REPORT

OF THE

COMMITTEE ON THE ESTABLISHMENT

OF

CO-OPERATIVE CREDIT SOCIETIES IN INDIA.

SIMLA:
GOVERNMENT CENTRAL PRINTING OFFICE.

1901.

INDEX.

PREFATORY NOTE.

The Committee appointed under the orders of the Government of India to consider the question of the establishment of agricultural banks in India consisted of the Honourable Sir E. FG. Law, K.C.M.G., as President; the Honourable Mr. F. A. Nicholson, C.I.E., I.C.S., Member of the Board of Revenue in Madras and Additional Member of the Council of the Governor General of India; Mr. J. B. Fuller, C.I.E., I.C.S., Secretary to the Government of India in the Department of Revenue and Agriculture; the Honourable Mr. J. Wilson, I.C.S., Settlement Commissioner in the Punjab and Member of the Punjab Legislative Council; Mr. Reginald Murray, Manager of the Commercial Bank of India, Calcutta; and Mr. H. Dupernex, I.C.S., District Judge, Cawnpore. The Committee assembled at Simla on June 1st, 1901, and dissolved on July 10th, after holding altogether 16 meetings.

R. E. V. ARBUTHNOT,

Secretary to the Committee.

REPORT

OF THE

COMMITTEE ON THE ESTABLISHMENT

OF

CO-OPERATIVE CREDIT SOCIETIES IN INDIA.

The "agricultural banks" which have been so successful in improving the condition of the poorer classes in European countries rest upon co-operative credit, and we have confined our attention to banking on this basis. In concluding that a system of co-operative credit is capable of affording great benefits to the agricultural community of this country we have the general support of the opinions expressed in the reports recently received from Local Governments, which we have had the advantage of consulting. Accepting the establishment of co-operative credit societies as the object in view, we have considered, first, the lines on which such societies should be worked, the privileges which should be accorded to them and the extent to which it might be advisable that they should be aided by Government funds and subjected to Government control. We have next proceeded to consider what practical form or forms a society constituted on these principles should assume and have drawn up two model schemes of management for the two classes of society which we contemplate. Finally, we have discussed the extent to which legislation is required to secure to such societies as may be started the privileges which we recommend for them, and to provide for their due working and supervision, and we have embodied the result of our deliberations in the form of a draft Bill.

Acknowledgment of assistance received.

2. Valuable evidence was given to the Committee on the subject of the success of such credit societies as already exist, both by Mr. Maclagan and Captain Crosthwaite who have had special experience of the question in the Punjab, and by the Honourable Mr. Nicholson and Mr. Dupernex, members of the Committee, who have had similar experience in Madras and the North-Western Provinces respectively. We are also specially indebted to Mr. Henry W. Wolff, whose extensive knowledge of the principles and practice of co-operative village banking are well known, and whose valuable suggestions communicated through the Secretary of State have received our most careful consideration. In framing our proposals for legislation we have been in great measure guided by the principles of the English Friendly Societies and Industrial and Provident Societies Acts.

Co-operative credit societies, a preferable term.

3. We would premise that we consider that the term "banks" which has hitherto been used in discussing the subject is not altogether suitable, and is likely to convey a misleading impression of the objects of the societies. We have therefore preferred to use the term "co-operative credit societies" as indicating more clearly the aims and scope of the institutions which we desire to see established.

Formation of urban as well of village societies should be encouraged.

4. Further, we consider that the efforts of Government should not be limited to encouraging the establishment of purely agricultural societies. The Italian co-operative banks were first started in towns, and, taking into consideration the results achieved by them,

we consider that endeavours should be made to encourage the formation of urban societies working on co-operative lines. The object which these societies would serve would be twofold. In the first place, we consider that they would meet an existing want in providing a medium somewhat more profitable than the Post Office Savings Bank for the accumulation of savings by clerks and artizans, and would thus serve as a useful and much needed incentive to thrift. The Madras funds, which are described by Mr. Nicholson in the note appended to this Report, indicate what may be achieved in this direction. Further, one of the main functions of such banks in Italy is the loaning of capital to rural banks, and we see no reason why urban societies in India should not similarly provide funds for village societies. If this result could be attained, the necessity for Government aid to rural societies would be diminished, while the village societies on their side would play the part of agents of the urban society and would so meet the difficulty of acquiring local knowledge which is at present the main obstacle to the spread of mufassil banking, and would furnish a secure and profitable investment for the surplus funds of urban societies. We consider, therefore, that the establishment of urban co-operative associations for the collection and loaning of capital either to their members or to village associations within the district in which they are situated would be desirable and should be encouraged.

Establishment of general principles.

5. We consider that hard and fast rules for the institution of co-operative credit societies throughout India cannot be laid down, since due regard must be paid to the local conditions and circumstances of the various provinces, which differ widely both among themselves and from the conditions which prevail in Europe. We have not therefore found it advisable to attempt to follow too closely the lines of any one of the various systems which have so successfully established themselves in Italy and Germany. Nevertheless we hold that it is possible to indicate in a general manner certain principles which should govern the organization of all co-operative societies.

Limited and unlimited liability.

6. On the question of limited *versus* unlimited liability, we consider that it is impossible to formulate any recommendation of a universal character. Limited liability might under some circumstances prove more attractive than unlimited liability, but we recognize that in the historical development of credit the latter came first.

Source from which working capital should be provided.

7. As regards the source from which the working capital is to be obtained, the ideal system would be an association, the members of which would first accumulate capital by saving and then lend among the members the money so accumulated. The fact of being a shareholder gives a member an interest in the working of the association and is educative in its encouragement of thrift. On the other hand, we recognize that the possibility of this would be limited by the amount of money available, which, in consequence of recent famines, is in some provinces very small. If therefore the working capital is limited to the amount provided by subscribers, there would be a difficulty in obtaining funds. The Raffeissen Banks are worked with capital obtained outside the society, the shares being nominal; while the Madras Mutual Banks habitually obtain large sums from depositors. We understand that in the North-Western Provinces a system is being tried of working by a board of landlords (or "organization Committee") who guarantee the money provided for village societies and that this system has already given some promise of success. It undoubtedly offers, under certain circumstances, the easiest means of providing capital, though its developments may not always be in accord with strict co-operative principles.* The various means by which working capital can be obtained may then be described as subscription for shares, deposits of members of the association, deposits of outsiders, or loans from outsiders given on the security of the joint credit of members of the association or on the security of guarantors of the association. We consider it desirable that, where the state of the country is sufficiently advanced and where circumstances permit, co-operative credit

* Mr. Dupernex dissents from this passage as he does not share the apprehension it indicates.

associations should be founded on a share basis, but we recognise that the system of establishing a co-operative society without shares on a basis of joint liability only might, in some localities and under some circumstances be found more practicable. Thus we conclude that the form of such societies may be twofold: societies on a share basis and with limited liability, and societies with unlimited liability and without shares. We are of opinion that, as a rule, the former will be found more suitable for urban, the latter for rural societies, but we see no reason why a society originally founded on the latter basis should not eventually be converted into a society with limited liability on a share basis.

Membership.

8. We recognize the principal object of all co-operative credit societies to be the encouragement of thrift, the accumulation of loanable capital and the reduction of interest on borrowed money by a system of mutual credit.

We hold that a proper development of mutual credit can only be attained under a system of membership which will enable all members of a society to exercise by means of personal acquaintanceship and moral pressure a mutual control over one another in their transactions with the society. Hence we regard it as essential that in both urban and village societies membership should be by election, and further that membership should be limited to residents in the same town or village or group of villages.

Government aid.

9. As regards the extent to which Government should aid co-operative societies by the advance of funds, we hold that there is no objection in principle to the provision by Government of a portion of the capital required for the working of co-operative societies in the form of advances on the security of the society.

We consider, however, that in the case of societies on a share basis, Government loans should not exceed Rs. 2,000 in any one case, and should be limited to half the amount actually subscribed for share capital or deposits.*

Government loans should be subject to repayment after a period of grace to be fixed at 2 years by 10 fixed annual instalments, including interest. The Registrar should have power for special reasons, such as the occurrence of famine, to suspend the repayment of any instalment. Instalments should be recoverable as arrears of land revenue. In regard to Government grants to unlimited liability societies, we see no reason to suggest any definite restrictions. Government might make loans under taccavi rules to such extent as might be considered advisable in any case.

Privileges.
(1) Exemption from stamp duty.

10. In order to encourage the establishment and working of these societies we consider it desirable that Government should accord special privileges to *bonâ fide* co-operative credit societies. In England all co-operative provident and friendly societies are exempt from stamp duty and income-tax. There is a danger that a general exemption of such societies from Government dues might lead to the establishment of money-lending businesses under the guise of co-operative societies. We consider, however, that this danger can be obviated by limiting the acquirement of these privileges to societies which subject themselves to registration and by giving the Registrar full power to cancel or suspend these privileges in cases where he has reason to doubt the *bonâ fides* of any society.

Documents connected with loan transactions between the members of the society and the society, and documents connected with the initial formation and registration of the society should be exempt from stamp duty.

We do not, however, consider that exemption from income-tax is necessary, since small societies whose income does not amount in any year to Rs. 500 are already exempt; and we consider that in the case of larger societies such exemption would be unnecessary.

Funds of the society to be exempt from attachment for debts of individual members.

11. Mr. Maclagan has pointed out that, as the law at present stands, co-operative societies are placed at a disadvantage, since, if a creditor could get a decree against any member of the society, he could probably obtain an order prohibiting dis-

[illegible] the share-
hold[illegible] foot-[illegible]ht actually
hav[illegible]e amount of
paid[illegible]

bursement of any portion of the fund until his claim was satisfied. Such a power might prove a powerful engine of attack if set in motion by a person hostile to the aims and objects of the society. We therefore consider that the funds of any registered co-operative credit society should be expressly exempted from liability to attachment in respect of any debt due by a member individually.

12. One of the main objects of these societies is the encouragement of thrift. We consider that, in furtherance of this object, the shares and deposits of a member of a registered co-operative credit society should, up to a certain small amount, be freed from attachment of any description, whether by a court of law or by a revenue officer; but as a check upon fraud and to prevent the deposit of funds or the subscription for shares merely with the object of avoiding attachment, we would provide that the money, whether in the form of shares or deposits, in order to secure this exemption, must have been placed with the society for a period of not less than twelve months, and that the amount so privileged should not exceed Rs. 100 in any one case. In addition to the above privileges, for the conferring of which legislation will be required, we consider certain executive privileges, such as, *e.g.*, permission to open a public fund in the Post Office Savings Bank, should be accorded to these societies.

Recovery of loans by summary procedure.

13. It is, we believe, generally recognised that one of the main reasons for the high rate of interest on loans which prevails in India is the difficulty and expense in recovering money from defaulters by the ordinary process of law. If the co-operative societies which we contemplate are to be successfully worked, it is very advisable that they should be provided with special facilities for the recovery of loans due by defaulting members. We do not anticipate that much difficulty will ordinarily be experienced in this direction, since experience elsewhere has shown that the moral pressure of fellow members will, as a general rule, be sufficient to prevent wilful default. Such cases, however, must occasionally arise, and we consider therefore that societies, in framing their rules of procedure, should be permitted to provide that claims against members should be recoverable by summary procedure on production of a certified copy of the entries in the books of the society. We are, however, of opinion that in this respect it is desirable to make a marked distinction between provisions for the recovery of loans granted for productive purposes, either agricultural or industrial, and loans which might under the rules of certain societies be granted for general purposes, and that it is desirable to afford special facilities only for the recovery of the former class of loans.

Further we recommend—

(1) that, subject to the prior claim of the landlord for rent or of Government for revenue, co-operative credit associations should have a lien on the crop for the value of the seed advanced, or purchased with the money supplied by it; and

(2) that, if so provided in the rules of any society, the society should have a lien on land, cattle, industrial or agricultural implements, or raw material for manufacture, purchased with money advanced by the society, so long as any portion of the advance remained unpaid.

Government control.

14. We feel that, whether formally undertaken or not, Government will necessarily incur a certain responsibility for the management and success of any societies which might acquire the privileges which we suggest should be accorded to them, and we have therefore decided that not only should Government have the right to audit the accounts and examine the affairs of societies so established, but that a proper Government authority should have the right on due cause to exclude any society from these privileges, and even in case of necessity to order its winding up. We desire to lay especial stress on the necessity for a compulsory annual Government audit for all registered societies. Such an audit is necessary to prevent fraud on unintellige[illegible] apart from the imme[illegible] hardship which it would cause, co[illegible] have a most fatal effect [illegible] of co-oper[illegible] We [illegible]ider

that an annual Government audit should be obligatory in the case of all registered co-operative associations and that such audit should include—

(*a*) an examination of all books, registers, and accounts with particular attention to overdue debts, and

(*b*) a valuation of the assets and liabilities of the association.

At the same time we deprecate any inquisitorial investigation into the affairs of an association in the course of such audit.

Such audit should be free of cost to the association, except for urban associations which were assessed to income-tax, in which case a fee should be charged at a rate to be fixed by the Local Government on the amount for which income-tax was paid.

15. In addition to the regular annual audit, the Registrar should have power, as in England, to order a full investigation into the affairs and working of any society, either of his own motion, or on the application either of a majority of the Committee or of one-tenth of the members of the association. Such an enquiry should be free of cost to the association if applied for by a majority of the members of the Committee. In other cases the Registrar should have power to decide whether the investigation should be free or should be paid for—

(*a*) from the general funds of the association;

(*b*) by the members demanding the investigation, if held on their requisition;

(*c*) by existing or former members of the Committee or officers of the association.

Powers of Registrar.

16. It will be seen that we contemplate that the official Registrar should have very extensive powers of inspection and control in regard to all registered co-operative societies. He will receive the application for registration from any new society, will examine the rules proposed to see whether they comply with the conditions on which alone the privilege of registration should be accorded, and will permit or refuse registration accordingly. It will be his duty to appoint a qualified person to conduct the annual audit and to see that this audit is duly carried out. He must also have power to order a general meeting of a society to be convened and, when necessary, to order a full investigation into its affairs and working. He must also be empowered, should occasion arise, to suspend or cancel registration, and to order a society to be wound up and dissolved should the state of its affairs render such a course necessary.

In the exercise of these powers he should be subject to such control as may be considered advisable according to the circumstances of each province. Ordinarily the Registrar should be the Deputy Commissioner, Collector, or the Judge of the District within which the society is situated, though, should there subsequently be an extensive development of the co-operative system, a special officer may eventually be found necessary. The general working of co-operative societies in any province should be placed under either the Director of Land Records and Agriculture or the Inspector General of Registration as may appear expedient in each case.

Reserve fund.

17. We regard it as essential that the rules of all co-operative societies should provide for an indivisible reserve fund to be accumulated from net profits after providing for bad debts and payment of interest, and that not less than 25 per cent. of the net profits in each year should be carried to this reserve. The formation of such a reserve is necessary both to enable the society to obtain better terms in borrowing, and to secure them from the loss which the default of any member might bring upon them, and its existence will, we consider, be one of the chief sources of strength of the society. Our object in prohibiting the division of this fund is to prevent its growth from arousing the cupidity of the members, and tempting them to break up their society for a temporary profit. There is, we consider, no objection to providing that when the reserve fund had reached a certain amount to be fixed in each case, any surplus might, if it were so desired, be devoted to works of public utility, approved by a general meeting. But we hold strongly that the first object to which any surplus profits should be applied should be the reduction in the rate of interest on loans made to members.

18. Experience in England, Italy and Germany has shown that the success or failure of any co-operative society must depend in great measure on the manner in which the members, to whom the management and supervision are immediately entrusted, carry out their duties. The question of management is therefore one of vital importance.

Management.

Management should be in the hands of a committee, of not less than three members of the association, who should be elected by a majority of the members, and it is desirable that a certain proportion of the committee members should retire in rotation each year. Persons who come under certain disqualifications, such as bankruptcy, should cease to be members of the committee. The officers of the society should be appointed by the committee, and should, if possible, be members of the association. The services of the committee should in all cases be gratuitous. Officers of the association, who are not members of the committee, might, if the state of the funds permitted, be granted honoraria out of profits by a resolution of a general meeting of the association.

The rules of any society should also provide for the appointment as controllers of not less than three members of the association other than members of the committee to exercise the function of continuous audit, to prevent and bring to notice irregularities, and watch the application of funds to the purposes for which they were borrowed and, when necessary, to summon general meetings of the association. Such current audit would be independent of the regular annual audit of the accounts. The committee should have authority in respect of the grant of loans and the investment and control of funds; but in the case of rural societies to ensure publicity, loans should only be granted at meetings held in public on fixed dates and hours, at short intervals, not less than twice a month, at which any member of the association might be present.

In urban associations the president should not be allowed to take loans during his term of office, and in both village and urban associations no member of the committee should be allowed to adjudicate upon his own application for a loan.

19. In the case of societies founded on a share basis, we consider that no loans should be made to any member who has not paid up at least Rs. 5 towards the value of his share and undertaken the obligation to pay up the remainder of the share within a fixed period, which should not exceed five years.

In societies on a share basis loans only to be made to shareholders.

In making this recommendation we consider that we are proposing a measure which will encourage thrift and in time ensure the accumulation of a considerable capital belonging to and at the disposal of the society.

20. We hold it to be absolutely necessary to preclude the possibility of such societies as might be founded falling under the control of speculators. We have therefore decided that the number of shares or votes held by any individual member must be strictly limited, and that stringent conditions must be imposed on the transfer of shares.

Limitation of shares and votes.

21. As regards the purposes for which loans should be made, we consider that, in the case of associations on a share basis, with limited liability, no restrictions need be insisted on. In the case of societies without share capital, loans and advances should only be granted—

Purposes for which loans may be made.

(1) for purposes industrially or agriculturally productive, such as the purchase of seed, cattle, agricultural or industrial implements, purchase of raw material for manufactures, farm improvements including buildings, and the like;

(2) for the liquidation of debts due by a member prior to his election, if an arrangement can be made whereby the borrower's total indebtedness is brought within his powers of repayment within a reasonable period;

(3) for payment of rent or revenue.

We further consider that there is no objection to loans being made for expenses connected with marriages and other domestic occurrences, provided that the borrower has had a deposit account with the society for the past three years, and that the amount so lent does not exceed 50 per cent. of the annual average of his deposit account during the three years.

22. We have considered whether the loan of money on the security of jewels and other valuables should form part of the operations of co-operative societies. On the one hand, we recognize that jewels and ornaments represent a large amount of locked-up capital which it is desirable to mobilise for temporary purposes, and we understand that the receipt and pledge of jewels belonging to members forms part of the daily operations of the Madras funds.

Loan of money on material security.

On the other hand, we feel that there may be difficulties in appraisement which would furnish an opening for fraud, while there is the danger of loss to the societies by the fluctuation in the value of jewels pledged. In the case of village societies such loans would be likely to complicate their affairs and might lead to great confusion, and great difficulties must arise if, as would constantly happen, the articles pledged were not redeemed.

On the whole, we are agreed that it is undesirable that village societies should engage in pawnbroking, though the fact of their doing so should not in itself debar them from registration.

In the case of urban societies we consider that the objections which we have stated do not apply to the same extent. We therefore abstain from making any recommendation in the matter.

23. As regards the maximum rate of interest on loans to be charged by co-operative societies, we are of opinion that compound interest should in no case be allowed, and that the rate of interest charged should not exceed 2 pies per rupee per mensem or $12\frac{1}{2}$ per cent. per annum. Interest at the rate of $6\frac{1}{4}$ per cent. per annum might be allowed on deposits.

Limitation of rate of interest.

24. We decided that it was advisable to formulate model schemes for business and procedure for both urban and village co-operative credit societies, with and without shares. In these two schemes we have endeavoured to embody all such provisions for constitution and management as appear likely to be generally suitable, but we have distinguished (by different types of printing) between those which we consider essential, and those the adoption of which, though in our opinion generally desirable, may be left to the option of the founders of any particular society, and we fully recognise that rules which may be suitable in some cases may not, in view of the widely divergent conditions in different parts of India, be suitable in others.

In framing these rules we may perhaps appear to have gone somewhat closely into detail. But we feel strongly that in matters of this kind details are of very great importance.

25. In order to secure to such co-operative societies as may be started the privileges which we contemplate, and to provide for their due working and supervision, legislation in some form will be necessary. The Companies Act, which is the only enactment in any way applicable to societies of this kind, is wholly unsuited to institutions with varying capital, apart from the expense of putting into operation the provisions of the Act. We therefore recommend that legislation should take the form of a special Act of a permissive character and following the general lines of the English Friendly Societies Act. The necessary provisions for both associations with shares and limited liability and associations with unlimited liability and without shares can, we consider, without difficulty, be incorporated in a single Act. We have prepared a draft Bill on these lines, which we append to our report.

Draft Bill.

26. We have already referred to the evidence which has been placed before us regarding the credit societies which at present exist in the Punjab, in the North-Western Provinces and in Madras. Putting aside the Madras funds,

Prospects of co-operative credit societies.

which work on lines more closely approximating to those of English building societies or provident funds than to purely co-operative credit societies, and which have without doubt attained a high degree of success, the other schemes can at present only be regarded as experiments. Some long time must yet elapse before any societies of the kind which we have indicated can be considered as having passed out of the experimental stage. Any opinion as to the ultimate success or failure of the co-operative system in India as a means of encouraging thrift and alleviating the burden of agricultural debt can be little more than a matter of conjecture. Lengthened experience alone can show whether the natives of India are prepared to follow the example of their Western brethren in their appreciation of the advantages of co-operation. We are, however, convinced that the experiment is worthy of every encouragement and of a prolonged trial, and we believe that the lines which we have indicated are those which offer the most reasonable hopes of success.

Utilization of existing money-lending agency.

27. It is universally recognized that one of the problems of the present date which presses most urgently for solution is the indebtedness of the agriculturist. We are convinced that the successful establishment of co-operative societies in rural tracts would eventually effect much in the improvement of agricultural credit. But we hold very strongly that something more might be immediately effected by utilizing the existing money-lending agency. We would suggest that money-lenders, who are willing to subject themselves to registration and to keep their accounts in books provided by Government on prescribed forms, should be accorded special facilities for recovery by summary procedure in respect of loans made for objects industrially or agriculturally productive, at a rate of simple interest not exceeding 12 per cent. *per annum*, provided that the debtor had agreed at the time of taking the loan to subject himself to the contingency of this procedure.

It may be objected to this proposal that this procedure would give the money-lender, in whose favour it was applied, a prior right of recovery over an earlier creditor. To this objection, however, it would appear sufficient to reply, first, that a similar priority of recovery is already accorded in the case of taccavi loans; and, secondly, that since such loans are, *exhypothesi*, made for objects which are industrially or agriculturally productive, the position of the earlier creditor is really improved, since his security is thereby made more productive and his chances of recovering the loan are increased.

We desire strongly to recommend this proposal to the favourable consideration of Government.

Revival of Government stock notes.

28. The question of the revival of Government stock notes was also brought before the Committee, and though we are prepared to admit that such a measure might be advantageous as an incentive to thrift, we decided that the matter was not sufficiently connected with the immediate subject of our report to justify us in making any recommendation in the matter.

By order of the Committee,

R. E. V. ARBUTHNOT, C.S.,

Under-Secy. to the Govt. of India,

in the Dept. of Rev. and Agri.

and Secy. to the Committee.

APPENDIX II.

MODEL SCHEMES OF MANAGEMENT.

(1) For Co-operative Credit Societies with Limited Liability with Shares.

(2) For Co-operative Credit Societies with Unlimited Liability and without shares.

CO-OPERATIVE CREDIT SOCIETIES WITH LIMITED LIABILITY WITH SHARES.

SCHEME OF MANAGEMENT.

Capital.

1. The Capital of the Society shall consist of shares divided into shares of *Rs.* 25 each.

2. The maximum and minimum of share capital may be fixed from time to time by a general meeting of members. Within these limits the share capital may be increased either (1) by the allotment of fresh shares to existing members up to the maximum allowed to an individual member or (2) by the subscription of new members duly elected. It may be reduced by the purchase by the Society of existing shares followed by cancelment.

Membership.

3. The members of the Society shall consist of—

(1) the persons who have subscribed to the application for Registration and to the Rules of Business appended thereto ;

(2) such persons as shall from time to time become members of the Society by election under these rules.

4. Every person shall be deemed to have become a member of the Society who has been elected in pursuance of the regulations hereinafter contained.

Election of Members.

5. Any person having his ordinary, domestic or business residence within and having attained the age of 16 shall be eligible to become a member of the Society. Every person desirous of becoming a member shall send in an application, supported by one or more members of the Society, to the Secretary or Business Manager who shall lay this application before the Committee of Management at their next meeting.

6. Election shall be either by a general meeting or by the Committee of Management and in the latter case subject to appeal to a general meeting.

7. For election by the general body of members a majority of ⅔rds of those voting and an absolute majority of the whole number of members shall be necessary.

8. In the event of election being by the Committee their decision may be brought before a general meeting by any member within one month. The decision of the Committee shall hold good unless reversed by a majority of ⅔rds of the members present at the general meeting.

9. The election of any member shall be immediately notified by a notice conspicuously fixed in the office of the Society.

Rules of Membership.

10. The candidate for membership whose application is accepted shall thereupon sign his name in the register containing a list of the names, descriptions and addresses of the members of the Society. Upon signing his name in the register the candidate shall be deemed, subject to the provisions of Rule 13, to have acquired all the rights, obligations, responsibilities and liabilities of a member of the Society as laid down in its form of application and Rules of Business.

11 The candidate on admission to membership shall be required to pay an entrance fee *not less than one rupee* and to subscribe for at least one share of the Society which may be paid for by instalments extending over a period not exceeding 5 years.

NOTE.—In this scheme provisions which the Committee considered essential are shown in Roman type. Other provisions are shown in italics (*vide* paragraph 24 of Report).

12. A member borrowing from the Society becomes liable to pay up any unpaid balance on his share within a period, to be fixed by the Committee, not exceeding 5 years.

13. Every member must have paid his entrance fee and at least one instalment of the value of his share, and have been at least two months on the register of the Society, before he has the right (*a*) to vote at the general meeting, (*b*) to obtain credit from the Society.

14. Membership ceases—

(*a*) by retirement ;

(*b*) by removal of residence beyond the prescribed area unless an exception is made by the Committee;

(*c*) by expulsion ;

(*d*) by bankruptcy ;

(*e*) by death.

Expulsion of Members.

15. The Committee shall have power to expel a member—

(a) for being in default to the Society after due notice has been given ;

(b) for any act which in the opinion of the Committee is likely to be injurious to the credit and reputation of the Society or for a serious breach of the rules.

16. The member expelled has a right of appeal to the members in general meeting, but a resolution to set aside the decision of the Committee can only be carried by a majority of ⅔rds of the members present.

17. In case of cessation of membership through expulsion or bankruptcy the expelled member shall have the right to receive within six months the subscribed value of his shares without dividend or interest after deduction of any sum due by him to the Society, but he shall have no claim on the reserve or any other assets of the Society.

Liability of Members.

18. In the event of the Society being wound up every present and past member of the Society shall be liable to contribute to the assets of the Society to an amount sufficient for payment of the debts and liabilities of the Society and the cost, charges and expenses of the winding up, and for the payment of such sums as may be required for the adjustment of the rights of the contributories amongst themselves, with the qualifications following (that is to say) :—

(*a*) no past member shall be liable to contribute to the assets of the Society if he has ceased to be a member for a period of one year or upwards prior to the commencement of the winding-up :

(*b*) no past member shall be liable to contribute in respect of any debt or liability of the Society contracted after the time at which he ceased to be a member :

(*c*) no contribution shall be required from any member exceeding the amount, if any unpaid on the shares in respect of which he is liable as a present or past member.

Shares.

19. Shares of the Society may not be pledged or transferred in any way without the previous consent of the Committee of Management. If a share falls into the hands of any, person not already a member the Committee shall not be bound to register or recognise the transfer.

20. Every member shall on payment of 8 *annas* or such less sum as the members may prescribe *annually at general meeting*, be entitled to a certificate under the common Seal of the Society specifying the share or shares held by him and the amount paid thereon.

21. If such certificate is worn out or lost it may be renewed *on payment of 6 annas or such less sum as may be prescribed by the Society in general meeting, but not less than 2 annas.*

Transfer of shares.

22. If it is desired to transfer a share or shares application shall be made to the Committee and if the Committee consent the transfer shall be effected by signatures to a prescribed form. Provided that no share or shares shall be transferred until the actual owner thereof shall have held the same for at least two years.

23. Every transfer of shares shall be duly registered in a special book. Each share shall be entered under a distinctive number and shares shall be issued consecutively according to their numbers.

24. Save as provided in rules 17, 25 and 26 the Society shall not be bound to repay the value of the share. Payments need not be made till a purchaser is forthcoming but all applications for repayment shall be recorded and dealt with in order of application.

Payments on death generally.

25. (1) In the case of the death of a member the Society shall be bound to pay into the deposit account the value of his share within six months of his death.

(2) On the death of a member his heir shall subject to the provisions of Rule 26 have a right to receive within six months the full value of his share or shares after deduction of any sum due by him to the Bank, unless the heir wishes to take up the share or shares, being a member of the Bank, or if not already a member of the Society is admitted a member.

26. (1) A member of the Society may, by writing signed by him delivered at or sent to the registered office of the Society, or made in a book kept at that office, nominate a person to whom any sum of money payable by the Society including the subscribed value of his shares and dividends payable thereon on the death of that member, not exceeding one hundred rupees, shall be paid at his decease.

The person so nominated must not be an officer or servant of the Society unless that officer or servant is the husband, father, child, brother, or nephew, of the nominator.

A nomination so made may be revoked and varied by any similar document under the hand of the nominator, delivered, sent, or made as aforesaid.

(2) On being satisfied of the death of a nominator the Society shall within six months pay to the nominee the amount due to the deceased member, not exceeding the said sum of rupees one hundred. The receipt of a nominee over sixteen years of age for any amount so paid shall be valid.

(3) If any member of the Society entitled from the funds thereof to a sum not exceeding one hundred rupees dies intestate and without having made any nomination thereof then subsisting, the Society may, without letter of administration or a succession certificate, distribute the sum among such persons as appear to a majority of the Committee to be entitled by law to receive that sum.

(4) A payment made by a registered Society under the foregoing sub-sections to the person who at the time appears to a majority of the Committee to be entitled thereunder, shall be valid and effectual against any demand made upon the members of the Committee or the officers of the Society or the property of the Society by any other person, but the next of kin or lawful representative of the deceased member shall have remedy for recovery of the money, so paid as aforesaid, against the person who has received that money.

Exemption of shares and deposits of members from attachment.

27. Shares of more than twelve months' standing from the commencement of subscription, and deposits by members of more than twelve months' standing

from the commencement of deposit, shall be exempt up to the amount of one hundred rupees in the aggregate from attachment of any description whether by a Court, by Government for its revenue and taxes, by a landlord for his rent, or by any other creditor or claimant: where the value of such shares or the amount of such deposits, or the amount of both together shall exceed one hundred rupees, the exemption shall hold good up to the total of one hundred rupees. Provided, however, that such exemption shall not extend to the claims of the Society itself for amounts for any cause due to it by the member.

Reserve Fund.

28. The Reserve Fund shall be indivisible among members and shall consist of:—

(1) Fines paid by members.
(2) Sums annually devoted to it out of profits.
(3) Such other sums as may be fixed by general meeting.
(4) Such proportion of loans made by Government as may be stipulated at the time of making the loan.

The Reserve Fund may be accumulated either in cash and grain.

29. When the Reserve Fund shall have amounted to a certain sum (which shall be fixed by the members in general meeting subject to the provisions of Rule 31) the surplus profits may, if approved by the members in general meeting, be partly devoted to the establishment of special Insurance and Provident Funds for the benefit of members and employés.

30. The balance standing in the Reserve Fund may be invested in the Post Office Savings Bank, Government or *Municipal Loan notes*, or (with the consent of the members in general meeting) may be deposited with other Banks approved by Government.

Profits and Dividends.

31. Out of the net profits arising each year from the operations of the Society, not less than 25 per cent. shall be carried to the Reserve Fund *until the Reserve Fund equals half the share capital.*

32. A sum not exceeding ten per cent. of the net profits may be placed at the disposal of the Committee for rewarding employés.

33. Out of the balance remaining a dividend not exceeding $6\frac{1}{4}$ per cent. shall be paid to members and any surplus thereafter shall be carried forward.

34. The Committee may deduct from the dividend or any other sum payable to any member all such sums as may be due from him to the Society on any account.

General meetings.

35. The supreme authority in the Society is vested in the general meeting of members. In such meeting every member elected is entitled to be present and if qualified under rule 13 to vote provided always that he is not in default to the Society.

36. Each member shall be entitled to one vote for any number of shares not exceeding five, and to a further vote for every additional five shares held by him. Provided that no member shall be entitled to more than five votes whatever the number of shares held by him. No voting by proxy shall be allowed.

37. General meetings shall be of two kinds, ordinary and extraordinary.

38. Ordinary General meetings shall take place at least twice every year on such dates and places as may be determined.

39. The Committee may whenever they think fit, and shall upon the requisition in writing signed by ten or more members, convene an extraordinary general meeting.

40. Any requisition made by the members shall express the object of the meeting proposed to be called, and shall be left at the registered office of the Society.

41. No business shall be transacted at any general meeting unless a quorum of members is present and records their votes.

42. Extraordinary general meetings may also be convened by orders of the Controllers or Registrar.

43. Notice of ordinary general meetings shall be sent to all members of the Society at least 7 days before the holding of such meetings, and notice of extraordinary general meetings shall be sent 14 days before. The notice shall clearly set forth the objects to be discussed and the resolutions to be proposed.

44. A majority of members present at the ordinary general meeting and a majority of $\frac{2}{3}$rds of the members present at an extraordinary general meeting unless otherwise specially provided, shall be required to carry a resolution.

45. The quorum necessary for the transaction of business at any general meeting shall be not less than one-third of all the registered members. If within one hour of the time fixed for the meeting the proportion of members necessary to form a quorum are not present the Chairman of the meeting shall if it has been called on the requisition of members dissolve the meeting: if otherwise convened the Chairman shall postpone the meeting to a date at least 6 days and not more than 4 weeks ahead, and the business transacted at such postponed meetings shall be the same as and no other than that proposed for the original date of meeting. At such postponed meetings resolutions may be carried by a majority of $\frac{2}{3}$rds of the members present, without regard to the number required to form a quorum.

Committee of management.

46. Until a managing Committee is appointed the subscribers to the Form of Application shall be deemed to be the Committee.

47. The management of the current business of the Society shall be entrusted to a Committee, consisting of not less than three members, who shall be elected annually at the ordinary general meeting for the term of three years, one-third retiring at the close of each year.

48. The duties of the Committee shall be as follows:—

(i) To elect new members.

(ii) To appoint any salaried or non-salaried officers and other employés whose appointment is not in these rules reserved to the general meeting, and to suspend or dismiss the same at their discretion.

(iii) To fix in accordance with the Rules the rates of interest to be allowed on deposits and to be charged on loans.

(iv) To hear any complaints.

(v) To deal with applications for loans, and grant or refuse them at its discretion subject to the rules.

(vi) To receive and check the accounts of the officer or officers appointed to receive and disburse monies belonging to the Society and to examine the vouchers therefor.

(vii) To prepare at the close of each half year or oftener as the general meeting may determine a balance sheet showing in clear figures all the business done by the Bank, both receipts and outgoings, under specific headings, also the assets and liabilities of the Society, and its general position; the amount of the Reserve Fund; the arrears due on loans and shares; and

all earnings and expenditure. *Such balance sheets, with statement of profits and loss, shall be submitted for audit as hereinafter provided and thereafter shall be displayed for inspection by members in a conspicuous place in the chief office of the Society and elsewhere as may seem desirable and convenient.*

(*viii*) To meet at least twice every month for the transaction of ordinary business, for performance of all acts connected with the administration which are not by these rules specially assigned to the general meeting or to some other organ of the Bank more especially for the granting of loans, *and for the election of new members.*

49. The Committee may empower any one of their number together with the officer appointed as Managing Officer to sign on behalf of the Society for any specified act or business, but any deed or document bearing the Seal of the Society must be signed by two members of the Committee conjointly with the Managing Officer.

50. The Committee may institute, conduct, defend, compromise, refer to arbitration and abandon legal and other proceedings, and claims by or against the Society or Committee or officers of the Society and otherwise concerning its affairs.

51. The Committee may adjourn and otherwise regulate their proceedings as they think fit, and determine the quorum necessary for the transaction of business. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes the Chairman shall have a casting vote.

52. The Chairman of the Committee shall be elected annually by the members at an ordinary general meeting. *The members of the Committee may temporarily appoint one of their body to take the chair during the absence of the Chairman. But should the Chairman be absent without leave for over three months, an extraordinary general meeting must be called to elect a new chairman.*

53. All minutes of the meetings of the Committee shall be signed by the Chairman or his substitute *and the officer acting as Secretary* and entered in a book kept for the purpose.

54. The services of all members of the Committee shall be gratuitous. The chairman of the Committee shall not be allowed to take loans from the Bank during his term of office.

55. No member of the Committee or Society member shall vote on any application for a loan in which he himself is interested, as borrower or surety.

56. The Committee shall be responsible for all their acts to the general meeting, and in respect of any decision come to in the matter of election, applications for loans or otherwise, an appeal shall lie to the general meeting.

57. The Committee shall, from time to time, subject to the confirmation of the general meeting, make bye-laws regulating the following matters :—

- *(a) the distribution of duties among their members ;*
- *(b) the procedure at their meetings ;*
- *(c) the books and accounts to be kept at the registered office or elsewhere ;*
- *(d) the reports and statements to be made by the officers and employés of the Society ;*
- (*e*) the general conduct of the business of the Society.

Conduct of Business.

58. The Society is authorised to carry on and transact the several kinds of business already mentioned in the Form of Application and especially including—

- *(1) Advances or loans or cash credit to members on personal or other approved security.*

- *(2) Loans to members upon approved and accepted Bills of exchange endorsed by members.*
- *(3) Loans to village Co-operative Credit Societies.*
- *(4) The buying and selling of Bills of Exchange and other negotiable securities payable in India for the purpose of drawing and remitting their own funds.*
- *(5) The receiving of deposits and keeping deposit accounts on such terms as may be agreed upon.*
- *(6) The safe custody of plate, jewels, title-deeds or other valuable goods on such terms as may be agreed upon.*
- *(7) The collection, as agents on commission, of the proceeds of the principal and interest of any securities or shares.*

59. The Committee shall not—

- (1) make any loan or grant advances in any form to any person not a member of the Society ;
- (2) discount any Bill of Exchange which does not bear the signature or endorsement of at least one member of the Society ;
- (3) make loans on personal security only without taking the promissory note or the joint and several promissory notes of the borrower and his surety or sureties.

60. No loan shall be granted for a period exceeding 12 months. Renewals for further periods, not exceeding 12 months, may be granted provided that at least one-fourth of the original advance is repaid at maturity. Payments in part or entirely may be accepted before maturity.

61. Applicants for loans or advances must not be in default in respect of any previous transactions or liability with or to the Society or with or to a surety in a previous transaction as regards such previous transaction.

62. Loans may be granted to members on the paid up amount of their shares to an extent not exceeding 15 annas in the rupee.

63. Applications for small loans and advances should receive preference over those for larger ones.

64. The general meeting shall fix annually, after hearing the proposals of the Committee, the maximum amount of credit to be allowed to any one of its members during the coming year, and no member shall be able to obtain credit from the Committee for a larger sum than that prescribed as the general maximum by the general meeting.

65. In the case of loans against material security only, unsupported by sureties, the value of the security offered shall be ascertained, and the sum advanced shall not exceed 60 per cent. of the current market value of such security, except as regards the shares of the Society as provided for in Rule 62.

66. The rate of interest charged by the Society on loans to members shall not exceed 2 pies per rupee per mensem. Compound interest shall not be charged.

67. The rate of interest paid on deposits whether from members or others shall not exceed 1 pie per rupee per month.

68. No deposits shall be accepted from non-members unless the general meeting declare a minimum non-withdrawable share capital at the beginning of each working year.

69. The Committee may if convenient pay out any deposits or part thereof on receiving at least 7 days' notice of withdrawal.

70. The Society shall as regards loans made for solely productive purposes have the same privileges as if the same were takavi loans made by a Government Officer. *It shall have a lien on all property purchased with its loans so long as the loan or any part of it remains outstanding and shall be entitled to have any arrear in the case of default recovered from the defaulting member by a revenue officer in the same way as is laid down for the recovery of arrears of land revenue.*

Recovery of loans

71. The Society shall have a prior lien on all shares for the recovery of sums due to it by its members

72. The Society shall have power to transfer to its own name the share or shares belonging to a member who is in default and to satisfy its claims from the value of such shares, paying the balance to the defaulter.

Disputes.

73. (1) Every dispute between the Society or an officer thereof, and

(a) a member or person claiming through a member or under the rules of the Society, and

(b) any person aggrieved who has for not more than six months ceased to be a member of the Society or an officer thereof, or any person claiming through such person aggrieved,

shall be decided by two arbitrators or should they fail to come to an agreement by an umpire, appointed as hereinafter provided, and the decision so given shall be binding and conclusive on all parties without appeal, and shall not be removable into any court of law or restrainable by injunction; and application for the enforcement thereof may be made to a civil court.

(2) The arbitrators and umpire shall be appointed from time to time by general meeting.

Accounts.

74. The books of account and record shall be kept at the registered office of the Society and subject to any reasonable restriction as to time and manner of inspecting the same as may be imposed by the members in general meeting, shall be open to the inspection of members during the hours of business.

75. The forms used in accounts and registers and other books and documents of the Society shall be kept in the form approved by the Registrar under the orders and direction of the Committee who shall be responsible to the general meeting for their correctness.

Audit and Control.

76. The Proceedings of the Committee shall be controlled and the accounts of the Society shall be audited by three members, to be called the Controllers.

77. The Controllers shall be appointed by the members annually at the ordinary general meeting.

78. The duties of the Controllers shall be—

(1) to check all the transactions of the Committee from time to time,

(2) to examine the minutes of meetings not less than once a month,

(3) to compare the entries in the books of accounts with the vouchers of receipts and payments and to see that the said books are correctly and legibly kept and posted up to date,

(4) to count the cash and compare the amount with the ledger balance,

(5) to examine the assets and securities of the Society and compare them with the entries in the register,

(6) to audit and make a report upon the balance sheet and accounts every year or six months or oftener, as may be decided by general meeting, and in every report to state whether in their opinion, the balance sheet is a full and fair balance sheet containing the particulars required under these Rules and properly drawn up so as to exhibit a true and correct view of the state of the Society's affairs, and, in case they have called for explanations or information from the Committee, whether such explanations or information have or has been given by the Committee, and whether they or it have or has been satisfactory and such report shall be read together with the report of the Committee at the general meeting.

79. The Controllers shall at all reasonable times have full access to the books, accounts and other documents of the Society, and may in relation to such accounts examine the Committee or Secretary or any other officer of the Society.

80. The Controllers must not be members of the Committee or hold any other appointment in the Society except that of arbitrator or umpire or be in default to the Society.

81. The audit by the Controllers shall be separate and apart from any special audit under the orders of Government in terms of the Act.

82. The Society may also provide for special audits and requisition the services of experts either outsiders or members of the Society to conduct such audit and the report of such auditors shall be submitted to the next general meeting.

Winding up.

83. The Society shall be wound up voluntarily whenever a resolution carried by three-fourths of the members is passed in general meeting, requiring the Society to be wound up voluntarily, provided that no such resolution shall be considered as effective until confirmed by the Registrar who, if he approves, shall appoint a qualified person or persons to wind up the bank.

Co-operative Credit Societies with unlimited liability and without shares.

Scheme of Management.

Membership.

1. The members of the Society shall consist of :—

(1) the persons who have subscribed to the application for Registration and to the Rules of Business appended thereto ;

(2) such persons as shall from time to time become members of the Society by election under these rules.

2. Every person shall be deemed to have become a member of the Society who has been elected in pursuance of the regulations hereinafter contained.

Election of Members.

3. Any person having his ordinary residence within   and having attained the age of sixteen shall be eligible to become a member of the Society. Every person desirous of becoming a member shall send in an application supported by one or more members of the Society *to the Secretary or Manager who shall lay this application before the Committee of management at their next meeting.*

4. Election shall be either by a general meeting or by the Committee of management and in the latter case subject to appeal to a general meeting.

5. For election by the general body of members a majority of two-thirds of those voting and an absolute majority of the whole number of members shall be necessary.

6. In the eve t of election being by the Committee their decision may be brought before a general meeting by any member within one month. The decision of the Committee shall hold good unless reversed by a majority of two-thirds of the members present at the general meeting.

7. The election of a member shall be immediately notified by a notice conspicuously posted in the office of the Society.

Rules of Membership.

8. The candidate for membership whose application is accepted shall thereupon sign his name in the register containing a list of the names, description, and addresses of the members of the Society. Upon signing his name in the register the candidate shall be deemed, subject to the provisions of Rule 10, to have acquired all the rights, obligations, responsibilities and liabilities of a member of the Society as laid down in its Form of application and Rules of Business.

9. The candidate on admission to membership shall be required to pay an entrance fee of not less than *4 annas.*

10. Every member must have paid his entrance fee and have been at least one month on the register of the Society before he has the right :—

(*a*) to vote at the general meeting ;

(*b*) to obtain credit from the Society.

11. Membership ceases :—

(*a*) by retirement ;

(*b*) by removal of residence beyond the prescribed area ;

NOTE.—In this scheme provisions which the Committee considered essential are shown in Roman type. Other provisions are shown in italics (*vide* paragraph 24 of Report).

(*c*) by expulsion ;

(*d*) by bankruptcy ;

(*e*) by death.

Expulsion of Members.

12. The Committee shall have power to expel a member :—

(a) for being in default to the Society after due notice has been given ;

(b) for any act which in the opinion of the Committee is likely to be injurious to the credit and reputation of the Society or for a serious breach of the rules.

13. The member expelled has a right of appeal to the members in general meeting, but a Resolution to set aside the decision of the Committee can only be carried by a majority of two-thirds of the members present.

Liability of Members.

14. In the event of the Society being wound up, every present and past member of the Society shall be liable to contribute to the assets of the Society to an amount sufficient for payment of the debts and liabilities of the Society and the cost charges and expenses of the winding-up, and for the payment of such sums as may be required for the adjustment of rights of the contributories amongst themselves, with the qualification following (that is to say) :—

(*a*) no past member shall be liable to contribute to the assets of the Society if he has ceased to be a member for a period of one year or upwards prior to the commencement of the winding-up ;

(*b*) no past member shall be liable to contribute in respect of any debt or liability of the Society contracted after the time at which he ceased to be a member.

Payments on death generally.

15. (1) A member of the Society may, by writing signed by him delivered at or sent to the registered office of the Society, or made in a book kept at that office, nominate a person to whom any sum of money payable by the Society on the death of that member, not exceeding one hundred rupees, shall be paid at his decease.

(2) The person so nominated must not be an officer or servant of the Society unless that officer or servant is the husband, father, child, brother or nephew of the nominator.

(3) A nomination so made may be revoked and varied by any similar document under the hand of the nominator, delivered, sent, or made as aforesaid.

16. (1) On being satisfied of the death of a nominator the Society shall, within six months, pay to the nomi[illegible] the amount due to the deceased member, not exceeding the said sum of rupees one hundred. The receipt of a nominee over 16 years of age for any amount so paid shall be valid ;

(2) if any member of the Society entitled from the funds thereof to a sum not exceeding one hundred rupees dies intestate and without having made any nomination thereof then subsisting, the Society may, without letters of administration or a succession certificate, distribute the sum among such persons as appear to a majority of the Committee, to be entitled by law to receive that sum ;

(3) a payment made by a registered Society under the foregoing sub-sections to the person who at the time appears to a majority of the Committee to be entitled thereunder, shall be valid and effectual against any demand made upon the members of the Committee or the officers of the Society or the property of the Society by any other person, but the next of kin or lawful representative of the deceased member shall have remedy for recovery of the money, so paid as aforesaid, against the person who has received that money.

Exemption of deposits of members from attachment.

17. Deposits by members of more than 12 months' standing from commencement of the deposit, shall be exempt up to the amount of Rs. 100 in the aggregate from attachment of any description whether by a Court, by Government for its revenues and taxes, by a landlord for his rent, or by any other creditor or claimant: where the amount of such deposits, or the amount of both together exceeds Rs. 100 the exemption shall hold good up to the total of Rs. 100. Provided, however, that such exemption shall not extend to the claims of the Society itself for amounts for any cause due to it by the member.

Reserve Fund.

18. The Reserve Fund shall be indivisible among the members and shall consist of :—

(1) Fines paid by members.

(2) Sums annually devoted to it out of profits.

(3) Such other sum as may be fixed by General meeting.

(4) Such proportion of loans made by Government as may be stipulated at the time of making the loan.

The Reserve Fund may be accumulated either in cash or grain.

19. When the Reserve Fund shall have amounted to a certain sum (which shall be fixed by the members in general meeting and shall not be less than one-third of the total liabilities of the Society) the surplus profits may, if approved by the members in general meeting, be devoted to the reduction of interest on loans, the increase of interest on petty savings and objects of local utility.

20. The cash balance standing in the Reserve Fund and all surplus cash funds shall be deposited in the Post Office Savings Bank or with a Co-operative Bank, Limited.

Profits and dividends.

21. Out of the net profits arising each year from the operations of the Society, not less than 25 per cent. shall be carried to the Reserve Fund.

22. A sum not exceeding 10 per cent. of the net profits may be placed at the disposal of the Committee for rewarding employés.

General meetings.

23. The supreme authority in the Society is vested in the general meeting of members. In such meeting every member elected is entitled to be present and if qualified under rule 10 to vote provided always that he is not in default to the Society.

24. Each member shall be entitled to one vote and one vote only. No voting by proxy shall be allowed.

25. General meetings shall take place at least four times in every year or oftener as may appear necessary on such dates as may be determined by the Committee.

26. (*a*) The general meeting shall fix annually, after hearing the proposals of the Committee, the maximum amount of credit to be allowed to any one of its members during the coming year, and no member shall be able to obtain credit from the Committee for a larger sum than that prescribed as the general maximum by the general meeting.

(*b*) It shall also fix a maximum for the aggregate amount of liability to be incurred during the year by the raising of loans or the receipt of deposits.

(*c*) It shall fix the rates of interest to be paid on deposits, or to be charged on loans. Provided that the rate of interest paid on deposits or charged on loans shall not exceed respectively $1\frac{1}{2}$ pie and 2 pies per rupee per mensem and that compound interest shall not be allowed or charged.

27. The Committee may, whenever they think fit, and shall upon the requisition in writing signed by five or more members, convene a general meeting.

28. No business shall be transacted at any general meeting unless *one-half of the total number of members be present at the commencement of such meeting.*

29. General meetings may also be convened by orders of the Controllers or of the Registrar.

30. Notice of general meetings shall be sent to all members of the Society at least *14* days before the holding of such meetings. *A majority of two-thirds of the members present shall be required to carry a Resolution.*

Committee of Management.

31. Until a Managing Committee is appointed the subscribers to the Form of Application shall be deemed to be the Committee.

32. The management of the current business of the Society shall be entrusted to a Committee consisting of not less than three members, who shall be elected annually at an ordinary general meeting for the term of three years, one-third retiring at the close of each year.

33. The duties of the Committee shall be as follows :—

(1) *To elect new members.*

(2) To appoint any salaried or non-salaried officers and other employés, whose appointments are not in these rules reserved to the general meeting, and to suspend or dismiss the same at their discretion.

(3) To hear any complaints.

(4) To deal with applications for loans and grant or refuse them at its discretion subject to the rules.

(5) To see that no loan is given without proper sureties or valid security for repayment, and to receive and disburse money as occasion may require.

(6) To receive and check the accounts of the officer or officers appointed to receive and disburse monies belonging to the Society and to examine the vouchers therefor.

(7) To prepare at the close of each quarter or oftener as the general meeting may determine, a balance sheet showing in clear figures all the business done by the Society, both receipts and outgoings, under specific headings, also the assets and liabilities of the Society, and its general position; the amount of the Reserve Fund: the arrears due on loans and all earnings and expenditure. Such balance sheets with statement of profits and loss, shall be submitted for audit as hereinafter provided and thereafter shall be displayed for inspection by members in a conspicuous place.

(8) The Committee shall meet at least twice every month for the transaction of ordinary business *more especially for the granting of loans and the election of new members, and such days of meeting shall be fixed and notified at the half-yearly or yearly general meeting, and any member whether a member of the Committee or not may be present, but no member, other than a member of the Committee, shall have any voice in the transaction of the business or in the matters discussed at such meetings.*

34. The Committee may empower any one of their number together with the officer appointed as Managing Officer to sign on behalf of the Society for *any specified act of business, but any deed or document bearing the Seal of the Society must be signed by two members of the Committee conjointly with the Managing Officer.*

35. The Committee may institute, conduct, defend, compromise, refer to arbitration and abandon legal and other proceedings and claims by or against the Society or Committee or officers of the Society and otherwise concerning its affairs.

36. The Committee may adjourn and otherwise regulate their proceedings as they think fit, and determine the quorum necessary for the transaction of business. Questions arising at any meeting shall be decided by a majority of notes. In case of an equality of votes the Chairman shall have a casting vote.

37. The Chairman of the Committee shall be elected annually by the members at the ordinary general meeting. *The members of the Committee may temporarily appoint one of their body to take the chair during the absence of the Chairman. But should the Chairman be absent without leave for over three months a general meeting shall be called to elect a new Chairman.*

38. All minutes of the meetings of the Committee shall be signed by the Chairman or his substitute and one other member of the Committee and entered in a book kept for the purpose.

39. The services of all members of the Committee shall be gratuitous.

40. No member of the Committee or of the Society shall vote on any application for a loan in which he himself is interested as borrower or surety.

41. The Committee shall be responsible for all their acts to the general meeting, and in respect of any decision come to in the matter of election, applications for loans or otherwise, an appeal shall lie to the general meeting.

42. The Committee may from time to time, subject to the confirmation of the general meeting, make bye-laws regulating the following matters :—

(*a*) *the distribution of duties among their members;*

(*b*) *the procedure at their meetings;*

(*c*) *the books and accounts to be kept at the registered office or elsewhere;*

(*d*) *the reports and statements to be made by the officers and employés of the Society;*

(*e*) *the general conduct of the business of the Society.*

Conduct of business.

43. The Society is authorised to carry on and transact the several kinds of business already mentioned in the Form of application and especially including :—

(*1*) *Advances or loans or cash credit to members on personal or other approved security.*

(*2*) *The receiving of deposits and keeping deposit accounts on such terms as may be agreed upon.*

44. The Committee shall not—

(1) make any loan or grant advances in any form to any person not a member of the Society;

(2) make loans on personal security only without taking the promissory note or the joint and several promissory notes of the borrower and his surety or sureties.

45. No loan shall be granted for a period exceeding twelve months. Renewals for further periods, not exceeding twelve months, may be granted provided that at least one-fifth or in the case of loans for purely land improvement one-eighth of the original advance with interest due is repaid at maturity.

Payments in part or entirety may be accepted before maturity. Provided that the general meeting may except from the operation of this rule any individuals who have suffered losses from unavoidable calamity and may in their case sanction renewal on payment or without payment of the due instalment of principal and interest due.

46. Applicants for loans or advances must not be in default in respect of any previous transactions or liability with or to the Society or with or to a surety in a previous transaction as regards such previous transaction.

47. Applications for small loans and advances should receive preference over those for larger ones.

48. Loans and advances shall only be granted for purposes which are agriculturally and industrially productive, *such as the purchase of seed, cattle, manure, agricultural or industrial implements, purchase of raw materials for manufacture, farm improvements including buildings and the like.*

49. Loans may also be granted for the liquidation of debts due by a member prior to his election if an arrangement can be made whereby the borrower's total indebtedness is brought within his powers of repayment within a resonable period.

50. Loans may also be granted, under the usual conditions, for payment of rent or revenue.

51. If the Committee are satisfied that the proceeds of any loan have been misapplied, they may call it in in full with interest to date on giving four weeks' notice.

52. The Committee may lend for expenses connected with marriages and other domestic occurrences provided that the borrower has had a deposit account with the Society for the past three years and that the amount so lent does not exceed 50 per cent. of the annual average of his deposit account during the three years.

53. The Committee may receive under the conditions laid down deposits from members, and also from others who are not members.

54. In the case of loans against material security only, unsupported by sureties the value of security offered shall be ascertained and the sum advanced shall not exceed 60 per cent. of the current market value of such security.

55 The Committee may, if convenient, pay out any deposits or part there of on receiving at least 14 days' notice of withdrawal.

56. The Society shall, as regards loans made for solely productive purposes, have the same privileges as if the same were takavi loans made by a Government Officer. It shall have a lien on all property purchased with such loans so long as the loan or any part of it remains outstanding and shall be entitled to have any arrear in the case of default recovered from the defaulting member by a revenue officer in the same way as laid down for the recovery of arrears of land revenue.

Disputes.

57. (1) Every dispute between the Society or an officer thereof and—

(*a*) a member or person claiming through a member or under the rules of the Society, and

(*b*) any person aggrieved who has for not more than six months ceased to be a member of the Society or any officer thereof or any person claiming through such person aggrieved,

shall be decided by two arbitrators or an umpire appointed as hereinafter provided, and the decision so given shall be binding and conclusive on all parties without appeal, and shall not be removable into any Court of Law or restrainable by injunction; and application for the enforcement thereof may be made to a Civil Court.

(2) The arbitrators or umpire shall be appointed from time to time by general meeting.

Accounts.

58. *The books of account and record shall be kept at the registered office of the Society and, subject to any reasonable restriction as to the time and manner of inspecting the same as may be imposed by the members in general meeting, shall be open to the inspection of members during the hours of business.*

59. *The forms used in accounts and registers and other books and documents of the Society shall be kept in the form approved by the Registrar under the orders and direction of the Committee who shall be responsible to the general meeting for their correctness.*

Audit and control.

60. The proceedings of the Committee shall be controlled and the accounts of the Society shall be audited by two or more members, to be called the Controllers.

61. The Controllers shall be appointed by the members annually at the ordinary general meeting.

62. The duties of the Controllers shall be—

(1) to check all the transactions of the Committee from time to time;

(2) to compare the entries in the books of accounts with the vouchers of receipts and payments and to see that the said books are correctly and legibly kept and posted up to date;

(3) to count the cash and compare the amount with the ledger balance;

(4) to examine the securities and assets of the Society and compare them with the entries in the securities register;

(5) to audit and make a report upon the balance sheet and accounts every year or six months or as often as may be decided by general meeting, and in every report to state whether in their opinion, the balance sheet is a full and fair balance sheet containing the particulars required by these rules and properly drawn up, so as to exhibit a true and correct view of the state of the Society's affairs, and, in case they have called for explanations or information from the Committee, whether such explanation or information have or has been given by the Committee and whether they or it have or has been satisfactory and such report shall be read together with the report of the Committee at the general meeting.

63. The Controllers shall at all reasonable times have full access to the books, accounts and other documents of the Society, and may in relation to such accounts examine the Committee or Secretary or any other officer of the Society.

64. It shall also be the duty of the Controllers to see that a member who has taken a loan devotes the money to the purpose for which it has been advanced and should they find he is not doing so they shall report to the Committee there anent.

65. The Controllers must not be members of the Committee or hold any other appointment in the Society except that of arbitrator or umpire or be in default to the Society.

66. The audit by the Controllers shall be separate and apart from any special audit under the orders of Government in terms of the Act.

67. *The Society may also provide for special audits, and requisition the services of experts either outsiders or members of the Society to conduct such audit and the report of such auditors shall be submitted to the next general meeting.*

Winding up.

68. The Society shall be wound up voluntarily whenever a resolution carried by three-fourths of the members is passed in general meeting, requiring the Society to be wound up voluntarily, provided that no such resolution shall be considered as effective until confirmed by the Registrar who, if he approves, shall appoint a qualified person or persons to wind up the Society.

Appendix III.

(1) Note on Madras Loan Funds by Hon'ble Mr. F. A. Nicholson, C.I.E., I.C.S.

(2) Note on Village Banks in the North-Western Provinces and Oudh, by Mr. H. Dupernex, I.C.S.

(3) Abstract of evidence given before the Committee by Mr. E. D. Maclagan, I.C.S., and Captain J. G. Crosthwaite, I.S.C., regarding Mutual Help Associations in the Punjab.

(4) Rules of the Dhandla Mutual Help Association in the Dera Ismail Khan District.

MADRAS LOAN FUNDS.*

Principles.—The Nidhis of the Madras Presidency are, in principle, Mutual Loan Funds, probably developed from the indigenous "kuttu-chit" (joint bond) system, but following, with additions, the methods and rules of the English Building Societies. In theory they are purely mutual: the funds saved by members should be lent to members only, by the agency of members, and all profits should be divided among members, whether borrowers or only savers. In practice the theory is apt to be departed from.

Objects.—These are generally stated as—

(1) the encouragement of saving among the members;

(2) the lending of the funds so obtained to the members.

Funds.—Savings are effected chiefly by enforcing the subscription of shares of given amount at monthly intervals throughout a fixed period,* which is usually 45 or 84 months; this is the central idea of every Society. Every member must take at least one share, but may take more within a fixed and moderate limit. Every share is paid up gradually by regular and enforced instalments of one rupee per month, and matures at the end of the fixed period; the amount is then paid over to, or credited to the account of, the member, together with the interest which has accrued. The usual interest allowed on shares is one pie per rupee per month, by which payments, aggregating Rs. 84 in 84 months, have a matured value of Rs. 102-6-0. These shares are issued in frequent series, so that shares are constantly issuing and maturing. Punctuality in subscription is enforced by levying heavy penal interest.

Deposits are also encouraged, especially when matured shares are to be paid off: they appear to be considerably on the increase. Interest on deposits varies from 5 to 9 per cent.

Loans.—The funds thus obtained are issued as "regular" loans to members, either as "simple" loans, *viz.*, up to 95 per cent of the amount paid up on each share, or as loans upon security. All such loans are repaid by the method of subscribing for shares, *e.g.*, if a man borrows Rs. 500 on a mortgage, he must possess or take five shares of Rs. 100 each, and must, for 84 months, pay in Rs. 5 per month, together with the interest agreed upon; at the close of the 84 months his payments of Rs. 420, having been invested in other loans, have earned counter-interest at one pie per rupee per month to the amount of Rs. 80, and his debt of Rs. 500 is thereby cancelled. This method ensures ease and punctuality of repayment.

Temporary and small lot loans are also lent for short terms on ordinary methods but at higher interest.

"Simple" loans are preferred by all Societies; next, in order of favour, usually follow loans on pledge of jewels, mortgages, loans on Government securities, and lastly loans on personal security. Loans upon jewels are greatly favoured, both by the Societies and borrowers, as a ready means of mobilizing capital ready to hand, while, under the contract law the Societies can sell pledged property forthwith in case of default and the pawnor is still liable for any deficiency.

Interest varies from $6\frac{1}{4}$ to 15 per cent, the latter only on small lot loans for short terms, in general, interest on "regular" loans is from $6\frac{1}{4}$ to $9\frac{3}{8}$ per cent., and on "temporary" loans from $9\frac{3}{8}$ to $12\frac{1}{2}$ per cent., according to the character of the transaction. Punctuality is enforced by double or treble interest on default of regular repayments.

No questions are asked and no control is exercised over the intended use of the loans, but the clearing off of usurious loans is often expressly entered as one of the objects for which the Society is formed and works.

* These Associations or Funds are described in detail on pages 242—278 of Volume I of my Report on Agricultural Banks, while an abstract is given on pages 21—28 of the Report.

Members.—Members are elected by the Managing Committee, or they are admitted by the Secretary subject to confirmation by the Committee. They can withdraw before their shares mature, and the bare amount of their subscriptions is then repaid them as funds permit: half interest is allowed in certain cases such as transfers of appointment. Shares may be transferred by permission. Members usually have only one vote, whatever the number of their shares.

Administration.—In general, there is the usual Managing Committee (Directors) together with Appraisers (for jewels and immovables), one or more auditors, and a Secretary who is frequently the virtual Manager. In the original Societies, Directors gave their services gratuitously, but this is not now usual; "sitting fees" and special shares in the profits are now much sought after by Directors. The Companies Act, which is the only present available Act, governs the general administration of these societies. The Articles of Association (rules of business) are more or less similar in all Nidhis. Accounts are generally on a fairly good system.

Audit.—This is usually well provided for in the rules. One or more members, who must not be Directors, are required to carry on a continuous internal audit, while external audit by a more or less professional outsider (*e.g.*, one of the Collector's accountants) is always provided for. Internal audit is often defective in practice.

Reserve.—The rules usually provide that 25 per cent. of the profits shall be carried to a reserve: this rule seems to be poorly observed, and is nullified by the further rule that the reserve shall be broken up and divided every four years at most. It will presently be seen that this guarantee for safety, especially of deposits, is in practice, excessively small.

Position and Results.—Notwithstanding the unsuitability of the law and the absence of all external supervision, whereby great numbers of funds have been fraudulently or ignorantly started and worked, and a vast amount of capital lost to subscribers through the breaking up of such funds, these Societies are now gradually advancing in numbers and strength. In 1892 there were 135 with a nominal capital of 234 lakhs, and a paid up capital of 79 lakhs, the ratio of paid to subscribed capital being as one to three. The above figures include, however, a number of "banking companies" which are not strictly Mutual Loan Funds and should have been excluded. The present number of Nidhis proper is 224 with a subscribed capital of 260 lakhs of which 75 or nearly three-tenths is paid up. The present figures are more favourable in the matter of progress than they appear, since all "banking companies," of which there are 43, have now been excluded. Deposits are now above 25 lakhs, and outstanding loans, exclusive of those in Societies which have not stated their loans, amount to 86 lakhs. The reserves only aggregated $2\frac{1}{6}$ lakhs. There are above 36,000 members holding about 142,000 shares and an individual capital averaging about Rs. 208 per mensem.

The Societies are found not merely in towns of 5,000 inhabitants and upwards but in villages, usually those of the better class: but it is noticeable that they have developed largely and recently only in certain districts such as Tinnevelly.

Advantages.—The methods of these Societies are well adapted for those possessing a regular income, such as Government officers, professional men, and traders: the fund method of monthly subscription develops a tendency to steady saving. But this very method renders them unsuitable for agriculturists. The Societies decidedly assist in the development of thrift, punctuality, and business habits among their members, while they are able to lend a considerable amount of capital at equitable rates.

Deposits.—Being Societies with withdrawable capital, and no fixed and substantial reserve, they do not sufficiently attract deposits and are, therefore,

cramped for funds: of their working capital three-fourths are from members' subscriptions, and only one-fourth is from deposits, whereas the converse should be the case. Most members wish to borrow; hence severe competition for insufficient funds, leading either to usurious methods such as Dutch auctions, favouritism, or to long delays in obtaining loans. Other defects are, the need either for borrowing on high terms when large numbers of shares, not pledged for loans, approach maturity, or for restricting loans at that time: the absence of any control over the use to be made of the loans; the tendency to seek for large profits, dividends and Directors' fees; the insufficient favour shown to personal security by suretyship, the "keystone" of mutual credit; the want of union among the Societies, so that there is no provision for thoroughly experienced audit and no opportunity for considering and working developments of system.

With a suitable law and the provision of a Registrar with powers as in England and America or somewhat more extensive, these Nidhis have a great future.

Kuttu-chit Associations or Kuris.—In at least two districts these are far more important than the Nidhis and are assuming great proportions: some have lately been registered as Nidhis. They are described on pages 242, 272 and 273 of Volume I of my report on Agricultural Banks.

4th July 1901. F. A. NICHOLSON.

NOTE ON VILLAGE BANKS IN THE NORTH-WESTERN PROVINCES AND OUDH.

Village banking is still in the experimental stage in the North-Western Provinces and Oudh. I made certain experiments in November 1900. The principal object of these experiments was to find out whether Indian villagers could be got to understand the principles of co-operative association. The outcome of these experiments was the establishment of five village societies in the Allahabad district. In the spring of this year I was on special duty for a little over two months and visited a number of districts in Oudh and the North-Western Provinces and explained the principles of village banking to a number of the principal landowners and discussed the question with them. The experience I gained then, was utilized in the preparation of a small primer, which contains a descripion of the methods to be employed in starting village co-operative societies and includes a complete set of rules and forms of accounts. These rules are entirely based on the well known Raiffeissen rules and have been assimilated as far as possible to Indian conditions.

2. I have had no direct control over any village society since March 1901. Two village bank inspectors of the rank of Naib Tahsildars and working under the control of the Director of Agriculture were then appointed by the Local Government to visit the village banks that had been started and to give assistance to the landowners who were engaged in starting such banks on their estates. A considerable number of these societies have now been set going, but it is too early in the day to talk of results. I do not think any society can be properly judged till it has been in existence for about two years.

The village societies that have been established are financed by organisation societies under the system described in the primer. In the case of the first society, that established in Allahabad, the Local Government itself advanced Rs. 1,000, but in no other instance, so far as I am aware, have Government funds been utilized, the money needed for the purpose being advanced by the members of the organization societies. There is very little difficulty in obtaining a few thousand rupees on loan for the operations of an organization society, in any north-west district so long as the members who advance it are satisfied that the money will be employed in financing village societies on their own estates. There are now I believe some eleven or fourteen organization societies in existence and they are engaged in financing some forty or fifty village societies.

4. In the North-Western Provinces we began first with village societies. This was the most difficult end to begin from. It would have been much easier to begin with urban societies but the present state of the law blocked the way and prevented any experiments from being made with share-societies in towns. As it is, village societies are extremely hampered in their development by the obstacles unintentionally presented by the existing laws to co-operative progress in India.

5. It should be clearly understood that every thing that has been done in the North-Western Provinces during the last few months is of a purely experimental character. The conditions of each district in the North-Western Provinces vary considerably one from another. What is suitable in one district may not be suitable or even desirable in another. But it is only by experiments on a fairly large scale that one can discover how far the present system fails to satisfy the requirements of the people, what details it may be necessary to modify and what features might be discarded as superfluous.

6. In conclusion I should like to add that as far as my own experience goes, I have never had cause to complain of lack of interest among any class of people in the experiments I have been making. Many persons may be dubious as to the ultimate results, but there is a general consensus of opinion that if any system of agricultural credit can be got to work on a large scale, it will be of enormous benefit to the cultivator.

8th July 1901. H. DUPERNEX.

Evidence given before the Committee by Mr. E. D. Maclagan, Esq., I.C.S., Settlement Officer, Multan, and Captain J. G. Crosthwaite, I.S.C., Settlement Officer, Dera Ismail Khan.

Mr. Maclagan gave an account of the Mutual Help Associations which had been started by Captain Crosthwaite and himself in the Multan district in the spring of 1898. The first Association which was started (among the Pannu Tribe) failed to take shape owing mainly to difficulties with the banias; but two others, one among the Nuns and one among the Syads, seemed to have taken root. The former had in 1899 fifty-seven members and the latter thirty-seven. In both cases the members were all proprietors belonging to the same Mahomedan tribe. About half a dozen of them were well off, the rest were poor and in debt. The poorer brethren were however willingly admitted and without any outside pressure being brought to bear. So far as the richer men were concerned, the Association no doubt rested to a large extent on philanthrophy, though such Associations would of course give them influence in their villages. So far no new members had been admitted since the Associations were originally started three years ago, but he did not think that any objection would be raised to the admission of new members of the same tribe and neighbourhood. The members of both Associations were all Mahomedans, but they appeared to have no objection to lending on interest provided that the interest was credited to the common fund. The system on which the Associations were worked was as follows. The Association was managed by a panchayat elected when the Association was first started and followed generally some rules drawn up by himself and Captain Crosthwaite. The members subscribed after each harvest a certain fraction of their produce, the proportion which each man was to contribute being fixed by the Association. The crops from which subscriptions were collected were as a rule wheat, rice, indigo, and barley, but if in any year the harvest was a failure, no collections were made in that year. The usual proportion fixed was one seer for each maund of produce. Practically the portion subscribed by each member was $2\frac{1}{2}$ per cent. of crops which did well. In 1899—a famine year—no subscriptions were taken. The grain subscribed was collected and sold as opportunity occurred. Of the proceeds part was put in the Post Office Savings Bank and part was given out to poorer members on loans. The rate of interest charged was one seer for each rupee lent. But as a matter of fact loans had only been made in 1898 and up to date the operations of the Associations had mainly been directed to the accumulation of capital, with the avowed object (among others) of redeeming land belonging to the tribe. One of the Associations had already accumulated capital to the extent of Rs. 2,000. It was however proposed to again make loans after the present harvest. There was a certain amount of slackness in the working, and delay in the payment of subscription, and in the recovery of the loans, but so far no difficulty had arisen from defaulters. If any such difficulty did arise, the influence of the panchayat would probably suffice to secure the recovery of the loan without appeal to the courts. They would probably proceed themselves to take the amount of grain due from the defaulters' heap. Accounts were kept, but there was no regular audit. The Tahsildar, however, made general enquiries from time to time to see that matters were going on all right. Mr. Maclagan stated that in his opinion the results so far were distinctly encouraging. At one time he thought that the business was only being continued in order to please himself and the Tahsildar, and he was considering the advisability of winding up the Association before any account difficulties took place: but after further consideration and consulting the members he came to the conclusion that many of them really wanted to give the system a trial, and that if some slight supervision were maintained by Tahsildars over their work, there was no reason why they should not succeed. He was not in favour of aid from Government funds, and did not consider that such aid was necessary. It was far better that members should themselves subscribe the funds required for working the Association. The two Associations which he had described were working entirely on their own capital. As to the extent to which Government should interfere with Associations, of this kind Mr. Maclagan was of opinion that some kind of Government audit was very advisable, and also that, at any rate for the present, such Associations if they were to succeed must be fostered by the revenue officer on the spot. He was distinctly of opinion that the work of audit should be done by the local Tahsildar who possesses local knowledge and interest and not by an outside auditor. The working of the Tahsildar should however be limited to auditing the accounts and generally interesting himself in the progress of the Association. He should not be allowed to interfere otherwise. Of course, if ever such Associations were established in large numbers in any tahsil, the services of a special auditor would be necessary. Mr. Maclagan stated that the failure of the Pannu Association was due mainly to the hostility of the banias. In the case of the other Associations the transactions had not hitherto been sufficient to arouse opposition. If the transactions became large no doubt a certain amount of hostility would be excited. As the law stood at present these Associations were placed at a disadvantage. The bania if he could get a decree against any member of the Association could probably obtain an order prohibiting disbursement of any portion of the fund until his claim was satisfied.

Captain Crosthwaite gave an account of the similar Associations which had been started by himself in the Dera Ismail Khan District. He stated that there were now three Associations. The largest at Dandla consisted of 78 members, the Marhanwali Association of 56 members and the Rangshah Association of 20 members. These Associations were not as in Multan limited to members of a single tribe. In each case the members were drawn from various tribes belonging to the same village and included even poor tenants as well as proprietors. They were all Mahomedans. The principle of these Associations which had been more or less closely followed was to confine operations to a small area and to enrol only members of good character who were not absolutely overwhelmed with debt. The Raiffeissen principles of limitation to a small area (ensuring mutual knowledge), unlimited liability, gratuitous administration, and lending for productive purposes only had been adopted. The money for loan purposes are at present raised by the collection of a small "chanda" fund in the shape of grain deposits taken at harvest time from each member who was credited in the fund register with the amount of grain. Tenants usually paid a fixed subscription. Others paid in a quantity of grain roughly assessed as their due contribution, but at present no fixed contribution was possible, since the members of the society included superior and inferior proprietors, occupancy tenants and tenants at will. When prices rose in the late autumn the grain was sold and the individual depositors were credited with the average price obtained. The money was lent out in small loans for seed, corn or bullocks. The loan was debited in grain calculated at the market rate prevailing when the grain was deposited. The sums lent were repayable in grain at the market rates of the following harvest. That is to say that if A borrowed one maund of wheat worth, at the rate of the time of deposit, Rs. 2, A would, at the succeeding wheat harvest, pay in as much grain as would realize Rs. 2. Interest was also taken in grain and varied from one to two and a half seers of wheat per rupee borrowed and outstanding. The societies realized the necessity for the reduction of interest. The present rates would, when wheat was 20 seers per rupee, equal 10 per cent. at 2 seers per rupee. There was no reserve fund. All the money derived from repayment of loans and interest as well as from subscriptions was loaned out, the actual need of the Association being cash. Though the members were all Mahomedans, no insurmountable difficulty had been raised about the taking of interest, provided such interest vested in a common fund. All loans, repayments and other business of the Association were managed by the Committee. The management was at present gratuitous, but a Schoolmaster was at present assisting as Secretary, and the Association proposed as funds permitted to give him one rupee per mensem. The society of Rangshah had collected last harvest Rs. 103-6-9 and distributed Rs. 102-6-0 to 20 members for seed grain. The rate of interest was fixed at present at $2\frac{1}{2}$ seers of wheat per rupee, but this was to be reduced as funds permitted. The Marhanwali fund during the last three harvests had collected Rs. 166-15-0 in grain and distributed Rs. 158-2-0 to 34 members in seed grain.

Interest was charged at 2 seers per rupee per annum. The Dhandla fund was the most successful of the three. It was started in the spring of 1900 with 78 members and a Committee of 6. Subscriptions in grain valued at Rs. 350-10-0 were received. The grain was sold about three months later because there was demand for loans for cattle. Rs. 152 was distributed in small sums of from Rs. 8 to Rs. 15 each to purchasers of cattle. It was beyond question that these loans for cattle had been of great benefit as they enabled purchasers by making a money payment in the first instance to obtain their beasts at much cheaper rates. The custom was to buy cattle in 3 instalments commencing with the harvest after the purchase. The whole trade was conducted on borrowed capital. The balance was given out for seed. One or two of the local Hindu shopkeepers had offered the fund a little money at Rs. 2-4 per cent. per annum as they had the money lying idle and also to promote what they considered a meritorious object.

Captain Crosthwaite stated that he considered the results so far encouraging, and that he was hopeful of extending these Associations. But to secure this it would be necessary to take trouble and exercise supervision. Seven more funds were already wanting to start and had now submitted applications for rules and for instructions. These seven villages were all close to Dhandla, and their desire to commence operations was entirely due to the small successes of that fund. He hoped that now, even if he were transferred from the district, the Dhandla fund at any rate would go on of its own accord, as the members of the panchayat had begun to show a very real interest in the working of the fund, which was no longer dependent on the support of a single man. Referring to the question of legislation Captain Crosthwaite stated that he considered that any legislation for these co-operative Associations should include provision regarding the following matters, but should be entirely permissive in its character:—

(1) Exemption from the provisions of the Companies Act.

(2) Exemption from payment of income-tax.

(3) Permissive audit and registration.

(4) Prescription of definite working rules by registration.

(5) Power to sue as a corporation.

(6) Exemption for the funds of the Association from attachment in suits against individual members, the exemption to be extended to the deposits towards maturing shares held by individuals.

(7) The creation of an unlimited liability among the members.

(8) Provision of a summary procedure for the recovery of debts due to the Association, through the Revenue Courts.

In conclusion, he stated that, some provision as to arbitration should also be included as suggested by Mr. Murray.

Captain Crosthwaite subsequently put in the following additional note:—

"As regards Government aid: I am by no means certain on this point. In any case I would not advise Government advancing capital to any fund that had not to some extent established its credit and become a real working entity. But where the Society is a sound one and working on proper lines a loan from Government would be very useful. I should, I think, in the first instance grant such sums as the Society could repay in fixed instalments from its 'Chanda' income. At present I should limit the amount to a sum which could be so repayed in 3 or 4 years. Interest above 4 per cent. should not be taken. The loan will cost Government nothing and no bad debts should be possible. There are individual members of sufficient property in each Society willing to stand security for the loans and there would presumably be similar men in any new Societies formed. With unlimited liability under the proposed Act Government would run no risks whatever. I am particularly anxious to have "Takavi" money distributed in this way. The sum to be repayable in such instalments as the 'Chanda' fund can meet. The Society to make its own terms with its members. But, as I have elsewhere noted, the fact that their small contributions do create a working capital has far more effect on the progress of the scheme than any State aid. But such aid is likely to be very valuable and will enable the Societies to dispense with their 'Chanda' and receive deposits earlier.

RULES OF THE DHANDLA FUND.

Name of the Fund or Association.

The association shall be called the Dhandla Fund.

Limitations.

2. Only residents of the estates of Dhandla and Hamanwala can become members: no bad character or man who is hopelessly involved in debt shall be elected a member: the Committee of the Fund shall decide whether a man be admitted or not. A register of members shall be maintained.

Constitution of the Committee.

3. The Committee of five shall be elected by the members of the Fund. The Committee will elect its President, and such other officers as it may deem necessary. If any member of the Committee be guilty of any dishonesty or want of attention to the work of the Fund, the general body of members may dismiss him and elect a fresh member in his place. No member may refuse to serve on the Committee.

Objects of the Fund.

4. The objects of the association are as follows:—

(1) To teach its members to save money.

(2) To provide capital out of which loans for necessary purpose at easy rates may be granted to members.

(3) To enable its members to clear off old debts and mortgages and to prevent new encumbrances on their lands.

The association at present limits its loans to seed corn, or money to purchase seed corn, and to money for the purchase of cattle.

Method of creating capital.

5. Each member shall deliver some share of the produce of his lands or of the lands he cultivates to the Committee as "Chanda" or subscription.

Treatment of "Chanda" or subscriptions collected.

6. The Committee will collect the produce from each member and is responsible for its storage and safe custody. Each member will receive a receipt for the amount of produce he has delivered and it shall also be credited to his personal "Chanda" account. The Committee may sell or keep part or the whole of the produce so collected. Usually a part will be reserved for seed advances in grain. Each member will be credited in his personal account with the assumed value of his contribution or the actual value realised.

Use of grain collected or its value: method of making loans.

7. The grain so collected or the money obtained by its sale shall be used for making loans, no loan shall be granted except to a member. Applications for loans must be made to the Committee who shall decide whether the loan shall be made or not.

Method of disposal of loans by the Committee.

8. The Committee shall decide whether the loan is needed, how much can be lent to the applicant and for what period the loan should be. The longest period for seed corn loans should be till end of the harvest of the crop raised from it. Loans for cattle should not exceed 4 years. When the sanction of a loan is announced in the general meeting, the borrower will promise with his own mouth before the members that he will repay the loan in the way agreed on and such charge as will be made to the profit of the association. An acknowledgment of the sum due attested by the borrower and his surety shall be entered in the loan register.

If the loan is to pay a book debt or to clear a mortgage, the Committee will themselves make the payments. When the loan is for expenditure that must be met in instalments, the loan should be paid in similar portions.

9. The borrower will repay such amount of produce as may have been fixed in addition to his "Chanda" subscription, and will receive a separate receipt for it. It will be credited to him also in the loan account which is opened for each borrower. When the Committee sell the produce collected, the average price per maund realised will be credited in cash to the borrowers' loan account and a receipt for that amount given. If the borrower only promises to pay in a fixed amount of grain, and not a fixed share of the total produce of his lands, he shall be credited with its value at the market prices prevailing when it was deposited.

Repayment.

10. After each harvest, or when the grain has been sold, a general meeting will be held. The Committee will at this meeting lay before it the accounts; and all the members must be informed how much produce has been collected and its value.

General meetings.

11. In this general meeting the Committee will state to whom loans have been granted, their amounts and the period in which repayment is to be made. If the instalment due has been in any case suspended, the fact and the reasons for the suspension must be made known. So far as possible the borrowers will receive their loans in the presence of the general meeting.

Publicity of loans transactions.

12. The Committee will also at the general meeting clearly state the exact condition of the association; and will state the total receipts, outstanding loans and the receipts and expenditure under each head. Any member may ask for explanation of his personal account. The Committee should so set forth its balance sheet that all the members may understand what has been done and how their money has been used.

Disclosure of balance sheet.

13. If any borrower use the loan for other purposes than that which it was granted for, the Committee will proceed to enforce its claims. But recourse to the Courts will be avoided, where possible.

Misuse of loans.

14. All profits accruing to the association must be credited to a separate account in the name of the association itself. This money is intended to form the loan capital of the Fund. It is vested in the whole body of members and no individual has any right in it.

Profit account in name of association.

15. No member may withdraw his subscribed grain or the money value of it credited in his name under rule 6 until the association has been in existence 10 years. But the Committee will endeavour to make advances against the amount credited to such members as shall stand in need of loans. If the association be dissolved, each member will receive back the amount of his deposits, or their value as credited to him.

Right in Chanda subscriptions held in abeyance.

Accounts to be kept.

16. The Committee will keep the following accounts:—

1. Register of Grain Income.
2. Register of Personal Ledger Accounts.
3. Register of Loans.
4. Register of Personal Loan Accounts.
5. Savings Bank Ledger Account.
6. Half-yearly Balance Sheet.

17. Each member will be given a Parcha or personal account book. This will contain three parts. In the first will be entered his "Chanda" deposits. In the second an account will be kept of any additional deposits he may make and their withdrawals. In the third will be written up his loan account if he has borrowed from the association. This personal account therefore will contain copies of the entries affecting the member contained in the Register of Personal Ledger Accounts, Savings Bank Ledger Account (see Rule 18) and of the Personal Loan Account. These accounts must be written up before each general meeting.

Additional forms and private accounts.

18. In addition to the "Chanda" subscription members may make deposits of grain or money with the Committee. This will be credited in the same way as the "Chanda" to each member but in the Savings Bank Ledger Account. All monies so credited must be deposited in the Post Office Savings Bank, under a separate account as the "Dhandla Fund Savings Bank Account." This sum is not to be used in the business of the association.

Savings Bank deposits.

If any member so depositing desire to withdraw money he will inform the Committee. If the Committee has money in its hands it may advance the sum required. If not, that amount will be withdrawn from the Post Office Savings Bank and paid over to the applicant. In either case the transaction will be treated as a loan on the security of the deposit with the association. This is to induce the replacement of the money withdrawn. But no charge will be made and the withdrawal will be merely noted as a loan against the deposit in the Association Savings Bank Ledger Account.

All profit from deposits of this kind in the Savings Bank will be transferred yearly to the vested Fund Account.

19. All members shall execute an agreement on election that they will abide by the rules of the association and that these rules are legally binding. After the election of a member he will at the first general meeting be announced as elected and will declare his adherence to the rules. His signature in the Register of members duly attested with the verbal admission of the rules shall be held to constitute a binding agreement.

Agreement to abide by Rules.

20. In all matters touching the association and its business and the meaning of its rules or their alteration, the Committee's decision shall be final. But no alteration of the rules shall be considered final until ratified by a majority of two-thirds in the general meeting.

Powers of Committee to decide matters affecting the association and its business.

21. All members should submit matters at dispute between themselves to the Committee or such arbitrators as they may appoint.

Arbitration.

22. The whole accounts of the association must be yearly submitted for audit to one or two wholly disinterested persons in whom the memberhood has confidence.

Audit.

23. A member against whom the association has to take legal proceedings, or who becomes a bad character, uses loan money for other purposes than it was given for, or becomes bankrupt shall be expelled and shall have no claim to any deposits under rule 6.

Members misbehaving expelled.

24. All work and keeping up of accounts shall be performed gratuitously and the members of the Committee shall receive no payment for their services.

Gratuitous administration.

25. In the event of dissolution of the association the profits vested in the body of the association shall be used for such public purpose as the general meeting may decide.

Dissolution.

(1) *Income of Zamindari Fund of village Hamanwala and Dhandla.*

No.	Name of person with parentage, caste and residence.	Harvest.	Grain.	Weight of grain.	Total.	Price of grain.	Remarks.
		Rabi.				Rs. A. P.	
1	Sadiq, son of Haider, caste Dhodi, of Hamanwala, No. 1.	s. 1957	Wheat ...	8 Topas ..	8 Topas ...	2 14 6	Price of wheat at 93 per path of 20 maunds.
2	Sheikhdad, son of Jahir, caste Chandia, of Hamanwala, No. 2.	"	" ...	10 " ...	10 " ...	3 10 0	......
3	Rawl, son of Mir, caste Dhol, of Hamanwala, No. 3.	"	" ...	6 " ...	6 " ...	2 4 9	......
4	Umar, son of Haji, caste Mardana, of Hamanwala.	"	" ...	10 " ...	10 " ...	3 10 0	......
5	Mohd, son of Ahmed, caste Gazar, of Hamanwala.	"	Grain ...	5 " ...	5 " ...	1 13 0	Price of grain at 85-5-3 per path of 20 maunds.
6 78	:	:	:	:	: Total ... 305·10	:	Wheat 7 paths 29 topas. Grain 38 topas. Peas 1 topa @ 48 per path. [Path 256 topas.]

(2)—*Khata of Annual Income of Sadiq, son of Haider, caste Dhodi, of Hamanwala.*

Date.	Register No.	Year and harvest.	Grain with price.				Remarks.
			Name of grain.	Weight.	Price.	Total.	
					Rs. A. P.	Rs. A. P.	
	1	Rabi, Samvat 1957 ...	Wheat ...	8 Topas ...	2 14 6	2 14 6	

I, Ali, son of Bala, caste Dhol, of village Hamanwala, actual debtor, and Sadiq, son of Ghulam, caste Dumra, of village Hamanwala, surety, acknowledge to have received the sum of Rs. 5-1-0 (1 anna on account of Receipt Stamp), half being Rs. 2-8-6, from Sadiq, son of Haider, caste Dhodi, Umr, son of Haji, caste Rawana, and Umr, son of Usman, caste Jar, members of the Fund and Ahmad Khan, patron of the Hamanwala Fund. The interest will be paid at the rate of 1 seer of wheat per rupee per annum. The sum will be paid on demand without any protest.

ALI, *Caste dhol*, *Debtor*.

SADIQ, *Caste dumra.*

Dated 28th August 1900.

(4)

KHATA SHOWING DEBT PAYABLE BY ALI, SON OF BALA, CASTE DHOL, DEBTOR, AND SADIQ, SON OF GHULAM, CASTE DUMRA, OF HAMANWALA.

Date.	No. of Khata Bahi.	Amount of principal.	Detail of instalments with interest payable.		Remarks.
28th August 1900.	1	Rs. A. P. 5 1 0	Rabi, Samvat 1958 ... Cash. 2-9-0 Interest. 5 seers wheat.	Rabi, Samvat 1958. Cash 2-8-0 Interest. 2½ seers.	

KHATA OF INCOME OF ALI, SON OF BALA, CASTE DHOL, DEBTOR, AND SADIQ, SON OF GHULAM, CASTE DUMRA OF HAMANWALA.

—

(5)—*Account No.*________ *Savings Bank Ledger Account.* Name.______ Father's name.______ Caste.______ Residence.______

Date.	Deposits.	Signature of Member of Committee.	Date.	Withdrawals.	Signature of Depositor.

Balance sheet Dhandla Fund, June 1900.

Receipts.	Rs. A. P.	Expenditure.	Rs. A. P.
By value of grain deposits	305 10 0	By loans for cattle	150 0 0
,, loan from Bojha Ram	45 0 0	,, ,, seed corn	129 14 0
,, advance from Abmed Khan Dhandla	2 11 0	,, ,, ,, ,, ...	73 7 0
Total receipts ...	353 5 0	Total ...	353 5 0

Assets and Liabilities.

Assets.	Rs. A. P.	Liabilities.	Rs. A. P.
By loans outstanding	353 5 0	By deposits in hand	305 10 0
,, profits on loans 353½ seers wheat at 1[illegible] seers per rupee ...	22 1 4	,, loan from Bojah Ram	45 0 0
		,, advance from Ahmed Khan Dhandla	2 11 3
		,, interest on loan at Rs. 2-10-0 per cent. per annum ...	0 8 10
Total ...	375 6 4	Total ...	358 18 10
Balance ...	21 8 6		