co-operative bank over a moneylender was “not that it will, in itself, eliminate indebtedness, but that it encourages thrift and productivity by the gathering in of large and small savings otherwise idle.” He believed that “One great cause of indi-

vidual unthrift is the absence of facilities for thrift, of places for the due and productive custody of savings; if these are provided at each man's door saving will take the place of expenditure, productive deposit that of idle hoarding.” It was his view that “there is a great deal of hoarded capital in the country; but chiefly being rural it will be attracted but slowly, although village banks will attract more readily than large outside banks.” He fondly hoped that many people who lent money in the villages would be glad to deposit it in local societies, while they would not trust it to a distant bank. Though he describes the work of Co-operative Central Banks in European countries, it did not occur to him that there was need for similar institutions in Madras. In fact he said that “the ryots of this Presidency are unlikely to provide a clientele for Central Banks,” meaning thereby all distant banks, not necessarily co-operative. He, however, suggested that where deposits were received in excess by local societies, they should be compelled to invest the paid-up share capital or at least a portion thereof in Government securities in order to provide a material guarantee for depositors. He even contemplated that the local societies might float debentures for granting long term loans to members; but he recommended that these debentures should be accepted by a Central Bank, such as the Bank of Madras (now Imperial Bank), which would issue its own debentures, and provide cheaper capital than what local societies could command.

H. W. Wolff, who has been called the Solon of Agricultural Co-operation, was an equally firm believer in local deposits as the main source of finance for Raiffeisen societies. He said: “In the unlimited liability societies, you must have deposits, or you can do no business whatever.” He was, on that account, against the idea of confining the society to ‘persons of limited means’ and keeping out the wealthier residents in the village. “You want them to nurse the bank into strength, to say nothing of the educative influence in respect of business The more you limit membership to smaller and poorer folk, the more and the longer you will have to assist the societies with State-aid.” He suggested several methods of actively collecting deposits—just at the right time before the devil of improvidence decoys people with pies in their pockets—by means of volunteer collectors, home safes, etc., even in dribblets, down to the smallest denomination. Champion of local independence as Wolff was, he recognised that societies could not do without outside help. He criticised M. Durand as going too far, when he spoke of “money borrowed from outside, whether it be from a Central Bank or from any other source as a state of being ‘in hospital’ in a condition under par, from which it must be the aim of the Society to escape.” Wolff wanted

societies so to organise themselves, through their Central Bank, that they may be able to assist one another in case of need by "balancing the emptiness of one by supplies from the over-abundance of the other." But he stressed that borrowing from outside should not be habitual, it should be resorted to only as an emergency help—"a crutch so to put it, not a natural pair of legs."

Citations from Nicholson's report and Wolff's book have been made at length, because of the enormous influence both of them exerted not only on the framers of the Act but on a generation of co-operative leaders and administrators who followed. The Act itself declared the main object of the co-operative society to be the encouragement of thrift and self-help among members, the raising of funds by deposits from non-members and distribution of the funds in loans to members.

Studying the history of co-operation in Madras in particular, we find that in the first four or five years the Registrars reported with gratification that rural societies attracted well-to-do members, who put in deposits, as much as the poor who were borrowers. The Government in order to induce local deposits offered to contribute (up to a maximum of Rs. 2,000 for each society) as much as the society was able to collect by way of share capital and deposits. When there were only 40 rural societies in 1906-07, it was said that loans were seldom refused for want of funds. The need for central financing agencies was, however, felt quite early and the Madras Central Urban Bank and a few District Urban Banks were started between 1905 and 1910. In the latter year, village societies attracted Rs. 6.2 lakhs of deposits and the Registrar found moneylenders disappearing or discontinuing their operations where co-operative societies had taken root. He then envisaged the prospect of tapping the capital of sowcars, whose loans members of societies could be helped to clear. It is only the older societies, however, that continued to attract deposits. With the development of Central Banks, rural societies lost the incentive to tap local deposits. When the number of societies had grown to 500 they could collect only Rs. 3 lakhs in spite of the policy of some Central Banks to refuse to help societies unless they had themselves collected some deposits. In 1913-14, there were only 63 societies which had raised more than Rs. 1,000 each locally. Societies in Madras, the Registrar explained, could not attract as much deposits or share capital as those in the Punjab and United Provinces, as the margin of profit was very small in Madras on account of the low lending rate—9½ per cent compared with 12 to 15 per cent of Northern India; and societies in Madras did not declare any dividend, while in the Punjab 15 per cent was common.

The MacLagan Committee reporting in 1915 affirmed that the express object of the society should be the development of thrift among members with the hope that it would spread in the neighbourhood. But they regretted that the amount of working capital so far received by way of deposits was disappointing and they looked to an increase in deposits as an essential to real progress. They drew pointed attention to the very marked difference in this respect between Raiffeisen societies in Germany, which had 87 per cent of working capital in the shape of deposits and societies in India with only 18 per cent of working capital as deposits. They concluded that "unless there is a substantial increase in local deposits it will have to be confessed that co-operation has failed in one of its main objects." They recommended higher rates on deposits of members—"the maximum being the rates of the society on its loans." Even non-depositing members, they argued, would profit by it at the end, as the inflow of local deposits would improve the general credit of the society.

These exhortations have been of little avail, as the Townsend Committee found in 1928 that "with a few notable exceptions, but little success had been obtained." In their turn they urged that all possible steps should be taken to encourage local deposits, setting forth the advantages. A similar recommendation was made by the Madras Banking Enquiry Committee for 'an intensive propaganda by the Co-operative Department to encourage thrift.' The Indian Central Banking Enquiry Committee, while recording that primary societies should promote thrift and serve as savings banks for members, said that under existing conditions primary societies should not make any special effort to attract deposits from non-members by offering high rates of interest as this would frustrate the aim of the Movement "to provide rural co-operators with cheap and controlled credit," and there was risk in taking and utilising such deposits without the aid of an efficient and well-organised central banking system.

This emphasis on safety and the decline of enthusiasm and hope on the part of several co-operators as regards village credit societies tapping local deposits is revealed in the answers to the questionnaire issued by the recent (Vijayaraghavacharya) Committee on Co-operation. Many are only inclined to permit the societies to take fixed deposits at half per cent less than the lending rate of the Central Bank. Some lay down that no deposits should be taken beyond what could be utilised as loans to members, and again, that the period of loans and of deposits should be co-terminous. The old idea that societies should attract as much local deposits as possible and the Central Bank was to be more a balancing than a financing centre to which surpluses from

societies could be sent as deposits, as well as loans drawn from in case of need, has been wellnigh forgotten. Some would totally prevent societies taking in any kind of deposits due to the lack of human material to manage. Some are for vesting the local officers of the Co-operative Department with the power to permit societies, or withdraw from them, the privilege of accepting deposits of any kind. All of them are against village societies accepting current deposits. Some are even against savings deposits, though this is the best form of capital that could be tapped from poorer folk, on the ground that they might suffer for want of fluid resources, which Central Banks might or might not grant them.

It is refreshing to find that in spite of these pessimistic answers, especially from co-operators who had experience of the working of Central Banks, that the Committee on Co-operation have reiterated the traditional views on the need to tap local deposits and to promote thrift in villages. They deplore that at present local deposits constitute only 5 per cent of the total working capital of societies. They look forward to the admission of new members who would be willing to deposit, if they were not frightened by the prospect of unlimited liability being enforced. It is one of the reasons for the change over from unlimited liability to limited liability, which the Committee recommend as a general rule to be adopted. Such depositors are expected to provide "that counter-poise which is necessary to keep a stricter watch on the business of societies." We are not sure whether a change in the liability, while it will remove a scare for non-borrowing members, will inspire by itself more, or less, confidence in the minds of depositors—members and non-members. Indeed, the claim in the past was that it was the unlimited liability of the members of village societies that attracted local deposits and, even more, deposits in the Central Banks to which the societies were affiliated. We believe that if liability is to be made limited, and we feel it is necessary, that some system of continuing mortgage of a piece of land of the borrowing member must be introduced. Otherwise change to limited liability might dry up not only local but Central Banks' deposits too. The Committee are anxious that savings deposits—but not current accounts—should be popularised at least in A and B class societies which are in the neighbourhood of a Central Bank or an urban bank or a post office savings bank. Societies should endeavour to reach a stage of self-sufficiency and resort to borrowing only in exceptional circumstances. Such efforts should be made in particular, they say, in the boom period that is bound to recur with the continuance of the war. The lessons of the last post-war period, when assets were frittered away, should not be forgotten.

We find from the latest administration report on co-operative societies in Madras that there has been no improvement in the amount of deposits held by members or non-members in agricultural credit societies in the last three years. The total was a little less than Rs. 40 lakhs, while the working capital was nearly Rs. 600 lakhs. The Registrar deplores this dearth of deposits and observes: "It is a pity that the deposits of members do not grow more rapidly; our societies might be much stronger and more alert if, like the Raiffeisen societies in the Germany of a former day, the deposits of their members exceeded 70 per cent of their working capital." If, as he recommends, the rate of interest on loans is raised a little beyond 6¼ per cent—the unduly low rate fixed by the Madras Agriculturists' Relief Act—societies might offer a slightly better rate than at present for deposits and attract the funds of those who are not professional usurers or land grabbers in the village.

It is not correct to think that the villages have been drained of all resources and that there is no money available for investment therein. Economic enquiries from the days of Nicholson onwards have shown that in this Province, at any rate, most of the moneylenders are themselves agriculturists. Some of them have an eye on the land of the borrower ultimately, or wish to buy land elsewhere after accumulating the necessary capital by lending money meanwhile. Private money-lending has always had its troubles as well as attractions. The troubles have increased after the economic depression. The attractions are reduced by a series of restrictive laws on money-lending. The practised usurer may laugh at laws and carry on his business less openly. But there are honest investors of money who would prefer a safer and less troublesome, though less remunerative, place of investment like the co-operative society, if it were reorganised on lines suggested above. Investment in land, merely as a form of property without any desire to cultivate it, is also losing its attractions, economic and social, as a result of the agitation that is carried on in favour of agricultural labourers and cultivating tenants. The fear that any day tenancy legislation, with retrospective effect, may be passed has begun to operate. In such circumstances a well run co-operative society may be the best outlet for the savings. External pressure may accomplish what was fondly expected to be achieved by willing, voluntary efforts.

II

The Co-operative Central Banks of Madras and a few other Provinces have received such encomiums that it might be considered captious criticism to point to anything co-operatively unsound in their

working. The Vijayaraghavacharya Committee have summed up the excellences of the Central Banks in Madras: they have financed and balanced funds admirably; they have mobilised (urban) savings and diverted them to the rural societies at a low rate; most of these banks keep an ample margin between assets and outside liabilities; they have taken genuine interest in the development of the Movement and have drawn into it a number of honorary workers; they have the Provincial Bank as their balancing and financing centre and as a link with the money market. This Apex Bank also secures uniformity in banking policy and practices, and subsidises through Central Banks the infant non-credit societies. Almost the only vexed and the most discussed problem is that of overdues from rural societies and their members, for which the Central Banks are not alone to blame. Attention is also drawn to the fact that while in the decade ending with 1936 there were 54 bank failures in the Province not one Co-operative Central Bank failed.

Much of this praise by the Committee is no doubt well deserved; but this is not the whole picture and it is not applicable to all the banks and at all stages of their development. In their origin and outlook, some of them were frankly capitalistic; they were largely, if not entirely, composed of individuals who found in these banks—backed as they were morally if not financially by the Government—a badly needed institution for the investment of their savings, after the collapse of a big British banking concern in the city of Madras and a number of failures of indigenous Nidhis in the Province. The unlimited liability of the ultimate borrower with landed interest worked as a charm and the public confidence in particular office-bearers was not a little responsible for the attraction of funds. There was in most cases a blend of philanthropy and self-interest smacking of the Utilitarian philosophy that was in vogue in those days. That the outlook of the shareholders and depositors was not entirely co-operative even in the first few years of enthusiasm is revealed in the pages of the reports of Registrars. The second Registrar said in his brusque way: "Central Banks are very useful institutions, but they are not co-operative." "Finance is their forte, co-operation is their foible." The third Registrar pleaded long and hard for a liberal contribution from the Central Banks, including the M.C.U.B., towards supervision of societies which they financed on the Registrar's recommendation. They were unwilling to grant it, even though they were declaring 12 per cent dividend on shares and still had a large surplus left.

It is only after the economic depression and with the decreasing importance of individual members and depositors that there is some

change in the outlook on what the Central Bank should or might do to inspect and improve the societies affiliated. But even then it is more on terms of control and correction rather than of development that the thought of Directors of Central Banks runs. With the increase in overdues, whatever be the cause, and the irrecoverability of some of the dues, faith in unlimited liability is fading and insistence on mortgage security is becoming more common. The non-member depositors claim seats on the Board of Directors, which is symptomatic of their want of confidence in society representatives. The Committee have on the other hand recommended the elimination of individual shareholders from the Central Banks and the co-optation of individuals with banking knowledge. We are not sure if local influence and probity of Directors are not, even now, more appreciated by depositors than knowledge of business. If deposits still pour in, it is partly because of the frightful failures of joint-stock concerns and the feeling that, if the worst happens, the Government would go to the rescue of creditors of co-operative banks, as the Governments of Burma and Bihar have done in recent years. After all, co-operative banks, Central and Provincial, attract only about Rs. 4 crores as deposits, while one leading joint-stock bank of equal standing attracts more than Rs. 5 crores.

We are in this paper more concerned with the repercussions of the flow of funds into Central Banks on their methods of financing affiliated societies. The problem which has received the longest and greatest attention—that of the utilisation of funds derived from short term deposits in loans to societies for much longer term—has been fully dealt with by the Committee on Co-operation. It is broadly true that 60 per cent of the deposits are repayable within 12 months, 25 per cent within 24 months and the rest within 36 months. But renewals of deposits are quite a common feature. The Reserve Bank's dictum that "advances for any purposes whatever, which cannot reasonably be expected to be repaid in one year, should be ruled out as beyond the sphere of co-operative societies, at least at the present stage of their development" has been discussed and rejected by the Committee as undesirable and unnecessary to follow. The demand for intermediate term loans in agriculture for periods of 2 to 5 years has been recognised to be as legitimate as that for cultivation expenses and therefore to be granted without any hesitation. They have also clearly laid down that while it is desirable to attract deposits for two or three years, there is no need to make the period of deposits rigidly co-terminous with the period of loans, as "the flow of deposits into Central Banks . . . is like a perennial stream." The recovery of overdues from societies has been the main subject of several Central Banks'

Conferences in recent years. Indeed, overdues began earlier than the economic depression though the latter accentuated them and often served as an excuse for defaulting societies and their members. After examining the course of deposits and loans for a period of 14 years from 1925, the Committee came to the conclusion that most of the difficulties of Central Banks were due to the reckless advances granted in the boom period after 1925 which synchronised with the sudden flood of deposits and an artificial expansion of societies.

The havoc wrought by the increased flow of deposits from local boards and municipalities and the resulting surpluses in Central Banks and the Provincial Bank has been vividly described in the Registrar's report for 1926-27, which has been extracted by the Committee. The banks agitated for an expansion in the number of societies and the increase of the borrowing power of societies. Even the M.C.U.B., offered a special rebate on the interest on loans to Central Banks if they took more than Rs. 3 lakhs before a certain date to be utilised in expansion. The Central Banks took advantage of the concession. There was a rapid increase in loans, which was out of proportion to the increase either in the number of societies or of membership. The Committee add a significant foot-note that in view of the increasing flow of deposits till 1932-33, the banks might have continued thrusting money to societies but for the economic depression from 1930. "They could not profitably seek investment in societies and began to agitate, to get rid of surpluses, for permission to grant loans to individuals against merchandise, industrial products or gold. But the Government refused such permission." This is the province of urban banks and of sale societies, whose representatives have rightly protested in answer to the questions on the subject by the Committee on Co-operation.

The period of embarrassing surpluses in Central Banks has come to an end on account of the shrinkage of deposits from local bodies, etc., on the one hand, and of the policy of produce loans granted to Credit and Loan and Sale Societies on the other. Together these absorb about a crore of rupees annually, which is, however, less than one per cent of the value of all agricultural produce in the Province. Very much yet remains to be done and the marketing side of the societies has to be developed, if their working is to create any impression on the produce markets in the country and emancipate the procedure from the grip of the moneylender-cum-merchants. The progress in transactions so far registered has not been altogether in the interests of producers. Merchants and middlemen have in many cases benefited by the working of the loan and sale societies to the detriment of produ-

cers, especially the small producers. The craze for swelling the volume of transactions and the anxiety to find another outlet for the plethora of deposits have obscured co-operative ideals.

In fact many work-a-day co-operators do not seem to be aware of the damage done to the cause of co-operation by, for instance, the demand for permission to Central Banks not only to collect bills for their individual shareholders and depositors, who are engaged in trade, but to discount bills for them as commercial banks do. Apart from the financial risks involved in the discounting of bills—on which ground the Committee on Co-operation have rightly turned down the proposal—there can be no justification from the co-operative point of view in affording facilities for a class of people who have been exploiting producers and consumers all along, and whose gradual elimination has been proclaimed to be the goal of co-operative endeavour.

The demand for the co-optation of men in the competitive business-world on boards of management of co-operative institutions, the desire for investment of surplus co-operative funds in slack seasons in commercial banks, the investment of reserves in gilt-edged securities far in excess of the minimum prescribed for the maintenance of fluid resources—all these tendencies reveal a lack of co-operative idealism, an unawareness of the wide and varied field in production and distribution that could more legitimately utilise co-operative funds.

REVIEWS

PROCEEDINGS OF THE FIRST CONFERENCE OF THE INDIAN SOCIETY OF AGRICULTURAL ECONOMICS: held at Delhi in February 1940 (The Co-operative Book Depot, Fort, Bombay—Rs. 5).

We heartily welcome this newly founded Society of Agricultural Economics in India, which has as its object the study, investigation and improvement of the economic and social conditions of agriculture and rural life. Founded only in 1939, it has yet no periodical of its own; but it has published the proceedings of its first Conference held at Delhi in February 1940. Sir Jagadish Prasad opened the Conference with a brief address and raised a few fundamental questions like land tenure, debt-relief and dairying, which he rightly pointed out "should not be studied in isolation and without adequate regard for the profound influence of religion, custom and history."

Sir Malcolm Darling took for his theme "The Peasant and Politics" and drew a rather dark picture of the reactions of the peasant to the wave of democratic feeling and the radical measures on debt relief, tenures, etc. by the autonomous Governments in the Provinces for two years prior to the war. They have, in his view, weakened the sense of obligation of the peasant to the land lord and the moneylender and led to contraction of credit to agriculturists, even as such measures have done in the Balkan States, with one or other of which he compares Indian Provinces. He pleads for a change from an arm-chair study of western economic theory based on urban industrial conditions to an intensive investigation of the pressing economic problems in our countryside, so as to be able "to advise political parties on their agrarian programmes and to exercise a moderating influence on their electioneering promises." He pleads for the revival of the panchayats and the strengthening of the Co-operative Movement which alone could arrest the 'manifest spiritual decline' and promote agricultural improvement.

Mr. K. G. Ambegaokar of the Agricultural Credit Department of the Reserve Bank of India has given the results of a survey made by his Department on the position of fragmentation of holdings and the attempts made by each Government to consolidate holdings or to explain away the causes of inaction. He is not convinced of the soundness of these explanations in the absence of exact knowledge of the extent and conditions of fragmentation. He has chalked out very ably the lines of investigation which research workers might follow on this ticklish subject. Mr. Bashir Ahmed Khan has a paper on the Consolidation of Holdings in the Punjab giving a succinct summary of the difficulties

encountered and the progress achieved. This paper has been reproduced in the *Indian Co-operative Review*.

There are two papers on debt legislation, one on the United Provinces by Mr. S. P. Saxena, which appeared in our Review, and the other on Central Provinces and Berar by Mr. N. M. Joglekar.

Messrs. D. R. Gadgil and V. R. Gadgil of the Gokhale Institute of Economics have given an account of the procedure and method adopted in a survey of Wai Taluka in Bombay, which differ from those followed in western countries. Investigators in India cannot get farm accounts or memoranda kept by farmers and therefore have to collect more details by oral examination and make more frequent visits and adopt several cross checks. Mr. S. Kartar Singh, the Marketing Officer, and Dr. Arjan Singh, Assistant Marketing Officer of the Punjab contribute papers on farm accountancy, its methods and value in agricultural research.

Mr. S. K. Bedekar, the present secretary of the Association, analyses in a thought-provoking paper the spread of prices between consumers' and producers' in respect of four articles on which the Marketing Section of the I.C.A.R. has issued reports. He contends that producers receive a fairly high proportion of the prices paid by the consumers, that they do not suffer much from the existing system of marketing and that the defects might be rectified by marketing legislation and the establishment of Standard Arhat shops by the Marketing Committees. He thinks that co-operative sale societies will have to meet the same costs, perhaps more on account of joint control, and therefore are unnecessary—though there might be scope for co-operative processing, packing and transport. But things are not so simple as they look. The margins of merchants and middlemen are only seemingly small; for much of the profits is derived by malpractices in weighing, measuring, etc., which no marketing legislation or committee can put down, especially when producers are ignorant or illiterate. This has been well brought out in the discussion that followed.

On the whole, we find the papers submitted, of some of which we get only summaries, and the discussions that followed are of a high level and justify the formation of a separate society of agricultural economists in a country so preponderatingly agricultural.

LALUBHAI SAMALDAS by S. Natarajan. (Yeshanand Publications Ltd., Hornby Road, Bombay—As. 8).

This brochure, printed on hand-made paper, is a life-sketch of Sir Lalubhai Samaldas, "the father of the Co-operative Movement" in

Bombay. It is written in bright style and deals succinctly with the many-sided activities of one of the most energetic and enthusiastic leaders of Western India. Every detail given by Mr. Natarajan of Sir Lalubhai as a scholar, social reformer, administrator, industrialist and legislator is interesting and reveals the greatness of the man. Students of co-operation, however, get only a little more than what they already knew of the co-operative activities of this doyen of co-operators. Perhaps more may not be expected in such a brief sketch, which deals as much with the private life of this thorough gentleman as of his public activities. It is up to loyal students of co-operation in Bombay to bring out a work dealing fully with the trials and tribulations—as, for instance, what Sir Lalubhai experienced in founding the Bombay Central Urban Bank—as well as the successes of the leaders of the Movement.

ACKNOWLEDGMENTS

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CO-OPERATIVE SOCIETIES AT WORK IN INDIA

MADRAS

Extracts from the Report of the Registrar of Co-operative Societies, Mr. S. A. Venkataraman, I.C.S., for the year ended 30th June, 1940.

Review of Policy.—The Committee on Co-operation concluded its deliberations. Some time must pass before final decisions can be taken and implemented. But a general impression may be ventured, that on the whole the present structure and trend of co-operation in Madras meets with the approval of the pundits. Reform, not revolution, is the task of the future.

Continuity of policy.—Co-operative finance is still, and must be, for some time, the chief pre-occupation of Madras co-operators. The long and arduous task of eliminating the weaknesses in our credit structure and increasing the usefulness of credit societies in both villages and towns is far from ended: but something is being achieved each year. A few revolutionary suggestions were made in the discussions of the Committee on Co-operation, and were given publicity in the Press. From the response of co-operators, it would seem that many prefer slow progress on the present lines to a more drastic treatment. Some inveterate cancers in the co-operative body resist mild remedies; one or two central banks and many smaller institutions must collapse unless they adopt rather late in the day measures they have resisted or ignored.

The most embarrassed banks are those which have their assets frozen in irrecoverable long-term loans; on close examination, it is usually found that these loans were individually too large in comparison with the repaying capacity of the borrowers, the purposes of borrowing were not productive, the proper application of the loans was not secured and the borrowers, because they were interested in escaping from a particular debt rather than in financing regular production, have made no attempt to clear their accounts and secure fresh finance. Several banks, though far from insolvent, cannot bring in their money and, therefore, cannot accommodate their members with fresh loans. In various other districts fresh loans are a mere trickle, and banks which should be distributing five, ten, or fifteen lakhs annually for cultivation expenses alone are lending a meagre one or two lakhs to ordinary credit societies, and to sale societies enough to market one or two per cent of the total crop.

Finance.—In spite of their errors and difficulties, co-operative institutions have not lost the confidence of the public. The level of deposits remains high. It is a pity that the deposits of members do not grow more rapidly; our societies might be much stronger and more alert if, like the Raiffeisen societies in the Germany of a former day, the deposits of their members exceeded 70 per cent of their working capital. One unresolved question of policy is whether co-operative societies should be so slow to adapt their interest rates to changing conditions. Changing his lending and borrowing rates is the banker's ordinary means of adjusting the demand for loans to the supply of capital. Co-operative banks rarely change their rates and complain at one time of an excess of deposits and at another of a deficiency. Agricultural credit institutions have been trying to keep interest rates to borrowers

down to the level imposed on other lenders of money by the Agriculturists' Relief Act. I have been watching the effects of this policy and have warned co-operators against sacrificing the safety of their institutions to a worthy but often impracticable ideal. Relief to borrowers hard hit, through no fault of their own, has already been carried far enough to endanger the profits, if not the working, of several central banks and the endeavour to help failing societies by reducing the rate of interest on old loans—a policy accepted by all central banks—makes it all the more necessary to earn reasonable profits on loans to thriving societies. Reserves must be adequate but can only be built up out of profits; if the margin between borrowing and lending rates is too small for any profits to be earned, the margin must be increased. I find that co-operators and departmental officials agree that a margin of about 2 per cent between the borrowing and lending rates will ensure safety to credit societies without inflicting hardship on borrowers and I have issued a circular to ensure a reasonable policy in this respect. Money-lenders are said to be refusing to lend at $6\frac{1}{4}$ per cent and it is for the consideration of Government whether the rate fixed under the Act should not be a little higher. Co-operative institutions and money-lenders alike have to cover their risks and costs of supervision.

Management and supervision.—Experience has shown that the costs of supervision cannot safely be cut. Credit must be controlled and repayment ensured. The central banks are finding that the control is expensive if it is effective. The failure of supervising unions is everywhere throwing too heavy a burden on the staff of the banks, and unless ways are devised to revive unions and secure active and honest work from their unpaid directors, the central banks will soon appreciate what Nicholson meant when he insisted on proximity as one condition for good rural finance. Even if all the paid Inspectors and Supervisors were thoroughly capable and diligent, they would be too few.

Though some critics, including a few who have access to the facts but do not care to study them, have accused the department of trying to officialize the movement, our policy remains the same as before—to help, to guide, where necessary to admonish, and only in the last resort to exercise the powers conferred by the Act for the protection of the public and the saving of societies. The staff of the department is too small to manage the affairs of societies as well as to perform its own functions. I have had to protest in a circular against the increasing demand for the deputation of departmental officers and to point out that the proper course is to secure more trained men and to encourage co-operative employees to secure better training. Better work and better pay are both required, and I am glad to say that Boards of Directors and co-operative employees seem prepared for a progressive policy.

Scope of co-operative societies.—The development of trained business capacity must precede the launching of a drive to widen the scope of primary societies. Want of suitable men has impeded the development of marketing and of consumers' co-operation; and it is too much to expect that primary societies which have not found honest and competent men to administer credit should find such men to administer joint purchase and sale or village reconstruction. It is apparently more difficult to make a success of co-operative trading than of co-operative banking, if we are to judge by our experience in towns; and the activities of agricultural improvement and rural welfare are not easy for amateurs.

Consumers' Societies.—Co-operators took advantage of the conditions brought about by the War to inaugurate stores in a number of towns. If profiteering in

foodstuffs had continued a little longer, the number and business of co-operative stores would probably have increased by leaps and bounds. But the inauguration of stores was itself a check on profiteering and the measures adopted by Government had a rapid effect.

Sales Tax and Super Tax.—Various types of co-operative institutions particularly stores societies, were affected by the operation of the Sales Tax. Co-operative societies were not exempted from the operation of this Act and some of them found their distributable profits considerably diminished. They had to pay in all about Rs. 20,000, a large portion of it being contributed by 34 stores societies.

Another tax which affected co-operative institutions was the super tax. According to the present interpretation of the Income-tax Act, co-operative societies are associations of individuals and liable to pay the higher rate of tax. The Hon'ble Mr. V. Ramadas Pantulu has been trying to secure an amendment of the Income-tax Act, and for the present the Central Government has been persuaded to treat co-operative banks no worse than joint stock banks. The reduction of the tax thus obtained was as much as Rs. 43,000 for the assessment year 1940-41, in the case of the Madras Provincial Co-operative Bank alone. All profits under Rs. 25,000 are to be exempted from super tax for the present.

Milk Supply.—The great increase in the number and business of milk supply societies is unfortunately not due to consumers' enlightenment; a strong departmental drive had to be made and it remains to be seen whether the real need for pure milk at a price satisfactory to producers as well as consumers will now become apparent to urban population which have for too long paid more attention to price than quality.

Marketing.—Several Central Banks, supported by the Provincial Bank and the department, have decided that the time is ripe for an advance in co-operative marketing. Many new sale societies and some branches of old societies began operations during the year. We are still far from an adequate marketing organization, but in every district the foundations are being laid. Too many societies are still Loan Societies rather than Sale Societies; but all are being encouraged to study the market for local produce and provide the facilities required by both buyers and sellers.

Methods of business.—Our institutions are run for the most part by amateurs and even the salaried professional staff have had too little experience of business outside the co-operative world. Our bankers have generally never been in a commercial bank; our stores managers were formerly school-masters or Government officials; our marketing officers have never bought and sold on their own account. It is only in exceptional institutions that the directors and managers study the operations with the diligence and intelligence of the good businessman.

The deputation of several Deputy Registrars to study the methods of Joint-stock banks and of others to visit the Imperial Dairy Institute may equip the department to offer good advice in some directions. The study of wholesale and retail trade is still backward.

The changes in supply, demand and prices are differently timed in almost every centre and good business will depend on accurate knowledge taking the place of guess work. Too often we hear of the desirability of holding up produce for a better market. Holding up produce is sometimes as likely to lead to loss as gain. If experience in other countries is any guide, I strongly feel the need for more orga-

nized research and for a small statistical staff to do it; and I find agreement in this respect not only in the department but also in the banks and the universities.

More attention was given to co-ordination of societies; for instance, a number of sale societies and stores stocked and sold the products of weavers' societies and placed orders for foodstuffs with co-operative producers' organizations, and producers' societies, sometimes on their own and sometimes through the Provincial Marketing Society, increasingly sought co-operative outlets. There was some difficulty about prices, consumers' societies complaining that producers' societies asked for too much and producers alleging that consumers' societies offered too little. Both sides have to learn that in trading a fair price is one which pleases both parties.

An innovation which may point the way to a more harmonious relation between the department and the movement was the joint investigation of the affairs of certain banks by the Joint Registrar and the President of the Madras Provincial Co-operative Bank, to whom my thanks are due for his willing and active co-operation in such cases as those of the Viziavada Central Bank, the Anantapur Central Bank and the South Arcot Central Bank. This kind of co-operation makes it much easier for the Registrar to choose among different possible methods of improvement. Unfortunately, it does not obviate recourse to statutory powers when abuses and incompetence will not give way to mere advice.

Prospects.—At present the movement is an aggregate of pieces rather than a whole of coherent parts. Consumers' and producers' co-operation have not yet achieved a dovetailed structure. Various unconcerted efforts are being made in different places; sometimes they fit together, but more often each is pushed along without reference to the others. Nor do co-operators in general show much wish or ability to bring the work of the Development Departments within their orbit.

I have a vision of an integrated whole of many parts so designed that all through the economic life of the province the principle of working together for mutual benefit may exercise its wholesome influence. Already a beginning has been made in the process of linking the work of the Departments of Agriculture and Industries with that of co-operative societies, more especially in the multiplication of improved seed and the improvement of handloom weaving. The help given by the Veterinary Department to cattle-breeding societies is likely to increase as the Provincial Livestock Council extends its work. In rural reconstruction, officers of the Co-operative Department are working as Special Development Officers in close touch with the ordinary district administration and are infusing every where the belief voiced by the Royal Commission on Agriculture in India that "only through the medium of co-operative associations can the teaching of the expert be brought to multitudes who would never be reached individually."

The Madras Provincial Co-operative Bank, Limited, Madras.—The borrowing of the bank rose from Rs. 202.16 lakhs to Rs. 228.56 lakhs and its working capital from Rs. 236.45 lakhs to Rs. 264.91 lakhs. There was an increase in the deposits under all heads. Of the total borrowings of Rs. 228.56 lakhs, a sum of Rs. 215.03 lakhs represented deposits in the bank. The owned capital of the bank (Rs. 36.35 lakhs) amounted to 16.9 per cent of the total deposits. The cash on hand with the bank and with its bankers was Rs. 6.19 lakhs, while its investments included Rs. 125.63 lakhs in Government Promissory Notes, Rs. 15.68 lakhs in the debentures of the Central Land Mortgage Bank and Rs. 115.85 lakhs in loans to Central Banks and societies. The cash resources of the bank were 2.9 per cent of the

deposits, while its investments in Government securities and in loans amounted to 58.4 per cent and 53.9 per cent of the deposits. The percentage of deposits held in Government securities far exceeded the proportion suggested by the Reserve Bank of India in its circular on the reorganization of the co-operative movement on banking lines, and the bank's investments in loans were also within the limits suggested by the Reserve Bank of India.

The Provincial Bank continued to enjoy the overdraft accommodation of Rs. 37 lakhs allowed by the Imperial Bank of India. The bank had also recourse to loans from the Reserve Bank of India at 3 per cent to the extent of Rs. 19 lakhs; and of this amount, a sum of Rs. 8 lakhs remained outstanding on the 30th June.

The bank granted loans to central banks to the extent of no less than Rs. 99.82 lakhs, that is, Rs. 34.94 lakhs more than last year. The increase was accounted for mainly by increased advances on produce, which alone reached the figure of Rs. 62.35 lakhs. The loans outstanding at the end of the year against the central banks amounted to Rs. 83.99 lakhs, of which Rs. 47.98 lakhs were 'produce' loans. The bank continued to finance the Vuyyur Co-operative, Agricultural, Industrial and Credit Society and the Madras Officials' Automobile Co-operative Society. The total advances to all primary societies and to individuals in the year amounted to Rs. 14.13 lakhs and Rs. 6.14 lakhs, and the advances outstanding against them were Rs. 17.77 lakhs and Rs. 3.99 lakhs.

As in the past, the bank gave subsidies to central banks for the development of sale societies, the total subsidy given in the year being Rs. 20,425. It made a special grant of Rs. 600 to the Salem District Urban Bank in connexion with its marketing activities. It also gave a subvention to four central banks amounting to Rs. 1,675 for rectification work.

The net profits of the bank for the year were Rs. 2.38 lakhs. The steep decline in the value of Government securities brought about by the unsettled market conditions created by the war did not affect its profits, as it held substantial reserves.

The Madras Provincial Co-operative Bank must now be counted among the major banks of the country. It worked on sound business lines and was in many respects a model for other provinces.

Central Banks.—Borrowings.—There was a gradual increase in the borrowings of the banks and in their working capital, as shown below:—

	1937-38	1938-39	1939-40
	Rs.	Rs.	Rs.
	(In Lakhs)	(In Lakhs)	(In Lakhs)
Borrowings	409.68	452.03	465.02
Working Capital	523.54	566.24	580.30

Of the borrowings of Rs. 465.02 lakhs at the end of the year, the deposits alone amounted to Rs. 360.57 lakhs, representing 62.1 per cent of the working capital. The owned capital of the banks was Rs. 115.28 lakhs, representing 31.9 per cent of the deposits. The deposits from individuals totalled Rs. 159.67 lakhs. The fixed deposits of local bodies held by the banks amounted to Rs. 31.25 lakhs. There was a fall of Rs. 5.46 lakhs during the year under this head. The restrictions on the investment of district board and municipal funds imposed by G.O. No. 1407, L.A., dated 5th April 1939, have had some adverse effect on the total

volume of deposits in the banks, but they may have served a purpose if they make the banks look more to the general public and less to local bodies for their deposits. The Central Banks also held deposits from primary societies to the extent of Rs. 136.36 lakhs, of which Rs. 104.96 lakhs were reserve fund deposits. The large proportion of deposits held by the banks, particularly from the outside public, is clear evidence that they continue to enjoy the confidence of the investing public.

Investment and fluid resources.—The cash held by the banks and with their bankers on the last day of the year was Rs. 23.89 lakhs, and their investments were Rs. 127.37 lakhs. Of the latter sum, Rs. 49.82 lakhs represented investments in Government securities. The investments made by the banks in loans and advances including over-drafts amounted on the last day of the year to Rs. 424 lakhs, which exceeded the deposits. This was because the banks lent not only from the deposits raised by them but also from their other resources, namely, owned capital, borrowings from the Provincial Bank, etc. Taking the position of the central banks as a whole, it can be said that the distribution of their assets on the last day of the year was more or less in accordance with the standards suggested by the Reserve Bank of India. I wish, however, to mention that, apart from the fact that the position on the 30th June cannot be said to exhibit the normal state of affairs, the standards prescribed would not be satisfied by all the banks if their position is individually examined. The question, however, is whether it is possible or necessary for banks to adhere to these standards in view of the fact that they are required under the rules to maintain fluid resources according to certain standards laid down by Government.

Loans issued, collected and overdue.—The banks granted loans to societies to the extent of Rs. 202.70 lakhs, that is, 0.62 lakhs more than in the last year. Of this sum, Rs. 155.89 lakhs were for short terms. Loans amounting to Rs. 201.45 lakhs were recovered, leaving a sum of Rs. 347.77 lakhs outstanding at the end of the year. The banks also granted loans to individuals to the extent of Rs. 15.34 lakhs. The amount due at the end of the year under this head was Rs. 8.48 lakhs. The loans outstanding against societies under liquidation amounted to Rs. 30.63 lakhs.

In its circular on the reorganization of the co-operative movement on banking lines, the Reserve Bank of India has observed that co-operative banks should attempt, as a general rule, to avoid long-term business and that, 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. The paid-up share capital and reserves of the banks (reserve fund and bad debt reserve) on the last day of the year totalled Rs. 103.69 lakhs. The total long-term resources of the banks on the last day of the year were Rs. 216.62 lakhs. The investments made by the banks in long-term loans, including loans due from societies under liquidation, amounted to Rs. 220.02 lakhs; and this is just a little over the long-term reserves. If the Central Banks continue to follow the present policy of restricting their medium-term loans, I am hopeful that medium-term investments in loans will, before long, come down to the level of their long-term resources.

Cost of management.—The cost of management of the banks was Rs. 8.59 lakhs, and represented 1.5 per cent of the working capital, which must be considered reasonably cheap. In 13 banks, the percentage exceeded the Presidency average.

Profits.—All the Central Banks except the Cuddapah and the Guntur District Banks worked at a profit. The former worked at a loss of Rs. 3,512 while the latter neither earned a profit nor sustained a loss. The net profits of all the remaining banks amounted to Rs. 2.86 lakhs.

The profits of the banks were to some extent affected by the fall in the prices of Government securities held by them. Wherever possible, provision was made for the entire depreciation in the value of the securities. In the case of certain banks, however, the entire depreciation could not be provided for in the year itself, as such a course would have cut into their profits too much. In view of the fact that the fall in the prices of securities was unprecedented and was the result of the uncertain conditions created by the war, and considering that the banks had strong general reserves, I permitted them to write off the depreciation in two or three years. The provision made for depreciation during the year was Rs. 69,452 and the amount to the credit of the depreciation reserve at the end of the year was Rs. 1,34,272.

Rs. 87,176 were added to the Bad Debt Reserve of Central Banks during the year. A sum of Rs. 1,22,109 was spent from the reserve to write off irrecoverable loans. The balance to the credit of the Bad Debt Reserve at the end of the year was Rs. 19.59 lakhs.

The Madras Co-operative Central Land Mortgage Bank, Limited.—During the year the bank floated two series of debentures at 3½ per cent at par for Rs. 20 lakhs each. On account of the changes in the money market created by the war, the rate of interest on the debentures was raised by ½ per cent. The total amount of debentures issued during the year amounted to Rs. 39,36,800.

The method of redemption of debentures up to the XXIII series has been slightly changed. Instead of limiting the redemption to the extent of the principal collections in the loans covered by the series, all principal collections received are utilized in redeeming, first, debentures carrying higher rates of interest and only then those carrying lower rates of interest. During the year debentures for Rs. 5,08,400 were redeemed, of which debentures for Rs. 1,10,300 were redeemed in cash and the balance re-invested in the new debentures issued by the bank.

In the separate Debenture Redemption Funds maintained by the bank for each series of debentures commencing from the XXIV series, according to the scale prescribed by the Government, the bank should have invested Rs. 2,44,135. The actual investment, however, was Rs. 7,14,215.

Owing to certain abnormal conditions, Government discontinued their temporary accommodation to the bank for a short period of four months during the year. The accommodation has been renewed from January 1940. During the year the bank drew from Government Rs. 45.65 lakhs and repaid Rs. 41.12 lakhs. The loans due to Government at the end of the year were Rs. 26.05 lakhs.

Consequent on the increase in the rate of interest on debentures, from 3 per cent to 3½ per cent, the lending rate to the primary land mortgage banks was raised to 5 per cent and that to the ultimate borrower to 6 per cent.

The bank earned a net profit of Rs. 1,20,540-0-9, after setting apart Rs. 65,000 to the Debenture Redemption Fund investment depreciation reserve, and Rs. 20,000 to the Bad Debt Reserve. It has been contributing 25 per cent of the net profits hitherto to the Reserve Fund, and it is proposed to raise the proportion to 40 per cent from this year.

Government increased their guarantee of the debentures from Rs. 200 lakhs to Rs. 250 lakhs during the year. There is a great demand for loans from land mortgage banks as a result of the Agriculturists Relief Act, and Government will shortly have to be approached for increasing their guarantee limit.

The Central Land Mortgage Bank is building up a sound and steady business and is run on prudent and conservative lines. It is an acknowledged model for the rest of India.

Primary land mortgage banks.—The 119 banks in the Province cover 18,027 villages, and loans have been issued in 5,093 villages. The slight fall in the transactions was on account of the stoppage of temporary accommodation by the Government for about four months immediately after the outbreak of the War.

The borrowings of the banks were entirely from the Central Land Mortgage Bank, and no primary bank floated fresh debentures of its own. Loans to the extent of Rs. 42.78 lakhs were obtained from the Central Land Mortgage Bank during the year and Rs. 13.22 lakhs were repaid, leaving a total outstanding of Rs. 218.99 lakhs at the end of the year. A very satisfactory feature was that there were no arrears either under principal or interest in the loans due to the Central Land Mortgage Bank.

During the year, 2,838 loans amounting to Rs. 42.57 lakhs were issued to the members by primary banks, and Rs. 13.02 lakhs were collected, leaving a total outstanding of Rs. 222.09 lakhs at the end of the year. There was a fall in the percentage of arrears under principal from 14.86 to 13.04. Of the 119 banks, 79 worked at a profit totalling Rs. 1,23,176, while the rest, mainly the newer ones, worked at a loss of Rs. 19,356.

At present, loans are issued to members of land mortgage banks, repayable in 20 years, from the money raised by the 20-year debentures, and neither the by-laws nor the conditions of the business permit the grant of extension of time for repayment. The need for a margin between the maximum period of the debenture and the maximum period of the loan is obvious, as situations may arise (e.g. famine, seasonal scarcity, floods, cyclones, etc.) when wholesale destruction of crops ensues. The term of the debentures, however, need not, in my view, exceed 20 years, as 20 year debentures find more favour with the investing public than debentures for a longer period. The only alternative is to reduce the period of the loan by two or three years. This reduction of the period will not appreciably increase the equated annual instalment and will not cause any real hardship to borrowers. The question of reducing the period of the loans to 17 or 18 years is under the consideration of Government.

Agricultural credit societies.—The following statement shows the comparative financial position of the societies during the last three years:—

	1937-38	1938-39	1939-40
	Rs.	Rs.	Rs.
	(in lakhs)	(in lakhs)	(in lakhs)
Paid-up share capital	51.46	53.36	54.89
Reserve Fund	77.46	78.75	80.37
Working capital	437.13	473.00	475.34
Loans issued to members	110.97	147.47	147.29
Loans outstanding against members	322.03	353.53	354.15
Net profit	4.94	4.06	4.23
Net loss	19.26	20.29	20.53

CO-OPERATIVE SOCIETIES AT WORK IN INDIA—MADRAS, 39-40 189

During the year the transactions have remained more or less steady. The profits earned by good societies have gone up, but so too have the losses incurred by the bad ones. The total profits and losses of the societies were as follows:—

	Profits		Losses
	Rs.		Rs.
	(in lakhs)		(in lakhs)
Interest earned	.. 22.79	Interest paid and due	.. 16.58
Other items	.. 4.01	Cost of management	.. 4.24
		Debts written off	.. 1.21
		Loss of previous years	.. 18.94
		Other items	.. 2.13
Total	.. 26.80	Total	.. 43.10

It may be observed that the working of the societies during the year has resulted in a net profit of Rs. 2.64 lakhs, and that the losses incurred in previous years have been responsible for the net loss at the end of the year. As for the losses in previous years, for the most part they have been the result of the interest due on loans remaining unrealized. The margin of profit for the societies, that is, the difference between the interest earned and the interest paid, is also too low. It is barely sufficient to meet the cost of management, and after providing for possible bad debts very little is left for building up a strong reserve fund. I have, therefore, suggested it to societies that they may, if necessary, increase the rate of interest on loans so as to provide for a margin of 2 per cent between their borrowing and lending rates.

The following statement shows the percentage of balance to demand under principal and interest during the past three years:—There has been, I am glad to say, a definite improvement in collections both under principal and under interest.

Year	Principal			Interest		
	Demand	Balance	Percentage	Demand	Balance	Percentage
	Rs.	Rs.		Rs.	Rs.	
	(in lakhs)	(in lakhs)		(in lakhs)	(in lakhs)	
1937-38	.. 257.80	163.42	63.39	71.69	49.09	68.48
1938-39	.. 265.73	162.25	61.06	66.34	45.51	68.59
1939-40	.. 295.89	163.21	55.16	67.41	43.07	63.89

Non-agricultural credit societies.—The business of non-agricultural credit societies showed a further increase. The borrowings rose from Rs. 271 lakhs to

Rs. 24 lakhs, an increase of 5 per cent. The uncertain conditions created in the money market owing to the war have apparently not affected these banks. In fact, deposits from non-members for about two crores of rupees were either received or renewed during the year, while the corresponding amount for 1938-39 was only Rs. 186 lakhs. Of the 898 societies with outside borrowings, 324 could obtain deposits from members and the public sufficient for their requirements and had not to borrow from central banks, while only 225 societies had to depend entirely on central banks for their finance.

Non-agricultural credit societies have generally been prompt in meeting their obligations to the creditors, the percentage of balance to demand being only 1.6. Even this balance is negligible, considering the fact that it includes deposits which had matured for repayment, where the depositors had neither asked for their return nor renewed them before the end of the year.

Urban banks and societies with deposits and loans exceeding Rs. 20,000 are required to maintain fluid resources on the standards laid down in the rules prescribed under the Act. During 1939-40, 168 to 179 societies had to maintain fluid resources. Of these, 22 to 35 societies failed to maintain the required standard during the four quarters. The importance of maintaining the prescribed standard was impressed on them.

During the year, the societies disbursed loans aggregating Rs. 296.58 lakhs and recovered Rs. 285.27 lakhs. The arrears due from members at the end of the year totalled Rs. 66.65 lakhs, i.e., 19 per cent of the total demand. The percentage of arrears last year was 20.

Three hundred and five societies worked at a total loss of Rs. 1.22 lakhs, while the total profits earned by the remaining societies were Rs. 6.97 lakhs.

In the report for 1938-39 I had referred to the 'day deposit scheme' introduced in urban banks for the encouragement of thrift among the members. I am glad to report that the scheme has so far been introduced in 30 banks and that 4,223 members are now paying their daily subscriptions. The amount of deposits outstanding to the credit of the members at the end of the year (Rs. 70,765) may not be large, but the fact it has been built up by the small daily subscriptions of the members is heartening. The scheme has great potentialities and if worked enthusiastically and extended under proper safeguards, urban banks would have achieved one of their main objects, namely, the inculcation of the habit of thrift among the urban population.

Employees' societies.—Among the non-agricultural credit societies, 497 were exclusively for Government servants, employees of local bodies, firms, etc. They had a total membership of 1,137,404, a share capital of Rs. 46.88 lakhs, and a working capital of Rs. 166.52 lakhs. The borrowings of the societies included deposits from members and other individuals to the extent of Rs. 55.51 lakhs and Rs. 47.37 lakhs, respectively, and loans from central banks amounting to Rs. 7.85 lakhs. They issued loans to members aggregating Rs. 173.64 lakhs. The overdues at the end of the year amounted to Rs. 12.47 lakhs.

Societies for the scheduled castes.—The transactions of the societies specially formed for Adi-Dravidas, Adi-Andhras, fishermen, Kallars and other scheduled castes are shown in the following statement:—

Particulars	Societies under the co-operative department	Kallar societies under the special Police officers	Societies under the Fisheries department
Number of societies	2,287	261	54
Number of members	87,169	12,611	2,194
	Rs.	Rs.	Rs.
Paid up share capital	6,99,502	7,042	35,733
Deposits from members	41,620	..	2,346
Loans from central banks	9,43,548	..	11,487
Loans from Government	1,89,593	91,831	529
Reserve fund	4,44,652	1,35,960	28,094
Other funds	1,25,866	..	..
Working capital	24,44,781	2,34,833	78,189
Divisible profits	29,721	12,267	1,989
Loss	2,04,989	16,669	3,772

The Madras Provincial Co-operative Marketing Society.—On 30th June 1940, the society had as its members 96 societies and 60 individuals. It sold during the year goods worth Rs. 2,00,337. The volume of the sales effected in previous years was Rs. 8,979 in 1936-37, Rs. 93,224 in 1937-38 and Rs. 1,70,000 in 1938-39. Of the articles sold during the year, goods worth Rs. 1,77,938 were supplied by the Maipad, Ramachandrapuram, Rasipuram and Tirupattur sale societies, and the Kodur Fruit Growers' Society, and goods worth Rs. 22,399 were supplied by 40 other societies and 11 individuals. Goods worth Rs. 80,088 were sold through co-operative stores and other co-operative institutions. College hostels and clubs in the City were among its customers. The chief articles dealt with were rice (milled, hand-pound-ed and boiled), butter, ghee, fruits, eggs, dhall and honey. The society is issuing a bulletin each week containing the following particulars:—

- (i) price of commodities available with the society;
- (ii) prices of commodities available in other societies in the Province; and
- (iii) Madras wholesale market rates for certain important commodities.

One main difficulty experienced by the Provincial Marketing Society was that it did not receive an adequate supply of articles from affiliated societies. I have therefore, organized a few more producers' societies to act more or less as feeder societies to the Provincial Society.

The society cannot be said at present, to be a real "Provincial" society in the accepted sense of the term, and its future organization, as the apex of a series of regional sale societies, etc., will shortly be examined in consultation with the Provincial Marketing Board.

The South Kanara Agriculturists' Co-operative Wholesale Society.—The area of operations of the society covers the whole of South Kanara District. The chief produce of the district is arecanut and the society has been taking steps to induce as many ryots as possible to join it and sell their produce through it. It has 1,852 members, of whom 1,815 are individuals and the rest societies. It has opened 49 branches at important centres in the district, where the produce is stored and ad-

vances are given on the security of such produce. It has also opened a sales branch at Bombay which is an important marketing centre for areca and other products of the district. It has a sales depot at Mangalore, and has recently opened three more depots in the district. It has also been decided to open a grading section at Mangalore to pool and grade the arecanut before exporting it to Bombay. The society has been doing its business on a consignment basis. Sales in the year totalled Rs. 20.37 lakhs and the loans issued to members on the pledge of produce amounted to Rs. 17.26 lakhs. These are very remarkable figures for a District Sale Society.

The Madras Handloom Weavers' Provincial Co-operative Society.—This society, which was formed in 1935 under the Government of India Subvention Scheme for the purpose of organizing and developing the handloom industry in the Province, had as its members 165 weavers' societies, 40 co-operative central banks and societies and 97 individuals, firms, etc. It spent from the subsidy Rs. 98,855 during the financial year ended 31st March 1940. Of this, Rs. 32,735 were given to weavers' societies to meet their cost of management, purchase of looms, etc., Rs. 12,180 were utilized in maintaining sales emporiums, and Rs. 12,180 were spent on the calendering and finishing plant installed by the society. Under the system by which mills supply yarn to primary societies on the guarantee of the Provincial Society, 98 societies were guaranteed to the extent of Rs. 88,013 and 68 societies actually took advantage of this facility. Cash credit loans for Rs. 32,193 were given to societies for the purchase of the raw material required by their members and for payment of wages. Advances on the security of the finished products sent to sales emporiums were given to 26 societies, to the extent of Rs. 19,251. The Provincial Society has been giving the credit required only by the smaller societies, that is, those requiring less than Rs. 2,000 the bigger societies being financed by local central banks. With the limited funds available, the Provincial Society has been finding it difficult to finance even these smaller societies. I have, therefore requested central banks to finance also those societies which require between Rs. 1,000 and Rs. 2,000.

For marketing the products of the societies, the Provincial Society maintained eight sales emporiums and also subsidized eight other emporiums run by the societies themselves. Efforts were made to find a sale for the articles through sale societies, co-operative stores and other co-operative institutions, and during the year goods worth Rs. 95,901 were sold through them. Attempts made to persuade merchants to undertake, on a commission basis, to sell the products of the societies have not yet proved successful. However, during the year, they purchased goods from 74 societies to the extent of Rs. 2,37,238. Another direction in which efforts are being made to market the goods was by the appointment of hawkers who will go from house to house in the City and in other towns. Sample books have been prepared of the various types of sarees, dhoties, shirting cloth, etc., produced by the societies, and distributed to the marketing staff. The calendering and finishing plant which was installed last year began work in October 1939. Societies did not, however, take full advantage of the facility provided, and the goods actually received at the plant were quite inadequate to use its full-time. Attempts have been made to secure orders in bulk from wholesale merchants in the City to calender the goods at the plant.

Since the establishment of the Madras Handloom Weavers' Provincial Co-operative Society in August 1935, there has been a very rapid increase in the business of weavers' societies. The value of cloth sold by them which was Rs. 40,000 in 1934-35, increased to Rs. 0.76 lakh in 1935-36; 1.60 lakhs in 1936-37; 4.31 lakhs in 1937-38; 7.37 lakhs in 1938-39 and to 11.19 lakhs in 1939-40. Within five years, the value of cloth sold has increased over twenty-fold.

The Government of India Subvention Scheme which was due to expire on 31st March 1940 has been extended by two years till 31st March 1942.

The South India Co-operative Insurance Society.—As required under the Indian Insurance Act (IV of 1938) the accounts of the society were closed at the end of the calendar year 1939. During the half-year ended 31-12-1939 the society received 1,464 proposals for Rs. 13.11 lakhs, of which 1,438 proposals for Rs. 12.74 lakhs were accepted. The total number of policies issued up to the end of the half-year was 11,805, for Rs. 100.40 lakhs; of these 8,207 policies for Rs. 70.55 lakhs were in force at the end of the half-year. The Life Assurance Fund at the end of the half-year was Rs. 4.85 lakhs.

The Triplicane Urban Co-operative Society, Madras.—The Triplicane Urban Co-operative Society had, as in the previous year, 29 branches in the City of Madras. Its membership rose from 5,943 to 6,128 during the year, and the value of the goods sold by it from Rs. 8.76 lakhs to Rs. 9.64 lakhs. The net profit earned also increased from Rs. 19,213 to Rs. 27,127. The increase in transactions by about 11 per cent was satisfactory.

The Madras Co-operative Milk Supply Union.—The Madras Co-operative Milk Supply Union purchased during the year, from the 14 milk supply societies affiliated to it, 688,120 measures of milk worth Rs. 2.21 lakhs and sold to the public 650,656 measures for Rs. 2.67 lakhs. The unsold milk was converted into milk products and sold for Rs. 0.16 lakh. Compared to last year, the quantity of milk sold increased by 32,749 measures and the quantity of surplus milk decreased by 11,649 measures. There was, however, a slight fall in the profit earned by the society, from Rs. 13,915 to Rs. 10,556. The milk required by seven State Hospitals in the City is now supplied by the Union. Milk is distributed to the public through 44 depots located in important consuming centres. Recently, the Union has opened a Milk Bar in Mount Road.

Non-Credit societies.—The following statement gives a summary of the transactions of some of the chief types of non-credit societies:—

SALE SOCIETIES

Year	Number of members	Loans issued during the year	Value of stock at the beginning and that received during the year	Value of stock released without sale	Value of stock sold	Net profit	Net loss
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
		IN LAKHS. IN LAKHS. IN LAKHS. IN LAKHS.					
1937-38	18,936	62.12	107.59	32.76	24.72	47,267	9,875
1938-39	27,548	95.86	179.05	52.13	45.87	43,463	11,482
1939-40	36,787	107.30	230.52	97.27	56.82	66,956	19,596

MILK SUPPLY SOCIETIES

Year	Number of members	Value of milk produced	Value of milk sold	Net profit	Net loss
		Rs.	Rs.	Rs.	Rs.
1937-38	.. 1,199	1,89,382	1,90,950	464	1,580
1938-39	.. 1,613	2,69,777	2,73,612	1,082	986
1939-40	.. 3,082	3,79,620	3,89,779	2,984	1,168

MILK-SUPPLY UNIONS

Year	Number of members	Value of milk purchased	Total value of sales effected	Net profit	Net loss
		Rs.	Rs.	Rs.	Rs.
1937-38	.. 22	2,05,346	2,58,052	3,569	2,046
1938-39	.. 53	2,88,198	3,44,838	3,396	1,093
1939-40	.. 118	3,91,346	4,73,348	5,800	1,890

STORES

Year	Value of goods on hand at the beginning and those bought during the year.	Value of goods sold	Net profit	Net loss
	Rs. (IN LAKHS).	Rs. (IN LAKHS).	Rs.	Rs.
1937-38	.. 22.80	21.60	54,598	10,951
1938-39	.. 25.03	23.77	68,003	12,062
1939-40	.. 39.46	35.62	83,972	15,835

STUDENTS' STATIONERY STORES

Year.	Number of Members		Number of Associates	Value of books, etc., sold.	Net profit	Net loss	
	Students	Teachers					
1937-38	..	2,900	1,400	8,260	Rs. 1,14,807	Rs. 9,609	Rs. 849
1938-39	..	3,976	1,588	10,251	1,72,934	13,650	1,351
1939-40	..	3,846	3,566	17,589	2,45,344	17,110	2,138

WEAVERS' SOCIETIES

Year	Value of raw materials purchased	Value of finished products sold to the public	Net profit	Net loss
	Rs.	Rs.	Rs.	Rs.
	(IN LAKHS)	(IN LAKHS)		
1937-38	.. 2.00	4.31	13,361	12,266
1938-39	.. 3.22	7.37	16,319	27,348
1939-40	.. 4.84	11.19	39,378	34,161

BUILDING SOCIETIES

Year	Number of members	Loans from Government outstanding (in lakhs)	Number of houses completed		Loans from Govt. outstanding (in lakhs)	Value of houses		Net loss	Net profit
			During the year	Up to the end of the year		Completed	Under construction		
		Rs. (IN LAKHS).				Rs. (IN LAKHS).	Rs. (IN LAKHS).	Rs. (IN LAKHS).	Rs. (IN LAKHS).
1937-38	.. 4,462	17.97	1,939	132	138	75.84	4.47	0.53	0.06
1938-39	.. 4,583	20.36	2,071	244	169	78.18	3.58	0.55	0.08
1939-40	.. 4,647	21.67	2,199	194	104	80.16	2.46	0.83	0.08

Sugar-cane growers' societies and unions.—The Sugar Excise Subsidy Scheme for helping sugar-cane growers was in 1939-40 in operation in Vizagapatam, Kistna, East Godavari, Bellary and Coimbatore. The Vuyyur Sugar-cane Growers' Union in the Kistna district with a membership of 724 issued loans to members for Rs. 2.42 lakhs and distributed to them fertilisers worth Rs. 1.06 lakhs. The union acted as a feeder society to the Vuyyur Co-operative Agricultural, Industrial and Credit Society. This society worked its factory for 77 days in the year and produced 4,505 tons of sugar at a cost of Rs. 10.34 lakhs. It sold sugar for Rs. 8.44 lakhs and had stock in hand valued at Rs. 10.26 lakhs. The net loss of the society which stood at Rs. 2.95 lakhs at the end of the previous year was reduced to Rs. 1.22 lakhs. The Hospet Sugar-cane Growers' society in Bellary issued loans to members to the extent of Rs. 19,056, and the members of the society sold to the India Sugars and Refineries, Limited, sugar-cane worth Rs. 1.32 lakhs. The Kirlampudi Sugar-cane Growers' Society in East Godavari granted loans totalling Rs. 89,741 and helped the members to bring 1,700 acres of land under intensive cultivation. The Coimbatore Sugar-cane Growers' Union issued loans amounting to Rs. 21,652 and also marketed sugar-cane and jaggery worth Rs. 25,139. A

sugar factory on co-operative lines has recently been registered at Coimbatore. The Mangalore Sugar-cane Growers' Society sold jaggery worth Rs. 11,109.

Consolidation of holdings societies.—There were altogether 22 societies of this type in 13 districts. A special staff of Inspectors recruited from the Revenue Department was working in the districts of North Arcot, Trichinopoly, Nellore, West Godavari, Anantapur and Ramnad. In North Arcot 234.01 acres consisting of 1,009 plots were consolidated. While the minimum holding before consolidation was 0.01 acre, it was 0.14 acres after consolidation. The number of persons who resorted to consolidation was 112. Not much progress was made elsewhere, the total extent of land consolidated in all the other districts being only about 142 acres.

Rectification work.—The work for the improvement and revival of co-operative societies started in previous years was continued. A comprehensive programme of reconstruction in respect of each central bank in the Province was drawn up by the District Officers in consultation with the banks concerned, the following being the most important features of the programme:—

- (1) Intensive rectification work in societies involving an examination of loans and the obtaining of additional security, wherever the loans were found to be on inadequate security.
- (2) recovery of overdues, reconstitution of panchayats, where necessary, and revival of societies by admission of new members, grant of fresh loans etc.;
- (3) grant of suitable concessions to defaulters, where possible and necessary, with a view to induce them to repay their dues;
- (4) disposal of land which had come into the possession of societies in the course of execution proceeding taken against defaulters; and
- (5) initiation and development of schemes like controlled credit, forecast loans, etc.

For effective and concentrated work, each district was divided into three areas and each of these areas was placed in charge of an officer, one under the Deputy Registrar, another under the Co-operative Sub-Registrar and the third under the Executive Officer of the Central Bank. Wherever possible, the departmental staff for administration work were also entrusted with a few societies each for rectification work.

The progress made by the central banks in this scheme of intensive overhauling is indicated below:—

(1) Number of Societies in which examination was conducted	..	5,871
		Rs.
		(In lakhs).
(2) Total amount of loans, including interest, involved in them	..	192.48
(3) Of the above sum, the amount which stands on adequate security	153.48	
(4) The amount which stands on inadequate security	..	39.28
(5) Of the sum in (4), the amount—		
(a) for which additional securities were taken	..	2.28
(b) the amount collected	..	2.30
(6) Balance ill-secured	..	34.70
(7) Estimated bad debts in these societies	..	22.61
(8) Of this, the amount that will affect the central banks	..	6.53
(9) Amount of loans collected during rectification work	..	21.77

Certain central banks undertook a re-examination of the loans in societies with a view to collect fresh data, and this fact accounts for the decrease in the number of societies tackled and the amount of loans examined, compared with the figures of the previous year. In contrast to the practice adopted in previous years, the figures shown in the above statement in respect of collections effected and additional securities taken represent only the progress made during the year. The loans collected and the loans for which additional security was obtained amounted to 11.7 per cent of the total loans which stood on inadequate security. Considering the up-hill nature of the task, the progress made cannot be said to be poor; but much more remains to be done.

Inclusive of loans due from societies under liquidation, the total bad and doubtful debts as estimated in the last audit amounted to Rs. 40.77 lakhs. The Bad Debt Reserve of the bank amounted to Rs. 19.59 lakhs, while their statutory Reserve fund amounted to Rs. 34.67 lakhs. Both the reserves put together greatly exceeded the aggregate bad and doubtful debts.

One important question that was considered in connection with the improvement of the general financial condition of central banks and societies was the question of 'margin.' For some years, banks and societies have been following a policy of reducing their lending rates. It seemed as though far too much emphasis had been laid only on the desirability of affording the maximum relief to agriculturists and that due consideration had not been paid to the stability and interests of the financing institutions. In fact, in some cases, societies were found to be working on quite inadequate margins. The need for improvement in this respect was recognized by the Committee on Co-operation, and the Conference of Deputy Registrars and Central Banks held during the year, and Government also observed that no steps should be taken to force down the rates to a level which would jeopardize the interests of the financing institutions. I have accordingly advised central banks and societies that they should try, as a general rule, to maintain a margin of 2 per cent between their borrowing and lending rates.

I have also suggested that societies may re-introduce the provision in their by-laws for the levy of a slightly higher rate of interest (say $\frac{1}{4}$ pie per rupee per mensem) on overdue instalments of principal. In my opinion, there should be a distinction between a member who is regular in his repayments and one who is not, and I believe that the levy of a higher rate will be a preventive against wilful default.

Supervision.—The primary societies were grouped for purposes of supervision under different agencies as shown below:—

Affiliated to local supervising unions	..	8,801
Affiliated to Central Banks	..	1,692
Under the Fisheries Department	..	54
Under the Special Police Officer for Kallars	..	261

The supervision of the large majority of the societies continued to be in the hands of the local supervising unions. There were 252 unions at the end of the year. The Central Banks continued to pool and administer the Supervision Fund. The amount at the credit of the District Supervision Fund at the beginning of the year was 0.46 lakh. The Supervision Fund collected from societies amounted to Rs. 1.42 lakhs, and the Supervision Fund paid by the Central Banks in accordance with their

180 THE INDIAN CO-OPERATIVE REVIEW (JAN.—MAR. 1941)

assisted by an able Executive Committee. Government wish to record their appreciation of this excellent work. The working of the Primary Land Mortgage Societies was also satisfactory on the whole.

Out of 168 societies brought under liquidation till the end of 1939-40, proceedings were completed in 11 cases leaving a balance of 157 at the end of the year. Though liquidation is a slow process as explained by the Registrar, the disposal of only eleven cases out of 168 cannot be regarded as satisfactory. The liquidators appointed for these societies should see that the proceedings are not unduly prolonged but are brought to a close as early as possible. The officers of the Department should keep a close watch over the progress of the proceedings with a view to speed up disposal of cases.

There was some improvement in the disposal of disputes by the officers of the Department and arbitrators. Attempts should be made as far as possible to dispose of expeditiously the old disputes as the pendency of such disputes for long periods will be detrimental to the interests of the societies. The number of decisions executed this year is less than that of last year and works out to nearly 29.5 per cent leaving a balance of 70.5 per cent pending execution. This is by no means satisfactory considering that temporary establishment of eleven special Revenue Inspectors has been appointed in several districts to speed up execution work. Government have been repeatedly pointing out that the prompt execution of decrees leading to the speedy recovery of amounts due is essential in the interests of the financial working and development of the societies and have stressed the necessity for the co-ordination of the efforts of the officers of the Revenue and Co-operative Departments in attaining this object. It is hoped that more strenuous attempts will be made for the expeditious disposal of the pending cases and to the speedy recovery of the amounts due to the societies. The work of reconciliation of the figures of pendency of the execution of decrees between the Revenue and Co-operative Departments should receive special attention and the figures got reconciled before the end of the current year and not allowed to drag on indefinitely. Though there is improvement in the recovery of court fees during the year, the balance to be recovered is still heavy being Rs. 29,451. Vigorous attempts should be made to reduce this balance.

The Mysore Co-operative Institute continued its training classes for the benefit of the office bearers and employees of co-operative societies and others. The grant to the Institute by Government has since been increased from Rs. 500 to Rs. 750. It is hoped that the Institute will undertake in a greater measure the work of propaganda for inculcating the principles of co-operation particularly among the rural population and educate the masses to understand and to take advantage of the benefits accruing from the co-operative movement.

The following are the concluding remarks of the Registrar:—

As usual the Urban Co-operative Movement has fared better than the societies in the rural areas. In fact, excepting the Land Mortgage Societies, which have again recorded an appreciable progress, there has not been much improvement in the other rural credit societies. More societies had to be placed in liquidation sooner or later. There has not been much demand for loans from the Apex Bank from rural co-operative societies, though it was expected that the introduction of the Moneylenders' Act would pave the way for fostering and developing the rural

credit agencies like the Co-operative Societies. The most important work that the societies were engaged in was the problem of recovery of the old dues by the adoption of coercive processes. Attempts made to liquefy the frozen debts and revitalise the indebted societies have been successful to some extent and the recoveries to the Apex Bank have improved considerably. Grant of a large number of instalments for repayment of the consolidated dues and enforcement of the punctual repayment of such instalments in the same way as in the case of the Land Mortgage Societies, at least in the case of long term loans granted by the Apex Bank through the rural societies, requires consideration. The future lines of advance in respect of Agricultural Co-operation are to my mind the expansion of the Land Mortgage Scheme and the development of the marketing of agricultural produce. These are steadily kept in view and an accelerated programme of work has been undertaken. A society for the sale of areca at Shimoga and another for the sale of fruits at Belur, a third for the sale of honey at Saklespur and another for sale of coconuts at Nuggihalli have been organised. The Ganjam Figs Marketing Society has shown further development. A society for the sale of paddy in the centre of the paddy growing area in the Mysore District is under contemplation and investigations therefor are proceeding. The working of these institutions will have to be watched before fresh ground is attempted to be covered.

CO-OPERATIVE CONFERENCES AND MEETINGS

THE ELEVENTH LAND MORTGAGE BANKS' CONFERENCE,
MADRAS, 4TH JANUARY, 1941

Extracts from the Opening Address of H. M. Hood, Esq., C.S.I., C.I.E., I.C.S.,
Adviser to His Excellency the Governor of Madras:—

I welcome the opportunity to say more publicly some of the things which I have mentioned individually to a few gentlemen connected with the Land Mortgage Banks.

Mr. T. A. Ramalingam Chettiar has referred to the position arising out of the War. The Industrial development of Madras is not being neglected. During the past year the investigation of mineral resources has been augmented and will shortly be increased further by more Geologists. A report on the Gold in the Wynaad was recently published and reports on other minerals will follow. I look to the development of these natural resources to improve our general industrial and economic position, particularly in those localities which are not very favourable to agriculture.

At the same time we are doing all we can to secure an increasing volume of orders for military supplies and in this we rely on the enterprise of our industrial leaders to take the fullest advantage of the present opportunities. The war has naturally resulted in cutting off many markets and some peace time products have slumped. Some substitution of crops is indicated and modification of production is necessary to meet new requirements.

I should like to refer to certain rumours and tales that received some currency recently with regard to the Taluk Committees formed by Government for the purpose of publishing what they considered fair retail prices in bazaars and of steadying the retail markets. We have been anxious that there should be no profiteering and that dealers should not exploit a local or temporary scare to push up prices but throughout there has been neither effort nor intention on our part to restrict the prices which the agriculturist may obtain for his produce. There has been complaint in the towns that the cost of rice has risen, but taking the Presidency as a whole it appears to me to be good that the agriculturist should earn a little more by his labours.

Mr. Chettiar mentioned a request to Government to increase the sum placed at the disposal of the Central Land Mortgage Bank to cover the issue of debentures. I am afraid that the public purse is a shallow one compared with the demands on it and we have not been able to comply fully with the Bank's request but the provision we have made will, I believe, be ample to tide the Bank over the remaining months of the year without any embarrassment. And with regard to an increase in the amount of debentures guaranteed by the Government you are aware that that figure at present stands at 250 lakhs. I think you will all appreciate the fact that, placed as the present Government is on a temporary pedestal, it is unlikely that it will enter into commitments which may extend long after its own lifetime. But equally you may be assured that we will not let you down.

Your President has referred to the successful working of the Land Mortgage Banks, and it gives me the most lively pleasure to know that in spite of the constant vagaries of what a humourous world calls our climate, repayments have been satisfactory and the financial position of our banks is sound. I am confident that it will remain sound so long as the true function of these banks is appreciated—so long as the well being of the bank is without reserve the continued, first and vital concern of the management.

In regard to the Land Mortgage Banks' lending rates I think, in view of what has been said, that I may usefully place a certain point of view before you. When in 1923 I sat down at the Registrar's table, it required a very short time to realise that a number of serious practical problems had to be tackled at once. The voluminous literature on the benefits which it was sought to reap had to wait and it was best to leave the theorising and the insistence on moral benefits to those who had a flair for it. In this view I was confirmed by some study of the history of the movement. Co-operative Societies were devised to meet the hard practical difficulties of many poor people. The first object was purely economic. The moral effects of action and loyal participation in co-operative societies were discovered later and were never the original aim. I do not wish for a moment to belittle those advantages or the uses which we may make of co-operative societies for purposes other than material ones and these secondary results provide further justification for the Government to foster the movement, but what I wish to emphasise is that they flow naturally from the economic effects which it must be our first concern to produce. The results will follow if we tackle the economic problem successfully on co-operative lines. I have been accused of being unsympathetic. I plead not guilty unless it is unsympathetic to insist that a society formed for business purposes with the help of other people's money shall be run on business lines on a basis which ensures permanence. We shall not solve any economic problem, much less will any other advantages flow from a co-operative society unless it is a successful one and, in fact, if we are to produce any lasting effects at all we must look first and foremost to the society itself. Our first concern is to produce economic advantages. For that we must be quite sure beyond any doubt that a co-operative bank itself is in an unassailable position. Not just reasonably safe but so secure that it will continue to command such confidence in the public that they will readily put their money in it at low rates of interest. This is particularly true of Land Mortgage Banks. It is good to be able to lend money to agriculturists for long terms at low rates of interest and that is our object. But the question is not what rate can the ryot conveniently pay? The question is at what rate can the Bank safely lend? At what rate can it safely lend and be sure of going on lending. Too many people are urging that the immediate advantage of the ryot is the first consideration but if those kindly philanthropists had their way the movement would soon be in difficulties.

This is my answer to Mr. Chettiar's remark that the increase in the rate of interest may work some hardship to the ryot. I do not gainsay what he says. It may be rather hard on the ryot but it will be harder if the bank has to borrow at higher rates and it will be harder if the bank has to suspend loans through inability to float more debentures. For this reason it must work with an ample margin and build up its reserves for you will realise that in borrowing at 3½ per cent. and lending to primary banks at 5 per cent. and building up a sinking fund which it can only reinvest at about 3 per cent. to provide a sufficient sum to repay debentures on maturity, the margin is on the whole only about ½ per cent.

It is entirely in the interests of the bank and therefore ultimately of the ryot that we urged the bank to increase its rate of interest on loans. You may think me unduly cautious. The bank has been running for 10 years and there has been no difficulty at all. There have been bad years for the agriculturists but the repayments have come in and the position of the bank is sound. But loans are for 20 years and I suggest that the second 10 years when many more of the original borrowers have passed away may not be quite so easy as the first ten. This appears to me to afford another reason for added caution and for increasing your reserves.

There is another matter to which I should like to refer. It is this. The banks are lending to ryots on a system of equated annual repayments. The amount of annual repayment is less as the term is extended. At first this fall in the amount is large but when one goes further the amount of reduction of the annual payment becomes less. On the other hand the total amount repaid becomes more and more. When one repays in 15 years the annual repayment is about 110 on a 1,000 loan. If the period is extended to 20 years the annual payment is nearly 100 but the total repaid is much greater when the period is extended from 15 to 20 years. Is it really of much advantage to the ryot to extend the period to 20 years, involving a greater total repayment in order to reduce the annual payment by so small an amount? I should like you to ponder on this aspect of your business and I will only remark that it is in the bank's interest that loans should not be longer than is quite necessary.

Extracts from the address of Sri T. A. Ramalingam Chettiar, M.L.C., President, Madras Co-operative Central Land Mortgage Bank, Ltd.

We have passed through a year of great strain and apprehension. The European war has been extending and its effect is being felt increasingly in this country. The loss of the markets for our produce has affected seriously the agriculturists of our province. The immediate future is not very bright so far as the economic position of the ryots is concerned. The war boom that was expected has not been realised. On the other hand, the prices of most of the commercial crops have gone down. The fact that in spite of these disturbing elements and the political turmoil, India has been able to maintain a fairly stable financial equilibrium is a great tribute to the economic position of the country. Unless adequate steps are taken to find markets for our produce or utilise them in our own country by developing the industries, our position will become difficult. While we have to press on the Government and responsible non-official agencies to take up the questions of industrial organisation and export seriously in hand, our ultimate security and development will depend on the speedy termination of the war and the success of the Allies.

The work of the Land Mortgage Banks was hampered by fear of financial instability at the beginning of the war. The Government who insisted on our adopting the method of floating debentures in lump sum once or twice a year and offered to give advances during the interval, went back on the arrangement and stopped the advances. They further insisted on our floating debentures to pay off their dues. The result of this was that from the beginning of October to the end of December 1939 all lending had to be stopped. This affected the primary banks and the borrowers, who were expecting loans in the usual course, very seriously. Complaints poured in that the borrowers were being harassed by creditors and that their properties were being brought to sale. The Govern-

ment were pleased to modify their order by allowing us to draw up to Rs. 15 lakhs in January, February and March and Rs. 45 lakhs in the current year ending with 31st March 1941. They subsequently allowed us to draw Rs. 3 lakhs more in March. They also allowed us to float debentures in dribbles so that we may have an open series of debentures for subscription always, so that those who want to invest may at any time apply for debentures and get them allotted. This was the old method we followed. The Government have also made a condition that our dues to them at the end of the year should not exceed what it was at the beginning of the year. The Land Mortgage Banks are very much indebted to the Government for the orders passed and I am glad to convey to Mr. Hood in person to-day our gratitude for this speedy and substantial help he has given to the movement.

I am very glad to inform you that there has been a very satisfactory response to the issue of our debentures and we have been able to carry out not only the conditions imposed by the Government but also to pay off some of the dues maturing later. I want to take this opportunity to thank the Inspector of Local Boards and Municipalities and the Registrar of Co-operative Societies whose help in getting subscription for our debentures was very valuable.

While the Government wanted to limit the maximum amount of our drawing, we were not also sure that we will be able to repay the amount we were allowed to draw in the course of the year. So, the limit of Rs. 45 lakhs was fixed for the transactions of the current official year. We had to stop lending larger sums than Rs. 5,000 to one individual, so that the money available may be lent to a larger number of the poorer people. We now find that even so, the Rs. 45 lakhs the Government agreed to allow us to draw, will be exhausted in the course of this month and for February and March, there will be no resources available under the agreement for financing loans. We requested the Government to raise the maximum limit of our drawing and I am happy to say that we have received the order of the Government allowing us to draw Rs. 7 lakhs more during the current year. With this additional resource we will be able to meet the needs of February and March.

The guarantee given by the Government for the debentures floated by the Central Land Mortgage Bank was raised from Rs. 200 lakhs to Rs. 250 lakhs in the year 1939. The limit of Rs. 250 lakhs will be reached very soon. We have, therefore, requested the Government to raise this limit by another two crores. In spite of the fact that there were no loans disbursed for about 3 months on account of the Government order referred to and the fact that the maximum limit of loans was reduced to Rs. 5,000 and some of the banks newly started had not begun to do business, the loans sanctioned during the last year amounted to over Rs. 46 lakhs. A number of new banks have been started, the transactions of which are likely to increase. A few more banks are also likely to be started in the course of this year and the next. In a full year if all the banks work efficiently and the maximum limit of loans is raised to Rs. 10,000 as before, we would require about seventy-five lakhs for lending. It is on this basis we have asked the Government to raise the limit of their guarantee by another two crores, so that we may not trouble them again for some time and we may also be sure of steady and stable advance during that period. The Government were particularly interested in the margin between the borrowing rate and the lending rate of interest of the banks being raised with a view to build up speedily a big reserve so that the bank may be in a position to dispense with the guarantee of

the Government as soon as possible. Our arguments contra were of no use. The Board of Management has at its last meeting agreed as a matter of necessity to work with a margin of 3 per cent. as desired by the Government. While the present rate of interest to the ultimate borrower is 6 per cent, for moneys lent out of debentures raised under cover of the guarantee to be extended, the rate will have to be 6½ per cent, with the present 3½ per cent. interest paid on our debentures. I have informed the Government that in case we have to pay a larger interest for our debentures, the position may be reconsidered. I hope the Government will pass early orders in the matter and extend the guarantee for the debentures by two crores as requested by the bank. While I am aware of the scanty return received from agriculture and the position of the ryots, and the fact that in several deltaic areas the rate of interest for private transactions is as low as 6 per cent. I can see no way beneficial to the borrowing ryots except agreeing to the condition insisted upon by the Government, as we will have to pay very much more by way of interest in the open market if there is no Government guarantee, and I am also very doubtful whether we will be able to raise all the money we require even at the enhanced rate of interest without the guarantee. It became, therefore, necessary to accept the condition even though it is likely to work some hardship to the ryots borrowing from the primary banks.

In addition to the difficulties created by the war, the vagaries of the monsoon have also contributed to the troubles of the ryots. Draught in some parts of the country and floods in some other parts created trouble. In spite of everything, I am happy to say that all the primary banks in the province have paid off their dues and there are no arrears due to the Central Land Mortgage Bank. But in some of the primary banks, there are large arrears due from the members. In many of these cases, the arrears were due to the fact that the original borrowers alienated their properties without the permission of the banks concerned contrary to their agreement and the loans had, therefore, to be closed. It is becoming a serious question in many of the banks that this practice of alienating properties by subsequent mortgage or sale is increasing. The subsequent alienation defeats the object for which Land Mortgage Banks are working, viz., the redemption of the borrower. It also creates complications and troubles. The idea of thrift vanishes and there will be no use in computing the repaying capacity of borrowers when the alienee takes the liability of repayment. This is a serious question which will have to be tackled. I request the conference to consider it and give a proper lead.

While the number of banks has increased, it cannot be said that all the areas in the province are adequately or efficiently served. It may be claimed that all the areas irrigated by canals, tanks or wells are served more or less efficiently according to the enthusiasm and work put forth by the bank officials in the localities. The areas where irrigation facilities are wanting are not, and I fear, under the present arrangement, cannot be adequately served by the Land Mortgage Banks. It is a serious question to be considered how far and under what conditions land mortgage banks can lend money on the security of purely rainfed lands. It has also to be recognised that rainfed lands are not to be treated in the same way in all localities. While most of the Presidency is covered by the banks already started, a few more banks will be necessary to completely cover the province. There is a loud complaint from the banks that the Co-operative Sub-Registrars are not able to cope with the work allotted to them, as in several areas the three or four banks allotted to each Co-operative Sub-Registrar are too

much. The number of Co-operative Sub-Registrars will have to be increased if the loan applications are to receive prompt attention.

The number of banks working at the end of the year was 119 and the total amount of loans actually disbursed before the end of the year was Rs. 42,81,940 as against Rs. 58,52,865 disbursed during the previous year.

The following are some of the resolutions passed at the Conference:—

1. This Conference requests the Government to furnish encumbrance certificates to Land Mortgage Banks from the time of block survey as the present practice of giving encumbrance certificates for the past 24 years would not facilitate proper enquiry into the title of the applicant for the loan applied for in the primary land mortgage banks.

2. Authenticated copies of records of the P.L.M. Bank and C.L.M. Bank in pending and disposed of loan files relating to their own transactions be supplied to members on payment of 2 annas per hundred words.

3. The Government be requested to make early provision to secure the grant of pattas by Zamindars.

4. Resolved again to request the C.L.M.B. to consider the jenmam lands which are subject only to the payment of water-tax to Cochin Government or anybody else under a registered contract creating a charge on the property for the said tax as superior jenmam lands because of the assurance of crops on them and therefore to take such lands as jenmam lands free of encumbrance for the purpose of advancing loans, the only condition necessary being that the debtor should produce the water-tax receipt every year as in the case of revenue and Michavaram.

5. This Conference resolves that the percentage of loanable amount may be raised in the case of Tea, Coffee and Potato lands from 35 per cent. 30 per cent. and 30 per cent. to 50 per cent. 45 per cent. and 40 per cent. respectively, particularly in view of the steady rise in the prices of tea export quota, coffee and potatoes in the Nilgiris and

that fruit gardens in the Nilgiris may be valued on the same basis as in other districts in the plains. "Referred to the Board."

6. This Conference is of opinion that the new remittance facilities in India and Burma introduced by the Reserve Bank of India are highly detrimental to the successful working of the primary banks in as much as the free remittance transfers through the Imperial Bank of India are discontinued and a levy of exchange is resorted to. This conference therefore urges on Government of Madras and the Reserve Bank of India to restore the former facilities having regard to the infancy of the primary banks among other credit Societies.

Resolved that the C.L.M.B. be requested to bear the cost of remittance to the bank while the bank bears the fees for remittance to the C.L.M.B., until the charges are abolished.

This Conference resolves that the C.L.M.B. be requested to open current account with the District Co-operative Central Banks so that the remittances to the primary banks by C.L.M.B. and by the primary banks to C.L.M.B. may be made at the District Co-operative Central Banks and thereby save both the

primary banks and the C.L.M.B., lot of remittance transfer fees, and save inconvenience and delay also.

7. This conference resolves to fix the following dates for payment of the instalments due to the C.L.M. Bank from the P.L.M. Banks.

1. 15th February
2. 15th May
3. 15th August
4. 15th November

} It is left to the option of the borrower to choose any one of the concerned due dates.

8. Resolved to request the Government to allow amendments to by-laws providing for setting apart a portion of the profits for a building fund.

9. This Conference is of the opinion that the existing practice of special reserves to be merged in the working capital of the bank is unhealthy and therefore suggests to the Registrar to propose suitable amendments to the by-laws so that all special reserves shall be invested in the same manner as the Reserve fund either in the Central Land Mortgage Bank or in such other manner as the Registrar suggests from time to time.

10. Whenever the applicants are required to effect sub-divisions the revenue authorities may be requested to effect sub-divisions at the Government's cost as to avoid the unnecessary expenses to be incurred by the applicants and to avoid the delay in the disposal of loan applications.

11. The Conference recommends to the Registrar of Co-operative Societies to organise a Crop Loan and Sale Society at the headquarters of each Land Mortgage Bank as much difficulty is being felt by our borrowers to repay their instalments and had to sell their produce off hand at a low price in view of emergency without retaining the produce for sale at a high price.

THE MYSORE PROVINCIAL CO-OPERATIVE APEX BANK LTD.

Silver Jubilee Celebrations, 2nd March 1941.

MESSAGE OF HIS HIGHNESS THE MAHARAJA OF MYSORE

I am directed by His Highness the Maharaja to send you a message of good wishes on the completion of twenty-five years of working of the Mysore Provincial Co-operative Apex Bank. In common with the rest of the Co-operative Movement in the State, the Bank has endured many vicissitudes during the past quarter of a century and has still anxious questions to face, but His Highness sincerely hopes that it has seen the worst of its troubles and has a career of uninterrupted prosperity before it in the years to come.

C. TOD HUNTER

Private Secretary to His Highness.

Welcome speech of Lokasevasakta C. S. Kuppaswamiengar, President of the Bank

"Some ten years after the introduction of the Co-operative Movement in the State in 1905, it was felt that there should be a Central Financing Agency formed and managed by the Primary Co-operative Societies and worked solely for their

benefit. It was also considered desirable that the audit and supervision of such societies, and to a smaller extent co-operative propaganda generally, should be undertaken by such a central financing agency. To meet these needs, the Mysore Provincial Co-operative Bank was established in November 1915.

Strong doubts were expressed at first about the success of such an institution. But thanks to the sympathetic interest of Their late Highnesses, Maharaja Sri Krishnaraja Wadiyar Bahadur and Yuvaraja Sri Kantirava Narasimharaja Wadiyar Bahadur and the Government of His Highness the Maharaja, and the enthusiastic efforts of official and non-official workers in the cause of co-operation, the Bank has made steady progress. It is no exaggeration to say that the Bank owes its existence chiefly to the efforts of Mr. M. A. Narayana Iyengar, B.A., B.L., (now Swami Srivasananda of the Sri Ramakrishna Math), who was the Registrar of Co-operative Societies in 1915.

Within two or three years of its formation, the work done by the Bank proved that it met a real need. At the close of the year 1915-16, it had a membership of 308 societies and 504 individuals, its paid-up capital was Rs. 53,932, its deposit Rs. 1,25,500 and its loans Rs. 2 lakhs. In ten years, its membership had increased to 527 societies, while its paid-up capital was Rs. 1.47 lakhs, deposits Rs. 4.87 lakhs, loans Rs. 5.72 lakhs and Reserve Fund Rs. 40,331.

As has been mentioned already, the main object for which the Bank came into existence was to finance the Co-operative Societies in the State. It has so far lent over Rs. 57.63 lakhs to its affiliated societies, most of which are Rural Agricultural Societies. The loan policy of the Bank was, indeed, liberal when economic conditions were good. The Management of the Bank has never hesitated to render assistance to the societies in every deserving case. But since the world-wide economic depression, which set in after 1930-31, the Bank has been following a policy of cautious restriction in the issue of loans to them. The rates of interest on loans have steadily decreased and the advantages of lower rates of interest prevailing in the money market have been passed on to the borrowing societies. In the earlier years, the rates of interest on loans ranged from 7½ to 9½ per cent. For some years past, the maximum rate charged has been 7½ per cent. Loans granted for current agricultural operations are charged only at 5 per cent while the loans to House-building Societies are at 5½ per cent.

"The Movement has indeed been passing through a critical period in Mysore in common with other parts of India; and it cannot be expected that progress could well have been quicker than it has been." This was the observation made by the Mysore Committee on Co-operation, 1936, and it aptly applies to the position of recoveries of loans from indebted societies. Continued economic depression during the past decade adversely affected the repaying capacity of the borrowers of rural societies. The agricultural population suffers most of all from the heavy and prolonged slump in the prices of agricultural commodities and the phenomenal decline in land values which was further aggravated by a series of bad harvests. The consequent lowered capacity for repayment of debt materially contributed to the growth of overdues. Throughout these years, the Bank has taken the right and liberal attitude of foregoing penal interest chargeable on defaults, appreciably reducing the rate of ordinary interest, consistently with safety and granting extension of time in the case of societies which make honest efforts to keep to their obligations, though this has meant a reduction in the Bank's own receipts. The Bank has still kept open the offer to extend these concessions to all other societies that pay up at least their arrears of interest. Some 186 societies have so far

taken advantage of the concessions. The Management of the Bank have to admit with regret that the progress in the direction of recoveries during the past decade has not been as encouraging as it has been in other directions. But there is no need for alarm. The Bank does not occupy an isolated position in this respect. The position is the same or perhaps even worse in some of the British Indian Provinces. Energetic, prompt and sustained measures are being taken to speed up recoveries and the efforts of the last two years have not been in vain. The improvement in the situation has been distinct and the results are visible. The continuous increase of arrears during the past many years has been effectively checked and the percentage of overdues reduced. In spite of the adverse effects of the European war, the outlook for the future is fair and encouraging as could be judged from the results so far obtaining during this Jubilee Year. The Management takes this opportunity of assuring the share-holders, investors and the general public that no pains will be spared to improve and safeguard the stability of the Bank, so that it might continue to render the best of service to the Movement.

With the advent of the Land Mortgage Scheme in Mysore, the Bank had to restrict the grant of credit to societies on long-term basis, with the exception of loans granted to House-building Societies. Most of the loans granted by the Bank in recent years are for short periods, for current agricultural operations and for marketing of the produce grown by the members of the affiliated societies. There is a large scope in the State for extending marketing facilities to the villages. Crops, such as cardamom, areca, cotton, cocoanuts and copra, paddy and other food grains can be marketed on a co-operative basis on a large scale, thereby securing just and reasonable prices to the raiyats, whose profits are at present going mostly to middlemen.

It would not be out of place here to mention the assistance which the Bank has received from the Government from its inception. Such assistance has taken many forms. A cash credit of Rs. 1 lakh was sanctioned as early as 1916. In the year 1926-27, the Bank was recognised as the sole agency for utilising Government grants for the development of Agricultural Co-operation and House-building activities in the State. A sum of Rs. 15,000 at 4 per cent. interest has been placed with the Bank for advancing to Agricultural Societies, amounts necessary for the purchase of seeds, manure, and implements as may be required by the members of such societies and a sum of Rs. 1½ lakhs at 4½ per cent interest for financing House-building Societies in the State.

As recommended by the Mysore Committee on Co-operation, 1936, Government have sanctioned a cash credit of Rs. 5 lakhs to the Bank. Government have also made available from time to time the services of experienced officers of the Co-operative Department for the inspection and supervision of the societies indebted to the Bank. The Secretary of the Bank has been a whole-time Government Officer. A moiety of his salary and allowances and the pensionary contribution are met by Government. The travelling expenses of the two Official Liquidators of the indebted societies, which are under liquidation, are paid by Government. The financial and other support thus extended by the Government to the Bank have contributed not only to the development of the activities of the Bank but have helped also to raise its prestige in the public eye.

The relations of the Bank with the Co-operative Department have always been cordial. Successive Registrars of Co-operative Societies and other Officers of the Department have been uniformly kind and helpful to the Bank. I take this opportunity of expressing our appreciation of the services of Mr. Abdul Hukh,

Registrar, and other Officers of the Co-operative Department for the interest they have been evincing in the working of the Bank and of its indebted societies.

The present position, from the point of view of Share Capital, Membership, Deposits, Loans, Working Capital and Fluid Resources is as follows:—

	Rs.
Share-Capital:	
Authorised	.. 7 lakhs
Subscribed	.. 3.81 "
Paid-up	.. 2.49 "
Membership:	
Societies	.. 1,083
Individuals	.. 189
	Rs.
Deposits	.. 23.31 lakhs
Reserve and other Funds	.. 3.31 "
Loans due by Societies	.. 22.41 "
Gross Profit, 30-6-1940	.. 63,670
Net Profit	.. 34,312
Working Capital	.. 34.90 lakhs
Fluid Resources	.. 10.93 "

These are the achievements which the Bank has to its credit. The steady and unselfish labours of a host of the public-spirited gentlemen associated with it from the very beginning have rightly made the Institution the pivot of the Co-operative Movement in the State. In the past, in spite of adverse circumstances, this position has been filled with honour and success. Let us trust and pray that the future will be even more glorious.

Presidential speech of Rajamantrapravina K. V. Anantaraman, Member of Council, Government of H. H. the Maharaja of Mysore.

Your organization stands at the head of the co-operative movement in the State. On its efficiency, resources and out-look depends the success of the numerous primary Societies of different kinds scattered all over the State. The Bank has now completed twenty-five years of work. The first twenty-five years in the life of an institution are generally years of difficulty and anxiety and the inherent strength of the constitution is sorely tested. The report that has been read to us by the President of the Bank shows that it has had its critical years. Continued economic depression and a succession of poor harvests adversely affected the repaying capacity of the borrowers of rural Societies and the latter in their turn became defaulters in the payment of their dues to the Apex Bank. It is gratifying to note that as a result of concessions given to defaulting Societies, and of the energetic, prompt and sustained measures undertaken to speed up recoveries, the continued increase of arrears has been checked and the percentage of overdues reduced. I am glad to hear that the management considers the outlook for the future fair and encouraging.

The results of the working of the Bank during the Jubilee years are certainly satisfactory. The amount of loans recovered during the year was half a lakh

more than in the previous year. There has been a striking increase both in gross and net profits. The percentage of working expenses to gross profits has fallen by 11 per cent. With the increase in the prices of agricultural produce now apparent, I feel sure that the results in the coming years will be even more satisfactory than heretofore.

It is gratifying to note that the Bank has latterly undertaken the grant of loans for short periods for current agricultural operations and for the marketing of the produce grown by the members of the affiliated Societies. There are various crops which can be marketed on a co-operative basis on a large scale to the great advantage of growers. All interested in co-operation will be glad if greater activity could be developed in this direction.

You have referred with appreciation to the assistance and encouragement that you have received from Government and to the cordial relations that you have maintained with the co-operative department. May I assure you that Government have an abiding interest in the Bank and that in all the efforts that the management makes to improve and expand the activities of the Bank, it can count upon the sympathy and support of Government?

Looking back upon what you have been able to achieve during the last twenty-five years, you have every reason to be proud. 1063 Societies out of a total of 1891 have become members of your Bank. Reserve and other funds, to the extent of 3.31 lakhs, have been built up. Deposits have been attracted to the extent of nearly quarter of a crore of rupees. The working capital has increased to the extent of 34.90 lakhs. All this reflects great credit on the numerous public spirited gentlemen who have been associated with the working of the Bank. I wish the Bank all success and prosperity. May its business grow and its service to the primary societies increase! May it proudly fill for a very long time the responsible position that it occupies in the life of the State as the pivot of the co-operative movement in the State!

REHABILITATION OF THE CO-OPERATIVE MOVEMENT

BIHAR GOVERNMENT'S SCHEME

His Excellency the Governor and the Hon'ble Minister of Education, Development and Employment, speaking on behalf of Government at the Co-operative Federation Congress held at Patna on the 6th April 1938, declared the decision of Government to rehabilitate the Co-operative Movement as early as possible. In arriving at this decision Government had in view the importance of the Co-operative Movement in the rural economy of the province and its potentiality to provide cheap credit to the agriculturists on a large scale by utilising the surplus wealth of those who are willing to invest.

With a view to enable Government to judge the position of the Central Co-operative Banks, an intensive enquiry into the assets, liabilities and repaying capacities of members of co-operative societies was started in April, 1938. The enquiry has since been completed in 37 banks. Government also appointed a Co-operative Rehabilitation Committee, consisting of leading official and non-official co-operators of the province, to advise Government on all matters connected with rehabilitation. On the basis of the enquiries and in consultation with the Co-operative Rehabilitation Committee and the Hon'ble Mr. V. Ramadas Pantulu, a draft scheme of rehabilitation was prepared in the department.

The scheme was examined by the Congress Party in the Bihar Legislature. While endorsing the view that the co-operative movement should be rehabilitated and necessary financial assistance and support given to the Provincial Co-operative Bank, and for that purpose Government should assume such control of the Provincial Co-operative Bank as is necessary, they recommended that a Board of Experts should be appointed to assist Government in formulating the details of the scheme. On due consideration of the results of the enquiries, the recommendations of the Co-operative Rehabilitation Committee, the recommendations of the Congress Party in the Bihar Legislature and the report of the Board of Experts, Government are pleased to announce that they have decided to rehabilitate the movement and to lay down the following general policy:

I. **Extent of relief to members in respect of existing loans.**—The rate of interest on the outstanding loans of members should be reduced to 7 per cent as against the existing rates ranging from 9 to 15 per cent. The extent of indebtedness should be scaled down to what a member can be reasonably expected to pay in easy annual instalments over a period not exceeding 20 years. In agreement with the recommendations of the Co-operative Rehabilitation Committee, it has been decided that only those members whose repaying capacity is such as to enable them to pay at least the principal amount of the loan together with future interest at 7 per cent, over a maximum period of 20 years, should be retained. For this purpose the share capital of a retained member should be set off against his principal, leaving a nominal share of Re. 1. Those, who do not satisfy these conditions, or are otherwise uncreditworthy, should be eliminated. Provision has been made in the scheme for advancing small crop loans to retained members of reconstructed societies with a view to enable them to carry on their agricultural operations during

the period of repayment. Funds for future expansion on sound lines will also be provided.

II. Scheme of Reconstruction.—From the gross loss disclosed by the reconstructed balance sheet of a society, based on the data collected during the enquiry on the above principle and accepted by the Reconstruction Officer, all available owned resources of the society, other than the share capital as scaled down will be set off for the purpose of calculating the net loss to the financing bank. The owned resources other than the share capital of a central co-operative bank will also be similarly set off against the gross loss of a central co-operative bank for determining the net loss. It may also be necessary that the share capital of a deficit society should be deducted in calculating the net loss of the central bank after leaving the minimum of one paid up share for such society. In drawing up the reconstructed balance sheet, the assets and liabilities as they stood on the 1st of January, 1940, will be taken as the basis. The result of the enquiry into the banks shows that in most cases the gross liability, representing the total of share capital and borrowed capital, exceeds the net assets. The recoverable assets of a central co-operative bank may be broadly classified under two heads: (a) interest-bearing and (b) non-interest-bearing.

The interest-bearing assets of a central co-operative bank are derived mainly from the dues, estimated as recoverable, from retained members of reconstructed societies while the non-interest-bearing assets are based mainly on the dues, estimated as recoverable, from eliminated members, members of liquidated societies, lands held by societies and central banks, etc. There are, however, other interest bearing assets of central banks like loans to individuals, deposits in other banks, Government securities, shares, etc. The other non-interest-bearing assets include bank buildings in which the bank offices are accommodated, estimated value of stocks etc. As the estimated recoveries from eliminated members, members of liquidated societies, etc., amount in many cases to only a part of the principal dues; the assets represented by such estimated recoveries have been held to be largely non-interest-bearing during the period of recovery, which is not likely to exceed 5 years. The recovery of these non-interest-bearing assets will go to reduce the dues of the creditors.

III. Central Co-operative Banks.—The first essential is that the reconstructed balance-sheet should show the true state of affairs and that the net loss should be wiped off. The central co-operative banks and unions may be divided into three classes according to the incidence of loss:—

(A) Comparatively good banks in which the percentage of net deficit to gross liabilities is below 25 per cent.

(B) Banks in which the percentage of net deficit to gross liabilities is between 25 and 50 per cent.

(C) Bad banks in which the percentage of net deficit to gross liabilities is over 50 per cent.

The banks falling in groups (A) and (B) will ordinarily be reconstructed, those in group (C) being liquidated, but no bank even though included in class (A) or (B), will be reconstructed unless it is considered by Government otherwise suitable for reconstruction. If on due consideration of the position of a central bank, Government decide to reconstruct it, Government will give the following financial assistance:—

(1) **Contribution towards loss** (a) *Banks in Group (A).*—Where the reconstructed balance-sheet of a central bank discloses a loss equivalent to 25 per cent of the gross liabilities or less, the dues of its creditors will at once be reduced proportionately by a sum equal to 25 per cent of the gross liabilities or the actual amount of the disclosed loss whichever is less. The scaled down dues of the creditors will then carry future interest at 3 per cent in respect of principal only, except the portion that will be realised from non-interest bearing assets as explained in paragraph II. These banks will be those falling within class (A) and in their case Government will give no assistance towards meeting the disclosed loss.

(b) *Banks in Group (B).*—Where the reconstructed balance-sheet of a central bank discloses a loss in excess of 25 per cent but not exceeding 50 per cent of the gross liabilities, the proportionate loss of the Provincial Co-operative Bank will be written off in full, and the dues of the creditors other than the Provincial Co-operative Bank will be reduced by 25 per cent. Government will then agree to make a grant to cover the balance of the loss of the central bank, subject to the following conditions:

(i) An amount not exceeding 75 per cent of the grant to which a reconstructed central bank may be entitled will be paid as soon as Government's probable total commitment in respect of this grant is ascertained from local enquiries.

(ii) Subject to the conditions in (iii) and (iv) below, the balance will be paid after the non-interest-bearing assets have been collected and after Government have ascertained their actual total commitment in respect of this grant in all the reconstructed central banks.

(iii) The total grant to all rehabilitated central banks shall not exceed Rs. 12 lakhs, which excludes the share of the Provincial Co-operative Bank and is estimated to be the balance of the loss calculated at 15 per cent of the total gross liabilities of those reconstructed banks in which the percentage of the net loss to gross liabilities ranges from 25 to 50.

(iv) If the total Government contribution, calculated according to the conditions set forth above, is found to exceed Rs. 12 lakhs, payment to each central co-operative bank will be proportionately reduced and the balance of the deficit, if any, in the case of such central bank will be borne proportionately by all the creditors of the bank concerned.

(v) The balance of the scaled down dues of creditors, except the portion that will be realised from non-interest-bearing assets as explained in paragraph II, will bear future interest at 3 per cent in respect of principal only.

(vi) Any sum received by a central bank on this account will be utilised for payment to all the creditors, except the Provincial Co-operative Bank, on a *pro rata* basis.

(2) **Loans to central banks for part payment of creditors' dues.**—Government will advance to a reconstructed central bank, including a bank in class A, a loan not exceeding 50 per cent of the amount estimated as recoverable from retained members of reconstructed societies, subject to the following conditions:—

(i) (a) The loan will be paid through the Provincial Co-operative Bank and will be repayable within a maximum period of 20 years.

(b) Government will charge an interest of 3½ per cent to the Provincial Bank on the above loan and the Provincial Co-operative Bank will in its turn advance it to the reconstructed central bank at a rate of interest not exceeding 4 per cent.

(ii) In calculating the amount in respect of a reconstructed society, in which the amount due by the society to the Central bank is less than the estimated recovery from retained members of the same society, the amount of loan, based on the assets of such a society, shall be limited to 75 per cent of the amount which the society owes to the central bank or 50 per cent of the estimated recovery from retained members, whichever is less.

(iii) In the case of a central bank where the Provincial Co-operative Bank is one of the creditors, the proportionate share of the Provincial Co-operative Bank out of the loan will be deducted from the calculated amount for determining the amount to be actually advanced to the central bank.

(iv) The amount received by a central bank in respect of this loan will be utilised solely for the purpose of immediate repayment to all its creditors, other than the Provincial Co-operative Bank, on a pro rata basis.

(v) This loan will be fully secured on the assets against which it is advanced and shall constitute the first charge on these assets.

(3) **Funds for crop loans for members of reconstructed societies and for new societies.**—Government will take steps to provide, through the Provincial Co-operative Bank, Ltd., or otherwise, adequate funds at suitable interest to enable the reconstructed central banks to finance crop loans to members of reconstructed societies and of new societies organised on sound lines.

(4) **Management of reconstructed Central Banks.**—Government and the Provincial Co-operative Bank will maintain stricter supervision over the administration of the central co-operative banks. In the case of a reconstructed central bank where, in the opinion of Government, the management is not efficient and sound, a Committee of Management for such period as may be found necessary may be nominated by the Board of Directors of the Provincial Co-operative Bank with the approval of the Registrar. The appointment of the Manager of a reconstructed central bank will also be subject to the approval of the Provincial Co-operative Bank and the Registrar.

(5) **Annual subsidy.**—Economy and efficiency in management will be secured by amalgamation of reconstructed central banks as far as practicable. With the elimination of an appreciable number of members and with reduction in the margin between the lending and the borrowing rates, reconstructed central banks, even after amalgamation, may not be able to meet the cost of management out of their income for some years to come. An annual subsidy, equivalent to the difference between the cost of management according to a prescribed scale and the available annual recurring income will, therefore, be given to the reconstructed central banks for a period of five years.

(6) **Free Audit.**—Government also recognised that it will not be possible for the reconstructed primary societies and central banks to pay any audit fees for a number of years. The cost of audit will be met by Government for a period of five years and will have retrospective effect from the date of reconstruction, i.e., the 1st January 1940, on the acceptance of the scheme by a central bank declared to be fit for reconstruction. With the exception of village welfare societies and depressed class societies of a charitable nature, societies which are outside the scope of rehabilitation will not be exempted from audit charges.

(7) **Separate staff for collection of liquidated assets.**—In view of the gigantic volume of work connected with the disposal of lands, awards and liquidation, cases and collection from eliminated members and members of liquidated societies, Government will appoint a separate staff for the collection of liquidated assets. The cost of this staff will, in the first instance, be advanced by Government, but will be recouped from collection.

(8) **Good societies under bad banks.**—Immediate steps will be taken to liquidate all banks which are not fit for reconstruction. Arrangements will, however, be made as far as possible for saving their solvent societies and even individual members by attaching them to the neighbouring reconstructed central banks.

IV. Provincial Co-operative Bank, Limited.—Government will bear the losses of the Provincial Co-operative Bank in giving effect to the rehabilitation scheme and will give such other financial assistance and support as may be necessary. In view of the nature and extent of the financial responsibility involved, Government will assume necessary control over the Provincial Co-operative Bank at least for a number of years during the period of rehabilitation and appoint an experienced banker, to be called the Banking Adviser, who will work as the Managing Director and will be primarily responsible for advising Government on the banking side of the business. Before assumption of control of the Provincial Co-operative Bank by Government, a resolution will be passed by the Directors and shareholders of the bank placing the management under the control of Government. Government accept the recommendation of the Board of Experts that during the period of rehabilitation the management of the Provincial Co-operative Bank should be in the hands of a small interim Board of Directors consisting of a Chairman and six other members. The Chairman and Directors, other than the Banking Adviser, will be elected in accordance with the existing by-laws, after necessary amendment regarding the constitution of the Board, but their appointment will be subject to the approval of Government. With a view to enable the Banking Adviser to discharge his responsibilities, it will be open to him to refer matters, in which he may disagree with the majority of other directors to Government for orders, on the assumption by Government of the control of the Provincial Co-operative Bank.

(a) Notices may be issued to all the depositors reducing the rates of interest on deposits to rates considered suitable by Government, and the Provincial Co-operative Bank will repay in full to those depositors who do not wish to retain their deposits at the reduced rates;

(b) Government will guarantee to the Provincial Co-operative Bank a cash credit of a sum considered sufficient to ensure ability to repay deposits;

(c) Government will also guarantee a revolving cash credit of an amount, considered suitable for financing crop loans to retained members of societies of central banks and new business of such banks, as indicated in para III (3);

(d) the Provincial Co-operative Bank will continue to accept deposits but only at rates approved by Government and subject to such limits and rules as Government may prescribe from time to time.

V. Fresh deposits in Central Banks.—The reconstructed central co-operative banks may accept deposits but only with the previous permission of Government and the Provincial Co-operative Bank and subject to such rates, limits and other terms as may be prescribed by Government from time to time.

VI. **Completion of rehabilitation enquiries.**—As recommended by the Board of Experts, Government have taken steps to provide an adequate staff for completing the rehabilitation enquiries as early as possible.

VII. **Rules and instructions for the guidance of banks and societies.**—Detailed rules and instructions for giving effect to the rehabilitation scheme will be issued by the Registrar of Co-operative Societies for the guidance of co-operative banks and societies.

VIII. **Expenditure on the scheme.**—The expenditure on the scheme is estimated as below:—

- (1) Contribution towards loss of central banks of class B. Rs. 12 lakhs.
- (2) Loans to central banks for part payment of deposits, Rs. 14 lakhs.
- (3) For crop loans, Rs. 10 lakhs.
- (4) Subsidy towards cost of management of reconstructed central banks at Rs. 1 lakh a year for five years Rs. 5 lakhs.
- (5) Cost of free audit for five years, Rs. 5 lakhs.
- (6) Special staff for liquidation, Rs. 2 lakhs.
- (7) Banking Adviser for five years Rs. 1 lakh. Total Rs. 49 lakhs.

In addition to the above, Government will bear the loss of the Provincial Co-operative Bank which is estimated at Rs. 18 Lakhs. Separate provision will be made for meeting this loss as it is disclosed in the course of rehabilitation of central banks and unions.

RECONSTRUCTION OF THE CO-OPERATIVE MOVEMENT IN BENGAL

It is an undeniable fact that during the last twelve years, the co-operative movement in this province, has been steadily going down. Whatever other reasons might be suggested it is beyond dispute that the agricultural credit movement on which co-operation is based in this country, built up during the last forty years, is in a state of collapse. "Loans have become frozen, the confidence of the creditors in the central banks has gone, the movement has been reduced to a humiliating position and the co-operators are despaired of its future"—a gloomy summary, but no honest man can challenge its truth.

The main assets of the Provincial Bank consist of its investments in central banks, the assets of the central bank consist of loans advanced to village societies and the assets of the societies consist of the loans due by the members. When the members of the village society stop repaying their debts to the society it means an inevitable dislocation in the normal business of the entire agriculture credit. And that is, what has happened.

As long ago as 1939 the Hon. Minister of Co-operation gave an assurance on the floor of the Bengal Legislative Assembly in the following strain—"The Government fully intend to support the co-operative movement in the province and will not allow it to fall into serious danger" and "the Government will also see that the cultivators obtain short term seasonal loans as and when required." As a result of this announcement, the Government advanced a loan of Rs. 13½ Lakhs to the Bengal Provincial Co-operative Bank in 1939-40 for supplying short term crop loan

to cultivators. Rs. 60 lakhs was sanctioned in 1940-41 and a provision of another Rs. 60 lakhs for this purpose has been assured for 1941-42. Moreover "for the reconstruction of the movement and the rehabilitation of the societies" a drastic Bill was made. Reference has been made elsewhere to this legislative measure and its effectiveness in easing the situation. We shall now see how far the short term crop loan has facilitated the movement.

In 1939-40 the Bengal Provincial Co-operative Bank advanced Rs. 20 lakhs, including the Government loan of Rs. 13.5 lakhs as short term crop loan to several central banks. This amount was invested in 10 thousand societies of which 6,500 societies were newly organised for this purpose. About 2 lakhs members received the loan, with an average of Rs. 10.5 per member. The entire loan was paid back within the stipulated time. In the year 1940-41 the Bengal Provincial Bank drew only Rs. 45 lakhs out of the sanctioned Rs. 60 lakhs. Apparently the Provincial Bank did not venture to invest more in the present state of the central banks. It may be assumed that this hesitation on the part of the Provincial Bank was due to the risk involved in advancing more loans to the central banks with their assets frozen. Furthermore the disbursement of the loan was not as prompt as in the previous year, due probably to the fact that the loan of Rs. 10.5 per member for cultivation purposes was not adequate to the actual requirements of the cultivators. It has been found that the margin between the borrowing and the lending rates of the Provincial Bank, the Central Banks and the societies is so low that it does not cover the cost of management and the obligatory charges these institutions have to meet. Again while the crop loan is realised old loans remain unpaid and the Movement is left exactly where it was. From the above facts, it does not appear that the policy of providing crop loan for "saving the Movement from serious danger" justified the optimism of the sponsors.

The solution of the problem, it has become brutally clear, calls for a thorough change in the outlook, and a clearly defined programme for the resuscitation of the primary societies. During the last twelve years when the condition of the Movement was becoming more and more precarious no serious attempt was made in this direction. The former Registrar drew up a scheme of rehabilitation of the societies but it is still in the archives of the Secretariat. No action has been taken on it nor have the Government taken any initiative in this matter. Meanwhile the non-official co-operators had been urging on the Government the importance of a definite decision on the reconstruction of the Movement. Several conferences were held and many deputations waited on the Government without setting the Government wheels in motion, while the Movement was on its way to a rapid decline. Tired of the static Government, the restive non-official co-operators were obliged to move for themselves. Their activity found expression in the meeting held in Calcutta on the 22nd and 23rd March last, under the presidency of Mr. W. C. Wordsworth, Chairman of the Bengal Provincial Co-operative Bank.

Sometime ago a committee was appointed by the Bengal Provincial Co-operative Bank to suggest measures for surmounting the difficulties that were confronting the Provincial Bank and the Movement. Co-operators from all parts of the province assembled in the meeting and deliberated over the Report of the committee and chalked out a line of action, to be undertaken by them for facing the crisis. The programme is as follows:—

The Bengal Provincial Bank is to be the Federal Authority for guiding and controlling the finance and the working of the affiliated central banks and societies.

Rehabilitation of the societies will be taken up on the following lines:

(a) Old debts of the financing banks and societies are to be scaled down. For this purpose the paid up share capital, the reserve fund indicated in the balance sheet, and the interest remaining unpaid on 1st July 1938 will be deducted from the total debts due from the members to the primary society. Thereafter the share capital and reserve fund of the society invested in the central banks and also the interest remaining unpaid on 1st July, 1938, will be deducted from the total debts due to the central banks by the society. Finally the interest remaining unpaid to the Provincial Bank by the central banks on 1st July 1938, will be deducted from the total debts of the central banks to the Provincial Bank.

(b) Old debts of the individual members of primary societies are to be adjusted. The repaying capacity of the individual members of the society will be summarily assessed. The adjusted debt is to be recovered within a period not exceeding 15 years. The rate of interest on the adjusted debt shall not exceed 8 per cent.

(c) Collection is to be made primarily in kind, the produce is to be accepted at the market price on the day of collection and the produce is to be sold in the local market immediately after collection.

Collection thus made will be disbursed among creditors on an equitable basis. The Central Banks after adjusting their debts with the affiliated societies will liquify all readily realisable assets to pay their creditors. Mutual arrangement will be made with the creditors for repayment of only the realisable portion of the assets from the affiliated societies as adjusted by instalments. No interest on the adjusted dues will be paid to outside depositors. We propose to deal with the problem of repayment to depositors in our future issues.

For the Reconstruction of the Movement the following procedure is to be adopted:—

The supply of the entire rural credit of the province for seasonal agricultural operations will be the ultimate object of agricultural co-operation. With this end in view, a net work of societies for supplying crop loan to cultivators will be organised. Members of the existing old societies who will regularly pay instalments of the old adjusted debts will also get the benefit of such loan. It has been found that the income derived from the small investments in the form of short term crop loan for cultivation of major crops only, falls short of the expenditure involved to run the process. In the opinion of the committee if a central bank invest Rs. 3 lakhs in short term crop loan it can work with a balanced budget. But the present circumstances do not offer such prospects. So central banks operating on small areas shall have to be amalgamated and short term loans shall have to be advanced for raising all kind of crops throughout the year, rather than for raising the major crops in one season only, as is being done now.

The central banks may increase their income by undertaking business with non-members by advancing loan against gold, silver and negotiable securities. They may also undertake general banking business such as discounting bills, cheques, collection of insurance premium and by the issuing of Hundis.

Expansion of business of the Bengal Provincial Co-operative Bank will be in the following direction:

Besides financing the Central banks with short term loans the Provincial Bank will augment its income along the lines indicated for the central banks. Marketing and Multipurpose societies will be organised and financed by the Provincial Bank.

No doubt a very large amount of capital will be necessary to undertake such enterprise. When the major portion of the capital of the Provincial Bank is locked up in the central banks and there is very little chance of its full recovery in the immediate future, the Provincial Bank will have to depend to a large extent on the Government, for some time, for carrying on its short-term loan business. For financing other items of business attempts must be made to pool the surplus money still available within the movement. It is estimated that even now about a crore of rupees is lying idle in the co-operative societies particularly with the urban banks. Deposits from the investing public have to be attracted by intensive propaganda. Loans may also be secured from Joint Stock Banks on the guarantee of the Provincial Bank and against the security of stock of the marketing societies.

It is gratifying that just after the conference the Hon. Minister of Co-operation met the directors of the Bengal Provincial Co-operative Bank and discussed the present situation with them. We are still in the dark about the tangible result of this discussion, but it must be noted that the continuance of the deadlock in the Movement is not only causing deep concern in the country but a sense of frustration among the non-official co-operators. The present undesirable situation should not be allowed to stay. To make the reconstruction effective, something more assuring than assurances must come from the Government and the drastic Co-operative Act, in our opinion, is not at all a measure, calculated to produce the desired result. The rehabilitation of the societies and the reconstruction of the Movement being the ultimate end in view, it would be wise to call in the aid of the best talents and of non-official endeavour. A definite scheme has been chalked out by the co-operators themselves, and it is up to the Government to examine the scheme critically and adopt from it whatever suggestions help the Movement.

—The Bengal Co-operative Journal, Jan.—March, 1941.

CO-OPERATIVE MOVEMENT IN ORISSA

The following is the summary of a Press Communique regarding financing of primary societies in Orissa, which were financed by the Bihar and Orissa Provincial Co-operative Bank, Ltd., until the assets and liabilities of that Bank were divided between Bihar and Orissa, on the formation of the Orissa Province.

In their communique issued in June last year regarding the rehabilitation of the Co-operative Credit Movement, the Orissa Government declared their intention to establish a Provincial Co-operative Bank to be financed by the Government either directly or by guaranteeing loans from an outside source. The Government have now examined the possibilities of establishing a bank and have come to the conclusion that the present circumstances are not suitable for its inception. They realise, however, the importance of putting fresh finance into the co-operative societies so that the needs can be adequately met. They have accordingly decided to implement the decision for the rehabilitation of the movement by financing the primary societies and central banks directly and to postpone the starting of a Provincial Bank until more favourable conditions prevail. The primary societies in the areas served by solvent central banks will continue to be financed through those banks while those situated in other areas will be financed direct by the Government. For this purpose a provision of Rs. 1,50,000 has been made in the budget estimate

of 1941-42 and the financing will commence as soon as suitable rules, which are now under examination, have been framed.

The Government have also decided that the rates of interest payable to the members should be raised to 8 per cent on loans not overdue and 1 per cent more on overdue loans. These rates will be applicable to all loans outstanding on July 1, 1941, or to be issued after that date.

—The Hindu, 14-6-1941.

THE RESERVE BANK OF INDIA

EXTENSION OF REMITTANCE FACILITIES TO PROVINCIAL CO-OPERATIVE BANKS

Under the new scheme of remittance facilities in India and Burma introduced by the Reserve Bank of India from the 1st of October 1940 with the concurrence of the Central and the Provincial Governments, the following rates have been prescribed for co-operative banks and societies (including the provincial co-operative banks) for telegraphic transfers, drafts and mail transfers between places where the Reserve Bank has an office, branch or an agency:—

- (a) Upto Rs. 5,000 1/16% (minimum Rs. 0-4-0 for drafts and mail transfers and Re. 1 for telegraphic transfers).
- (b) Over Rs. 5,000 1/32% (minimum Rs. 3-2-0).

Actual telegram charges are charged in addition.

For the purpose of remittance facilities, all treasuries and sub-treasuries in India with currency chest facilities, at places where the Reserve Bank is not represented, are regarded as the Treasury Agencies of the Reserve Bank for the issue and payment of telegraphic transfers and drafts.

2. It is proposed to extend the remittance facilities at present available to the co-operative movement and to that end it has been decided to extend to the provincial co-operative banks certain additional remittance facilities which will place them more or less on the same footing as the scheduled banks for the purpose of remittances. These facilities, however, will be extended only to such provincial co-operative banks as agree to the conditions laid down by the Reserve Bank in this behalf. The details of the facilities which it is proposed to extend and the conditions on which they will be extended have been set out later in this memorandum.

3. In order to clarify the scope of the concessions which we propose to extend to the provincial co-operative banks, it seems desirable, in the first instance; to set out the facilities which have been given to the scheduled banks under the new scheme. Appendix II of the scheme provides the following facilities to the scheduled banks:

A scheduled bank is entitled to remit money by mail or telegraphic transfers between the accounts kept by its offices, branches, sub-offices and pay offices at an office, branch or agency of the Reserve Bank in British India as follows:

- (a) An amount of Rs. 10,000 or a multiple thereof between its accounts at the offices and branches of the Reserve Bank, free of charge;

(b) Once a week an amount of Rs. 5,000 or a multiple thereof to the principal account which it maintains with the Reserve Bank, from any place at which it has an office, branch; sub-office; or pay office and at which there is an agency of the Reserve Bank, free of charge. The term "Principal account" means the accounts maintained with the Reserve Bank by the principal office of a scheduled bank as defined under the Scheduled Banks Regulations:

(c) Other remittances to its principal account subject to a charge of 1/64 per cent. and also subject to a minimum charge of Re. 1;

(d) Other remittances between accounts maintained at the Reserve Bank or its agencies:

Upto Rs. 5,000 1/16% (minimum Re. 1).

Rs. 5,000 and over 1/32% (minimum Rs. 3-2-0).

(e) Telegraphic transfers and drafts:

In favour of third parties:

Upto Rs. 5,000 1/16% (minimum Re. 1).

Over Rs. 5,000 1/32% (minimum Rs. 3-2-0)

(Actual telegram charges to be charged in addition)

It will be seen that facilities mentioned in sub-paras (d) and (e) above are already available to the provincial co-operative banks so that the special facilities enjoyed by the scheduled banks are only those stated in sub-paras (a), (b) and (c). These special facilities, however, are available to the scheduled banks only for remittances between accounts maintained by the scheduled banks with the branches of the Reserve Bank or the Imperial Bank. This is due to the fact that the treasuries, though they are the agencies of the Reserve Bank for purposes of remittances, do not open accounts for banks and the above facilities are not therefore available at the treasuries. It should be further noted that before the above facilities can be utilised, the scheduled bank concerned should not only have accounts with the Reserve Bank or the Imperial Bank at both the remitting and the receiving centres, but should also have its own offices or branches at such centres.

4. The actual facilities which we propose to extend to the Provincial Co-operative banks are as follows:

While these banks will not be entitled to free remittances between offices of the Reserve Bank as mentioned in sub-para (a) of para 3 above, (since this concession is not necessary for their *bona fide* co-operative business) they will be entitled to the concessions mentioned in sub-paragraphs (b) and (c). This means that in addition to the facilities already available, a provincial co-operative bank will, from the date from which this scheme comes into force, be entitled to remit money by mail or telegraphic transfers between the accounts kept by its offices, or branches, at an office or branch of the Reserve Bank or the Imperial Bank as follows:

(i) once a week an amount of Rs. 5,000 or a multiple thereof to the principal account which it maintains with the Reserve Bank from any place where it has an office or a branch and at which there is an office, branch or agency of the Reserve Bank free of charge:

(ii) other remittances to the principal account will be charged at 1/64 per cent. subject to minimum charge of Re. 1.

(Actual telegram charges to be charged in addition).

For the purpose of the above two concessions the Reserve Bank will treat the co-operative central banks which are affiliated to the provincial co-operative bank as branches of the latter. The principal account of a provincial co-operative bank will be the account maintained by the head office of the bank at the local office or branch of the Reserve Bank.

5. A provincial co-operative bank desiring to avail itself of the above facilities will have to agree to the following conditions:

(i) It should undertake to maintain with the Reserve Bank a balance the amount of which shall not, at the close of business on any day, be less than $2\frac{1}{2}$ per cent of its demand liabilities and 1% of its time liabilities as shown by the return referred to in (ii) below;

(ii) It should send to the Reserve Bank at the close of business on each Friday, or if Friday is a public holiday under the Negotiable Instruments Act, at the close of business on the preceding working day, a return of its position in the form prescribed in Section 42(2) of the Reserve Bank Act and signed by two of its responsible officers; such return shall be sent not later than two working days after the date to which it relates;

(iii) If at the close of business on any day before the day fixed for the next return, the balance held at the Bank by any provincial co-operative bank falls below the minimum indicated in (i), the provincial bank should pay to the Reserve Bank in respect of such day penal interest at a rate of 3 per cent. above the bank rate (with a minimum of Rs. 10) on the amount by which the balance with the Reserve Bank falls short of the required minimum and if on the day fixed for the next return such balance is still below the prescribed minimum as disclosed by the return, the rate of penal interest shall be increased to a rate of 5 per cent. above the bank rate in respect of that day and each subsequent day for which the default continues. If any provincial bank however wilfully defaults in the maintenance of the minimum balances for periods exceeding two weeks or fails to send the returns referred to in (ii) above the remittance facilities would be withdrawn from the bank concerned.

(iv) The provincial co-operative bank and the central banks affiliated to it should prepare their balance sheets in the form suggested by the Reserve Bank and append thereto the certificate of the auditors and also supply half-yearly statements of their operations in the form prescribed.

(v) If any of the Provincial co-operative banks or affiliated central banks enjoying the above facilities works on lines not approved by the Reserve Bank, the above facilities would be withdrawn from it in consultation with the Registrar.

(vi) It is presumed that the above facilities will be used only for *bonafide* co-operative purpose. While no declaration will be required from the co-operative banks in the case of each remittance that it is intended strictly for co-operative purposes the above facility is likely to be withdrawn from any bank utilizing it for purposes other than co-operative.

6. It is proposed to bring the above scheme into effect from the 1st May 1941. This arrangement will be in force for a period of 3 years in the first instance after which it will be reviewed in the light of the experience gained. This scheme applies only to such provincial co-operative banks as have their head offices in places where there are offices or branches of the Reserve Bank.

REPRESENTATION OF THE BOMBAY PROVINCIAL CO-OPERATIVE BANK TO THE RESERVE BANK OF INDIA, ON THE REVISED SCHEME OF REMITTANCE FACILITIES

At the outset, I am directed to state that the Board are gratified to find from the concluding portion of paragraph 4 of the scheme that for the purpose of the two concessions that are proposed to be extended to co-operative banks, the Reserve Bank desires to treat the Central Co-operative Banks, which are affiliated to the Provincial Co-operative Bank, as its branches. The Board appreciate the recognition by the Reserve Bank of the fact that the financial structure of the co-operative banks is so devised that the various constituents such as the Central and Apex Banks are closely interdependent.

Next, the Board wish to observe that, although in paragraph 2 of the note it is stated that the Reserve Bank of India proposes "to extend to the provincial co-operative banks certain additional remittance facilities which will place them more or less on the same footing as the scheduled banks for the purpose of remittances," from the subsequent paragraph it is clear that some of the facilities which are enjoyed by scheduled banks are not to be made available to provincial co-operative banks and that such limited facilities as are to be allowed will be dependent upon certain conditions which do not apply to scheduled banks.

The Board of Directors note that, in the first place, the free transfer of funds upto an amount of Rs. 10,000 or the multiple between the accounts of a bank at the offices and branches of the Reserve Bank, free of charge, will not be granted to co-operative banks on the ground that this facility is not required for the purpose of their *bona-fide* co-operative business. If the concession is allowed to scheduled banks for all business that they can do under their articles of association, the Board do not see why it should be denied to co-operative banks which may be undertaking business that is permissible according to the Co-operative Societies Act, Rules and Bye-laws. If, however, inter-provincial arrangements cannot be made because a provincial co-operative bank has no office, branch, sub-office or pay-office at centres outside the province which it serves, the question assumes another aspect. The Board of Directors propose to take up this question, however, separately at a later stage.

The Board note that the enjoyment of these special terms by scheduled banks is unconditional. In respect of co-operative banks, however, three conditions are proposed to be introduced which in the opinion of the Board of Directors of this Bank, do not appear justifiable:—

(a) Under condition No. (v), it is suggested that if any provincial bank or affiliated central bank enjoying the facility works on lines not approved by the Reserve Bank, the above facility would be withdrawn from it in consultation with the Registrar. So long as co-operative banks conduct their operations in accordance with their bye-laws and as permitted by the Act and Rules, the Board do not understand why the Reserve Bank should further control the manner in which they should conduct their operations. Naturally, if those operations transgress the law and principles of co-operation, it will be open to the Co-operative Departments and Provincial Governments to take suitable action in the matter. The Board agree that in case action is taken by the Provincial Government or by the Registrar to curb undesirable tendencies in the working

of a co-operative central bank, the authorities of the Reserve Bank may, in consultation with the Registrar withdraw the special facility for remittance of funds now proposed to be granted.

(b) Similarly, although it may be useful for co-operative banks to have a uniform form for balance-sheets and audit certificates, the Board fail to see why the Reserve Bank of India should use the medium of granting or withdrawing remittance facilities in order to compel co-operative banks to adopt a particular form prescribed by it, as is proposed under condition No. (iv). I am desired by the Board to inform you that they have already communicated to the Reserve Bank of India their views on the standard form of balance-sheet which was circulated with Circular Letter No. 945/60-40 of the 6th December from the Agricultural Credit Department. The form accompanying the Circular was discussed by the Bombay Co-operative Banks' Association and certain suggestions have been offered which are contained in the Association's letter No. CBA. 2/570 of the 27th December, addressed to the Officer-In-Charge of the Agricultural Credit Department. Further correspondence has ensued with the Registrar of Co-operative Societies on this subject. The Registrar has agreed with the modifications in the balance-sheet suggested by the Banks' Association and has desired that Association to issue a circular on the subject. In view of this, the Board requests that the form of balance-sheet that may be prescribed may be the same as the modified form approved of by the Registrar of Co-operative Societies. Similarly, the form of audit certificate also may be not different from the form that may be prescribed under the Bombay Co-operative Societies Act or the Rules thereunder.

(c) The third condition which, in the opinion of the Board is unacceptable relates to the restriction of the facility only to remittances for co-operative purposes. It may be proper to expect that co-operative banks will not conduct business which may compete with the business of scheduled banks in case these banks seek to extend their operations with the assistance of special concessions which are not enjoyed by scheduled banks. But when the concessions or facilities that are allowed to provincial co-operative banks are to be merely those enjoyed by scheduled banks, it seems, in the opinion of my Board, unreasonable for the Reserve Bank of India to lay down that the enjoyment of the same facilities as are allowed to any and every scheduled bank will be withdrawn from co-operative banks should they use the facilities for what may not be deemed *bona-fide* co-operative business. The term "*bona-fide* co-operative business" is not defined and is liable to different interpretations. Apart from that, it is to be emphasised that in all countries where co-operative banking has developed, co-operative banks freely undertake all banking operations subject to their own constitutions and the law governing them. The Board, therefore, urge that co-operative banks, now that they are not to enjoy any special facilities in the matter of remittances beyond what are enjoyed by scheduled banks, should be left free to conduct ordinary banking operations subject to the Act, Rules and byelaws and should be allowed to use the remittance facilities granted to scheduled banks on the same terms on which scheduled banks enjoy these facilities. The Board wish me to point out that banking operations of the type of drawing, accepting, endorsing, buying and selling, and negotiating of inland bills of exchange and other negotiable instruments, have been permitted, and even encouraged, by the Government of Bombay to be conducted by co-operative banks with their members with the intention of promoting the development of the banking habit in

rural areas and in small centres of trade and industry. Similarly, Government have also permitted and encouraged co-operative banks to grant advances against agricultural produce or against agricultural requisites such as manure, fertilisers and implements. A rigid interpretation of the term "co-operative business" may exclude such operations which can legitimately be undertaken by co-operative central banks and branches of Provincial Bank in this province. The Board of Directors, therefore, request that condition No. (vi) may be deleted, but if any undesirable tendency is noticed in any institution, suitable action may be taken by the Registrar or the Provincial Government on their own initiative or at the instance of the Reserve Bank of India, as mentioned in paragraph 5(a) above.

It may be argued that provincial co-operative banks are being called upon under the scheme to maintain balances with the Reserve Bank of India on a scale which is half that prescribed for scheduled banks. The Board would like to point out that under the Reserve Bank of India Act, provincial co-operative banks are specifically exempted from the requirements of maintaining any balances at all with the Reserve Bank of India. They, therefore, feel that the provincial banks ought not to be called upon to maintain the aforesaid balances with the Reserve Bank of India in return for the remittance facilities which are offered. The Board would also like to repeat that the remittance facilities offered to provincial co-operative banks are not on a par with those offered to the scheduled banks. In view, however, of the broader aspects of the matter and with a view to bring the co-operative movement in line with the banking structure of the country, the Board of my Bank are prepared to arrange for the maintenance of minimum balances with the Reserve Bank of India on the scale prescribed in paragraph 5(i) of the note, if the modifications proposed by my Board are accepted. I am desired by the Board, however, to make it clear that the minimum balances to be maintained will be on the basis of the time and demand liabilities of the Provincial Bank only and will have no reference to the time and demand liabilities of the affiliated central banks. The Bank has also no objection to the acceptance of the other conditions, namely 5(ii) and 5(iii) regarding the furnishing of information and the enforcement of penalties in the event of default.

I shall be glad to hear whether the modifications suggested by my Board are acceptable to the Reserve Bank of India. On hearing from you that they are, I shall proceed to deposit the minimum balances required and to inform you of the names of such central banks affiliated to the Provincial Bank as are willing to join in this scheme of remittances facilities.

THE INDIAN RESERVE BANK AND THE CO-OPERATIVE CREDIT MOVEMENT

Withdrawal of the right of free transfer of funds.

A recent decision of the Indian Reserve Bank, effective from 1st October, 1940, to withdraw the special remittance facilities from the Co-operative Banks is not only of considerable material significance for the Movement, but it involves also an important question of principle.

The Indian Provincial and Central Banks have enjoyed the right of free remittance of funds by mail or by telegraphic transfers since the inauguration

of the Movement in 1904. Under these arrangements it was possible to effect savings in costs of some importance to such credit units as the relatively small Central Banks. It is estimated that the average annual amount transferred in this way during 1937-40 was Rs. 12,576,295 for the Co-operative Central Banks and Rs. 10,618,559 for the Provincial Banks. From 1st October, 1940, the Co-operative Banks will have to pay 1/16 per cent for all remittances up to Rs. 5,000 and 1/32 per cent for amounts over Rs. 5,000, in addition to actual telegram charges. Co-operative Banks are thus treated as private "indigenous" bankers.

The facilities of free transfer were originally granted to the Co-operative Societies in recognition of their special social functions. When more than ten years ago these facilities were, to some extent, restricted, this was not applied to funds required for genuine co-operative purposes. The importance of free transfer for the Co-operative Movement, and especially for its agricultural side, was emphasised by the Indian Central Banking Enquiry Committee. The same point was reiterated in the Statutory Report of the Reserve Bank, published in 1938, which laid stress upon the point that, with the reform of Indian provincial finances, the whole costs of free transfer were borne by the Central Government, and that some readaptation of this policy to new conditions was required. The present restrictions apparently follow these suggestions.

The main reason which guided the authorities was that funds transmitted under conditions of free transfer were used not only for financing inter-co-operative transactions, but also for ordinary banking business. This is admitted by the Co-operative Banks themselves but, at the same time they suggest that the authorities have left out of account the sacrifices which the Co-operative Movement made in order to conform to the conditions of the Reserve Bank by limiting considerably the scope of their activities in both the rural and urban areas.

The refusal of the authorities to recognise the peculiar structure of co-operative enterprise aroused strong protests amongst the various sections of the Movement. In this they find support in the recently published Report on Co-operation of the Committee appointed by the Government of Madras which recommended that:—

"In view of the general reduction in the lending rates of Co-operative Organisations and low margins on which they are working, the existing concessions of free remittance of funds for *bona-fide* co-operative transactions should be continued by the Government, and non-co-operative transactions may be charged at the same rates as those charged to scheduled Banks."

The Movement demands now either the restoration of the old privileges or the removal of the various restrictions of development of co-operative banking which were originally imposed to prevent the misuse of the privilege of free transfer of funds.

It seems to us, however, that the former alternative is of greater theoretical and practical importance, and that the restoration of the right of free transfer would prove of more assistance to the Credit Movement than the removal of certain restrictions, the origin of which lies not only in the relationship between the co-operative and joint-stock banks but, to a greater extent, in the nature of operations in which Co-operative Banks are engaged, i.e., promotion of agricultural credit.

—Review of International Co-operation, Feb., 1941

EXTRACTS

THE BENGAL CO-OPERATIVE SOCIETIES BILL AND AFTER

Considerable public interest was roused during the passage of the Bengal Co-operative Societies Bill, 1938, through the Bengal legislatures. In certain quarters, the Bengal Co-operative Alliance was accused of not properly voicing the nonofficial opinion on the Bengal Co-operative Societies Bill. As a matter of fact, the Bengal Co-operative Alliance was not inactive during the deliberations over the Bill in the legislatures. It critically examined the provisions of the Bill and invited opinion from all Central and Urban societies and placed them before the Select Committee. The Alliance again commented on the report of the Select Committee and submitted it to the Government. In view of the alertness displayed by the Alliance, it seems uncharitable to hold, that the Alliance remained idle. The Bill has been passed after heated debate by the Bengal Legislative Assembly in December last. A special officer has since been appointed to draft Rules under the Bill. We understand that the framing of the Rules are nearing completion and will soon be gazetted for eliciting public opinion. The Bengal Co-operative Alliance has, in the meantime, invited suggestions from all Central and Urban societies so that the Co-operative societies may enjoy some measure of alleviation from the stringent measures that have found place in the Bill.

The chief argument put forward by the sponsors of the Bill is that the set-back in the movement has been due to lack of adequate powers of the Department to effectively deal with the maladministration of the societies. It was therefore argued that drastic legislative measures, vesting larger and more rigid powers of control in the Registrar was needed for the reconstruction of the movement and rehabilitation of the societies.

While some form of check is no doubt necessary for removing corruption from the societies, it is preposterous to assume that the rehabilitation of the societies can be effected by stringent legislative measures. The Burma Co-operative Societies Act which was enacted as early as 1927 could not save the movement from collapse. The Behar Co-operative Societies Act of 1935, inspite of its very stringent provisions, has not effected the expected panacea for the evils. Can we expect the Bengal Co-operative Societies Bill 1938 to work incredible wonders?

This Bill will make the Registrar the virtual Dictator of the Movement and such a condition will on the one hand scare away the non-official element, which is the backbone of the movement and on the other, as the Hon. Mr. Pantulu has very rightly remarked in the last July—September issue of the *Indian Co-operative Review*, make "administrative interference in the internal management of co-operative societies in Bengal," "a matter of everyday occurrence."

Co-operation, as its very name implies, is not handed down to the people from above. Where it has been so applied, it has proved a failure. But the "top-down" policy is the steel frame of the Bengal Co-operative Societies Bill. While the Department have been advocating for more powers to run the show, the non-officials have been urging on the relaxation of the existing control, in order to do away

with the official tutelage, for making the movement democratic. But the Bengal Co-operative Societies Bill has turned the table in favour of the official cry. We think, however, there is yet time to mend the situation. What has been undone by the Bill can be done by the Rules. The Rules can be framed in such a way as to make the obnoxious features of the Bill, less harmful and to pave the way to co-ordinate nonofficial enterprise with the movement. Unless the movement develops from within and the nonofficials can readily participate in its working with confidence, we are afraid, no amount of legislative measures will be able to revive the co-operative movement and make it worth its while in this country.

—*The Bengal Co-operative Journal*, Jan.—March, 1941.

NEW INDIAN REPORT ON CO-OPERATION

The Committee on Co-operation, appointed by the Madras Government in 1938, has now submitted its Report giving a comprehensive survey of the development of the Co-operative Movement in the Presidency since the enquiry of 1928 by the so-called Townsend Committee, and the MacLagan Report of 1915.

The Committee worked in close co-operation with the Government, which drew up a basic questionnaire and collected most of the fundamental data on a large variety of problems, which, however, did not cover the Consumers' Movement in urban areas nor the building societies in both rural and urban districts. The Credit Societies seem to have monopolised the attention of the Committee. The historical discourse which deals with the progress of the Movement since the enactments of the Co-operative Societies' Act of 1904 contains, however, some reference to the Consumers' Movement in towns. On the whole, the Report is concerned primarily with the rural aspects of co-operative development in India, and seems to overlook the industrialisation of certain parts of the country, stimulating the growth of Stores' Societies, and its implications for the Agricultural Movement by creating in the towns a co-operative market for the output of the peasantry.

The rehabilitation of the Agricultural Credit Movement is the central point of the Report. Its most interesting recommendation is that these Societies should be reorganised on a limited liability basis, which is opposed to the view of the Government of India that unlimited liability is the most suitable form for Rural Credit Societies. Practice has, however, shown that the main advantages of the principle of unlimited liability, such as mutual trust and mutual supervision, have been outweighed by the difficulties of mobilising the necessary working capital and of creating credit units sufficiently large to cover the costs of operation.

Two other recommendations in connection with the Credit Societies are of interest; firstly, the suggestion that supervising unions should be set up in new districts only at the discretion of the Central Banks; and, secondly, that the latter should have no individual shareholders. It is true that practice has not shown the Supervising Unions to be capable of exercising effective control over the finances and management of Primary Societies, but the principle was undoubtedly a sound one. This recommendation, combined with the elimination of individual shareholding which often provided the most efficient and gifted elements of the directorate, must increase the responsibility of the representatives of the Primary Societies for the management of the affairs of the Central Banks. From the point of view of co-operative principle, it is a welcome recommenda-

tion, but there seems to exist no unanimity amongst Indian co-operators as to its practical value.

The Report deals also in a comprehensive manner with the causes of rural indebtedness and measures of debt relief, with the position of land mortgage banks in Madras, with the Marketing Societies, and with the urban banks. Some of the recommendations of the Committee will require careful study, and most of them will, for a considerable time, occupy the mind of Indian Co-operators.

—*Review of International Co-operation*, Feb., 1941.

CO-OPERATIVE NEWS AND NOTES

Mr. Vaino Tanner, President of the International Co-operative Alliance, celebrated his sixtieth birthday on the 12th March 1941. It was in 1927, at the twelfth International Co-operative Congress at Stockholm, that Mr. Tanner, who was then Prime Minister of Finland, was elected President of the Alliance. We convey our congratulations and good wishes to the worthy President.

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The Government of Mysore have passed orders constituting a Committee, consisting of officials and non-officials to re-examine the question of resuscitating the handloom industry in the States with special reference to the marketing of goods produced by the weavers. The Registrar of Co-operative Societies in Mysore will be the Chairman of the Committee and the Secretary of the Board of Industries and Commerce will be the Secretary. The Committee may consider the measures organised by the British Indian Provinces and advise the Government about the organisation best suited to meet the needs of the industry.

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The Government of Madras have recently passed orders allowing such Central Banks as obtain the general approval of the Registrar of Co-operative Societies for the purpose, to borrow up to twelve times their owned capital (as against the usual ten times) provided they utilise the additional borrowing power exclusively to give loans to Loan and Sale Societies on the following conditions: (1) The Registrar should be satisfied as to the financial position and management of Central Banks and Loan and Sale Societies; (2) Produce should be properly stored and insured and subject to inspection by Central Banks; (3) Loans should be secured on produce in the possession of societies hypothecated to Central Banks with joint custody; and (4) The approval of the Registrar for the enhanced borrowing power may be withdrawn at three months' notice, if he finds that the circumstances of the Bank or the purposes for which this enhanced power is being utilised do not justify its continuance. The Registrar should see that this enhanced borrowing power does not result in an undue expansion of the banks' other business, as the enabling provision is intended to make more funds available for loans to Loans and Sale Societies and not for other purposes.

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The Government of Bengal have decided to launch a scheme for testing the commercial possibilities of hand-made paper as a small scale industry. The scheme will take three years to complete—the first year to organise and standardize commercial production and sale and settle down to normal working conditions, second year to produce one full year's normal trading results and the third year to confirm the second year's results. The scheme is expected to cost an ultimate expenditure of about Rs. 9,000 spread over three years.

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