



DEPARTMENT OF INDUSTRIES, LABOUR AND
CO-OPERATION

G.O. No. 3308, 14th July 1956

Co-operative societies—Committee on Co-operation—Report—
Published.

READ—the following papers :—

G.O. Ms. No. 294, Industries, Labour and Co-operation,
dated 1st February 1955.

Letter from the Registrar of Co-operative Societies,
dated 23rd June 1956, Ro. No. 75722/56-B.

**Order—No. 3308, Industries, Labour and Co-operation, dated 14th
July 1956.**

The Government direct that the report of the Committee on
Co-operation in Madras be published.

2. The Government desire to express their cordial thanks to the
Chairman and to the Members of the Committee for their valuable
work.

(By order of the Governor)

C. G. REDDI,
Secretary to Government.

To the Registrar of Co-operative Societies.

- " Director of Agriculture.
- " Director of Industries and Commerce.
- " Commissioner of Labour.
- " Director of Harijan Welfare.
- " Chairman of the Committee on Co-operation.
- " Members of the Committee on Co-operation.
- " Public Department.
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- " Controller of Stationery and Printing.

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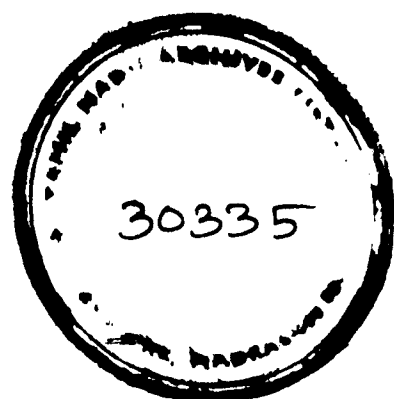
**REPORT OF THE
COMMITTEE ON CO-OPERATION
IN MADRAS**

1955-56

**PRINTED BY THE SUPERINTENDENT
GOVERNMENT PRESS
MADRAS
1956**

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REPORT OF THE COMMITTEE ON CO-OPERATION, 1955-56

CHAPTER 1.

THE COMMITTEE AND ITS WORK.

1. *Circumstances leading to the appointment of the Committee.*— In their order Ms. No. 294, Industries, Labour and Co-operation, dated 1st February 1955, the Government of Madras appointed this Committee to enquire into the present position of the Co-operative Movement in this State in the following terms:—

" In February 1939, the Madras Government appointed a Committee under the chairmanship of the late Sir T. Vijayaraghavachariar to examine the progress made by the Co-operative Movement in this State since the Townsend Committee had reported in 1928 on the working of the movement. This Committee conducted an elaborate survey and made recommendations in 1940 to broaden the base of the movement and to enlarge its sphere of activities so as to enable it to become a powerful instrument of rural prosperity. The Government took action on several of its recommendations and drafted a Bill to amend the Madras Co-operative Societies Act of 1932. In the meanwhile, on the recommendations of the Fourteenth Registrars' Conference, the Government of India appointed a committee to report on the ways in which finance could be provided under efficient control for agricultural and animal husbandry operations and another committee to draw up a plan of co-operative development. These committees submitted their reports in 1945 and 1946 and they were considered by the Fifteenth Conference of the Registrars of Co-operative Societies all over India held in Madras in 1947. Many of the recommendations of these bodies have been implemented in this State and the Co-operative Movement has been reorganized on some of the lines suggested by them. It is now considered desirable to review the progress made by the movement since the report of the Vijayaraghavachariar Committee and to indicate possible lines of consolidation, development and reform of the movement.

" Since the appointment of the Vijayaraghavachariar Committee, at least three major events have taken place which have had profound effect on the co-operative movement and its possibilities, viz., the World War II, the attainment of Independence by the Country and the partition of the Madras State. The war brought about scarcity of food, increase in prices and various new Governmental controls. Independence introduced a new enthusiasm and urge for progress in various fields. The partition of

the State has created opportunities for more intensive economic development of a compact area. In this context, the Co-operative Movement in this State requires to be examined now as to how far these events have afforded it opportunities for progress and greater service and as to the need for consolidating the progress made so far and providing safeguards against abuses creeping into the movement.

"There are several new agencies for national development such as the Planning Commission, the National Extension Service, the Community Projects, the All-India Handloom Board, the Reserve Bank of India, etc., which are anxious to make increasing use of the co-operative movement to achieve their objects and to promote general economic welfare in the country. It has to be examined whether the Co-operative Movement has availed itself fully of the opportunities for expansion and development provided by these agencies. It is desirable that the lines on which the Co-operative Movement can effectively participate in the work of these agencies should be investigated and practical lines of action indicated."

2. *Constitution of the Committee.*—Government appointed the following gentlemen as the Members of the Committee:—

Chairman.

Sri T. M. Narayanaswamy Pillai, M.A., B.L., M.L.C.

Members.

Sri R. Balakrishna, M.A., PH.D., Professor of Economics, University of Madras.

Dr. P. Natesan, M.B.B.S., General Secretary, the Madras State Co-operative Union.

Sri T. M. Chinnaya Pillai, M.A., B.L.

Sri M. Shiva Rao, Mangalore.

Sri P. Vasu Menon, President, Malayala Pradesh Congress Committee, Kozhikode.

Sri B. Venkataratnam, ex-President, Madras Co-operative Central Land Mortgage Bank, and

Sri A. Palaniappa Mudaliar, M.A., Registrar of Co-operative Societies, Madras.

Sri V. K. Appandarajan, B.A. (Hons.), Deputy Registrar, was appointed Secretary to the Committee.

3. *Terms of reference.*—The following were the terms of reference to the Committee:—

(1) To review the progress made by the Co-operative Movement in the Madras State since the report of the Vijayaraghavachariar Committee on Co-operation, to inquire into its present

needs, difficulties and problems and to make recommendations regarding its consolidation, development and reform and more particularly—

(a) to review the working of village credit societies and to make recommendations for their reorganization so that they might function as economic units and cater to the essential economic needs of the agriculturists;

(b) to examine the working of the Co-operative Central Banks, the State Bank and the Land Mortgage Bank and to make recommendations;

(c) to examine the position in regard to the consumers' movement in the State and to make recommendations;

(d) to review the progress made by Co-operative Housing Societies with reference to the policy of Government in regard to financing them and to make suitable recommendations in this behalf;

(e) to examine the working of land colonization societies in the State and to make recommendations for their improvement;

(f) to examine the progress made by co-operative marketing societies and to make recommendations for the expansion of marketing activity;

(g) to examine the working of the weavers' co-operative societies in the State and to formulate measures for their improvement with particular reference to the financial assistance provided by the Government;

(h) to make recommendations to carry out propaganda, education, training and research on co-operation;

(i) to consider the adequacy of the present cadres of officers to man the various posts in the Co-operative Movement and to make any recommendations necessary;

(j) to explore the possibilities of applying the co-operative method to achieve the development plans of the State particularly in the fields of agriculture, cottage and small-scale industries and the amelioration of the economic condition of depressed classes;

(k) to examine the need for and the adequacy of concessions and privileges granted by the Government to co-operative institutions;

(l) to examine the present system of audit and to make recommendations for any change considered necessary;

(m) to examine the claim for industrial co-operatives for exemption from the various labour laws;

(n) to examine whether co-operative societies more particularly—consumers' co-operative societies—should confine their activities and services to members;

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4 **REPORT OF THE COMMITTEE ON CO-OPERATION, 1955-56**

(o) to examine whether non-co-operative organizations should be allowed to join together and form co-operatives;

(p) to review the working of co-operative land colonization societies and motor transport societies for ex-servicemen and to make recommendations for placing them on a firm footing; and

(2) to examine if any amendment or modification is necessary to the Madras Co-operative Societies Act and the rules framed thereunder and to make any suggestions therefor.

4. Just two months before the Committee was appointed, the report of the Rural Credit Survey Committee of the Reserve Bank of India, containing far-reaching recommendations relating to the structure and policies of the movement in the sphere of agricultural credit and marketing had been published. The Central Government and the Madras Government have been taking action to implement the recommendations of the Rural Credit Survey Committee. Indeed, many of the co-operative schemes formulated in the Second Five-Year Plan for this State are on the basis of the proposals made by the Rural Credit Survey Committee. In view of their vital bearing on the working of the movement in this State, we have taken note of these developments and discussed them at appropriate places in our report, though specific mention of the report and of the schemes in the Second Five-Year Plan has not been made by the Government in the terms of reference conveyed to us.

5. *Period of the Committee.*—The Committee was appointed for a period of three months from 1st February 1955. Sri A. B. Shetty, Minister in charge of Co-operation, inaugurated the Committee on 27th February 1955. At the instance of the Committee, Government granted extension of its term from time to time till the 15th of April 1956.

6. *Work of the Committee.*—The first sitting of the Committee was held on 28th February 1955 in the office of the Registrar of Co-operative Societies to settle the questionnaire and programme of the Committee.

A comprehensive questionnaire (Appendix 1 at the end of the report) was prepared and about 1,400 copies thereof were printed and issued to the various co-operative institutions, Co-operators, Economists, Members of the State Legislature, certain Heads of Departments, etc. The Committee received in all 276 answers.

The Committee visited 18 districts and toured for 36 days between July 1955 and February 1956. It visited 84 co-operative institutions and held discussions with their office-bearers and members. It examined 75 witnesses. When the Committee held sittings in the districts, it generally co-opted as its members, a

REPORT OF THE COMMITTEE ON CO-OPERATION, 1955-56 5

Member of the Madras Legislature and a representative of the Central Bank, and they helped the Committee with their knowledge and experience. Lists of institutions visited by the Committee, names of members co-opted and witnesses examined are given in Appendix 2.

Apart from its sittings in the course of its tour and examination of witnesses, the Committee held 26 sittings at headquarters to discuss the evidence and the problems and to scrutinize the draft report. The report was signed on 12th April 1956.

7. *Plan of the Report.*—The report contains 26 chapters as indicated under "Contents". In the chapters dealing with the different kinds of societies, a historical account of their progress is first given and the problems relating to them are dealt with thereafter.

CHAPTER 2.

RETROSPECT AND GENERAL SURVEY OF DEVELOPMENTS IN THE MOVEMENT.

8. *From 1904 to 1940.*—Co-operation, now more than a 100 years old, was born of idealism and necessity and had developed in different countries along different lines in accordance with the needs and genius of the people. In Madras, as in the rest of India, Co-operation was introduced as a means of supplying rural credit following the recommendations of Sir Frederic Nicholson who was placed on special duty by the Government of Madras in 1892 to enquire into the possibilities of introducing a system of agricultural banks. His recommendations eventually led to the enactment of the Co-operative Credit Societies Act of 1904 by the Government of India. In his monumental report on "Land and Agricultural Banks", he recommended the starting of rural co-operative societies on the lines of the Raiffeisen societies formed in Germany and concluded his report with the famous words "Find Raiffeisen".

9. The object of the 1904 Act was to establish credit societies for persons of limited means to meet their credit requirements. This Act laid down the general outlines, and the provinces were left free, as they acquired experience, to fill in details according to local conditions and needs by means of rules. The Act was followed by the registration of rural credit societies. It was found that these societies were unable to raise the capital required by them locally. So the need arose for the formation of higher agencies to provide them with sufficient capital and also to supervise their working. The Madras Co-operative Central Urban Bank came into

existence for this purpose in the year 1905. By the year 1911, District Co-operative Central Banks were formed at Salem, Tiruchirappalli and Coimbatore. The 1904 Act did not provide for the registration of higher organizations (financial and supervisory) nor did it provide for the formation of societies other than credit. To remedy such defects the Co-operative Societies Act II of 1912 was passed by the Central Government.

The passing of this Act led to an expansion of the movement. New types of societies such as marketing societies, stores and weavers' co-operative societies were formed. Central Banks were formed in the districts for financing the societies in their area, and supervising unions were formed for the supervision of rural credit societies affiliated to them.

10. In 1914, the Government of India considered that the time was ripe for reviewing the working of the movement and appointed a Committee under Sir Edward Maclagan to examine whether the co-operative movement "especially in its higher stages and in its financial aspect, was progressing on sound lines and to suggest measures for improvement". The Committee made various recommendations of far-reaching importance for the improvement of the movement, especially in regard to its higher financial structure. This report is the earliest document on the working of co-operative societies in India.

11. In 1919, co-operation became a provincial subject administered by a popular Ministry. This gave a further impetus to the movement and the number of societies registered a striking increase. With a view to examine and suggest ways and means for the development of the movement in our State, the Madras Government appointed a Committee in 1927 presided over by Mr. Townsend. This Committee recommended, among other things, the enactment of a new Co-operative Societies Act for remedying the defects found in the working of the Act II of 1912. Their recommendation led to the passing of the Madras Co-operative Societies Act VI of 1932. This Act widened the scope of the movement by omitting from its preamble, the words "men of limited means" found in the Act II of 1912 and by laying down the object of co-operative societies as the promotion of thrift, self-help and mutual aid among agriculturists and other persons with common economic needs so as to bring about better living, better business and better methods of production.

The new Act strengthened the hands of the Registrar in dealing with bad societies and clothed him with power to execute decrees and awards for the realization of moneys due to societies.

One of the important recommendations of the Townsend Committee was the establishment of a Central Organization for financing the primary land mortgage banks of this State, which were raising the funds required by them by issuing their own

debentures. The Committee considered that the system of issuing debentures by separate mortgage banks would result in competition and the whole system would be brought into disrepute by the mismanagement of a single institution. The Madras Central Land Mortgage Bank was therefore established in 1929. Following another recommendation of the Townsend Committee that a separate legislative enactment relating to land mortgage banks was necessary, the Madras Co-operative Land Mortgage Banks Act of 1934 was passed, enabling the State Government to guarantee the debentures of the Central Land Mortgage Bank, providing for the appointment of a trustee on behalf of the debenture-holders and for summary powers with regard to the recovery of overdues in the land mortgage banks.

12. The general economic depression of the Thirties created difficult problems for the movement. The repaying capacity of the members of societies was crippled and defaults by members to societies and by societies to financing banks assumed large proportions. Various remedial measures were adopted to counteract these trends. At this stage, the Reserve Bank also began to take some interest in the working of the movement and made suggestions for its development on sound lines. In this context, with a view to examine the problems with which the movement was confronted, the Madras Government appointed a Committee in 1939 with Sir T. Vijayaraghavachariar as Chairman. This Committee submitted its report in 1940 and made many recommendations for improving the working of agricultural credit societies, land mortgage banks, central banks, marketing societies, supervising unions, etc. Government gave effect to several of its recommendations, but had to defer action on some of them for the duration of the Second World War.

13. *General Survey of the Movement from 1940.*—The development of the Co-operative Movement from the year 1940 can be divided broadly into two phases; one up to 1944-45 which was the period of the Second World War and the other from 1945-46, the period of Self-Government leading to independence and planning.

14. *First phase up to 1944-45.*—During this period there was a growing demand for all commodities coupled with insufficient supply and the result was a continuous mounting up of the prices of commodities. This led to a phenomenal development of the consumers' side of the co-operative movement. The number of primary stores which was only 236 in 1939-40 increased to 1,846 in 1945-46. The growth in the number of primary stores necessitated the formation of central organizations for the wholesale procurement and supply of the commodities required by the former and a Co-operative Wholesale Stores was formed for each district.

The prices of agricultural produce registered a steep rise during this period and this trend had its impact on the working of the

village credit societies. The members of these societies began to clear their outstanding debts, with the result that the loans outstanding against them fell from Rs. 354.15 lakhs in 1939-40 to Rs. 272.58 lakhs in 1944-45. The percentage of their overdues also fell from 69 to 49 under medium term and from 41 to 23 under short term loans at the end of this period.

A similar trend was noticeable also in the sphere of agricultural long-term credit. The loans issued by the Central Land Mortgage Bank to the agriculturists through the Primary Land Mortgage Banks fell gradually from Rs. 42.82 lakhs in 1939-40 to Rs. 24.77 lakhs in 1944-45, while the loan outstandings which stood at Rs. 218.81 lakhs in 1939-40 increased only to Rs. 226.27 lakhs in 1944-45 (composite State).

On the whole, this was a period during which the needs of the consumers claimed almost the exclusive attention of co-operators, and the problems of the agriculturists for the time being receded into the background due to the temporary prosperity in which they found themselves as a result of the abnormal rise in the prices of agricultural produce.

15. *Second Phase, 1946 to 1955.*—The second phase was characterised by greater diversity. Problems arising in various sectors of the economic life of the people called for co-operative solution and the movement registered progress in many directions. The agriculturists turned more and more to the rural credit societies for the satisfaction of their financial needs and during this period, the amount of loans issued by them increased from Rs. 265.85 lakhs in 1945-46 to Rs. 709.58 lakhs in 1952-53, i.e., by Rs. 443.73 lakhs (composite State). In the residuary State, it increased from Rs. 375.48 lakhs in 1952-53 to Rs. 435.00 lakhs in 1954-55. In the sphere of long-term credit, the loans issued by the Central Land Mortgage Bank to the agriculturists through the Primary Land Mortgage Banks increased from Rs. 42.78 lakhs in 1945-46 to Rs. 105.04 lakhs in 1952-53, i.e., more than doubled, though thereafter, there was a slight decrease in the loans issued. The loans outstanding increased from Rs. 242.38 lakhs in 1945-46 to Rs. 551.04 lakhs in 1952-53 (composite State) and from Rs. 329.81 lakhs in 1953-54 to Rs. 342.97 lakhs in 1954-55 in the residuary State. In the non-agricultural sector, the difficulties of the handloom weavers were sought to be solved by an expansion of the weavers co-operatives. Their number rose from 896 in 1945-46 to 1,191 in 1952-53, i.e., by 855 (composite State). In the residuary State, their number rose from 666 in 1953-54 to 785 in 1954-55. The problem of housing in urban areas assumed serious proportions and there was a marked expansion in the activities and growth of the housing co-operatives. To meet the increasing need for housing, new types of housing societies were organized to undertake the construction of houses instead of merely giving loans to members.

The number of housing co-operatives rose from 118 in 1945-46 to 294 in 1952-53 (composite State) and the number of houses built by or through them increased from 1,022 to 7,006 during this period. In the residuary State the number of housing co-operatives rose from 170 in 1953-54 to 175 in 1954-55 and the total number of houses built by them from 5,696 to 6,152.

Consumers' co-operatives which grew in number and importance during the first phase of the development of the movement (1939-40 to 1944-45) expanded further during the second phase also and attained their peak position in 1949-50. During that year the total annual sales made by the primaries and wholesale stores amounted to Rs. 4,892.28 lakhs.

The problem of milk supply in urban areas drew the attention of the co-operators and the number of milk co-operatives rose from 274 in 1945-46 to 781 in 1952-53 (composite State). In the residuary State, the number of milk co-operatives rose from 580 in 1953-54 to 581 in 1954-55 and the annual value of milk and milk products sold by them from Rs. 141.01 lakhs to Rs. 146.01 lakhs.

With the reintroduction of Prohibition in October 1946, jaggery manufacturing societies intended for giving employment to the ex-toddy tappers were started in increasing numbers. Their number rose from 153 by the end of 1946-47 to 2,115 by the end of 1952-53 (composite State), and from 1,536 in 1953-54 to 1,584 in 1954-55 (residuary State).

In short, the movement which was lopsided with credit co-operatives constituting the main sector of co-operation became more balanced and diversified.

16. We must at the same time refer to the fall in the business of co-operative stores and also the manifestation of certain unwholesome features in the working of the movement. After 1952, due to decontrol and derationing, the turnover of the wholesale and primary stores began to decline. In the residuary State, the total turnover of the wholesale and primary stores which stood at Rs. 2,168.30 lakhs during 1952-53 declined to Rs. 917.65 lakhs in 1954-55. In the village credit societies, though the percentage of overdues in the members' loans was decreasing up to 1949-50, it tended to increase thereafter. The growth in the number of societies and their turnover, especially on the non-credit side seemed to have provided temptations to unscrupulous persons connected with the working of certain societies to indulge in malpractices. As the department expanded rapidly, resulting in the employment of temporary untrained hands in large numbers and comparatively quick promotions to the ranks of Senior Inspectors who formed the bulk of the supervisory and audit staff such shady practices were not tracked down and exposed in time in all cases. We are dealing with this question of frauds in co-operative societies separately.

17. A noteworthy feature during this period was the increasingly important role which the Reserve Bank has been playing in the provision of agricultural finance. Previously, the Reserve Bank's role in relation to the co-operative movement was practically confined only to giving advice. During 1947-48, for the first time in its history, it sanctioned credit to 11 central banks through the State Co-operative Bank to a maximum of Rs. 100 lakhs at a concessional rate of interest. The number of central banks to which credit was sanctioned increased year after year, and the maximum credit limits also were enhanced. In 1952-53, the total of the limits sanctioned to central banks amounted to Rs. 441 lakhs. In 1953-54 and 1954-55, the total credit sanctioned to the central banks of the residuary State amounted to Rs. 229 lakhs and Rs. 240 lakhs respectively. As these moneys for financing seasonal agricultural operations and marketing of crops are advanced at a concessional rate of $1\frac{1}{2}$ per cent which is 2 per cent below the Bank rate, they have been very helpful to the co-operative movement. It is only on account of this generous aid on the part of the Reserve Bank, that it has been possible to reduce the rate of interest to the ultimate borrowers to $6\frac{1}{2}$ per cent in the village credit societies and the marketing societies in all the districts. The Reserve Bank has been helping the movement in other directions also, particularly by liberalizing remittance facilities to co-operative banks.

18. After the attainment of Independence there was a material change in the conception of governmental functions and the ideal of a welfare State began to inform all activities of the Government. With a view to realize this ideal, it became necessary to regulate and plan the economic life of the Nation so as to augment production, ensure equitable distribution and social justice, increase the employment potential and lay the foundation for a balanced economy by industrialization. The National Planning Commission was constituted to formulate and direct the execution of plans calculated to achieve these wholesome ends.

19. Planning, as the basis for the development of national economy in various directions, was therefore adopted from 1951-52. The Central Government instructed that in formulating the plans, schemes intended to develop the material and technical resources of the country—in particular the production of food and raw materials in a relatively short period—should be given preference to other schemes so as to offset the short-falls in production in these directions consequent on War and partition of the country and that other schemes should not be ordinarily undertaken. Only schemes which were already being implemented in these directions were therefore included in the First Five-Year Plan. Chief among such schemes was the one intended to expand the rural credit movement in the State so as to cover 50 per cent of the villages and 80 per

cent of the rural population, for implementing which, the Central Banks were given subsidies to enable them to appoint additional supervisors.

20. The authors of the First Five-Year Plan, however, recognized co-operation as an "instrument of democratic planning combining initiative, mutual benefit and social purpose". They observed that as the purpose of the Plan was to change the economy of the country from an individualistic to a socially regulated and co-operative basis, its success should be judged, among other things, by the extent to which it was implemented through co-operative organizations. Though the Planning Commission stressed the co-operative method, no major schemes of co-operative development could be included in the First Five-Year Plan for the reason already referred to. However, in the Second Five-Year Plan to commence from 1956-57, major co-operative schemes relating to agricultural and industrial sectors, and to urban and rural housing have been incorporated. The schemes drawn up in the agricultural sector—particularly those relating to agricultural credit and marketing—are based on the recommendations of the Rural Credit Survey Committee of the Reserve Bank, which are of a far-reaching character. The Co-operative Movement of the State thus stands on the threshold of what is likely to be an epoch-making period of its history.

CHAPTER 3.

RECOMMENDATIONS OF THE RURAL CREDIT SURVEY COMMITTEE OF THE RESERVE BANK.

21. The Rural Credit Survey Committee was appointed by the Reserve Bank in August 1951, to conduct a survey of the problems, connected with rural credit in the country, to interpret its results and make recommendations. Its report was published in December 1954. We deal below with its major recommendations.

22. *Assessment of the achievements of co-operative agencies in the field of rural credit.*—According to the data collected by the Rural Credit Survey Committee, the proportion of co-operative credit to the total annual borrowings of the rural population of the country is only 3.1 per cent. Further, the distribution of co-operative finance is preponderantly in favour of the large cultivators. So far as the Madras State is concerned, the proportion of co-operative credit to the total annual borrowings of its rural area is computed to be only 2.2 per cent. This has led the Committee to conclude that the part played by co-operative credit in rural finance is very insignificant. Co-operative finance is stated to be inadequate in three directions: (a) there are

large parts of the country which the movement has not hitherto covered, (b) even in those areas to which it has extended, there are large sections of the agricultural population which still remain outside its membership, (c) even in respect of their members, only a part of their credit requirements is met by the societies.

The primary credit society is the weakest link in the chain of rural credit structure. It satisfies none of the requirements of good co-operation or sound credit. It has failed to promote thrift and savings; it has also failed to provide for a system of adequate, prompt and productive credit. On account of the emphasis on ownership of land as the basis of credit, the society tends to neglect punctual recovery from the periodical income of the members. It does not stipulate, much less supervise productive purpose.

23. *Reasons alleged for the failure of Co-operative Agencies.*—The failure of co-operative credit quantitatively and qualitatively is attributed mainly to three reasons: (i) the villager's preference for the private money-lender or trader who gives him readily adequate credit on the strength of his crop or his repaying capacity and provides him with marketing facilities; (ii) competition, virtually opposition, from powerful private agencies; (iii) methods and practices followed within the movement according to which credit-worthiness has tended towards ownership of landed property, instead of character and repaying capacity.

24. *Remedies suggested.*—In spite of the shortcomings of the village credit society, the Rural Credit Survey Committee is of the view that at the village level, no form of credit organization will be suitable except the co-operative society. The co-operative credit structure should, therefore, be strengthened. Hitherto, attempts have been made to rectify only its internal weakness, without taking into account the weaknesses of the rural structure as a whole, much less its maladjustment to the external mechanism of urban trade and finance. Thus efforts have been concentrated on thrift, better living, multi-purpose activities, etc., without the prior preparation needed for correcting the maladjustments between the urban and rural economy. The first task should be to rectify this position. In other words, conditions must first be created in which co-operation can properly function. Co-operation should be helped in order that, eventually, it may not only help itself but need no other outside help.

This help, in the view of the Rural Credit Survey Committee, can come only from the State, if it is to be of the required magnitude and of a type which will enable the co-operative organizations to withstand the opposition of vested interests. The manner of help should not be merely administrative. The State's way of help has been hitherto to overadminister and underfinance. The

process of collaboration between the State and the co-operatives has hitherto been occasional and not intimate. State aid and State guidance are not enough. What is required is State partnership with co-operatives, in credit and marketing.

The three fundamental principles of reorganization of rural co-operative credit should be (i) State participation (including financial partnership) at different levels, (ii) co-ordination between credit and other economic activities, especially processing and marketing, and (iii) administration through adequately trained personnel, responsive to the needs of the rural population.

25. *State participation as designed by the Committee.*—According to the Rural Credit Survey Committee, State participation should be designed on the following lines:—

(i) It should ensure that there is responsiveness to the new policies; at the same time, every precaution should be taken to safeguard the essential character of the institution in which participation takes place. Interference in day-to-day working should be avoided.

(ii) At the Apex and Central levels, the aim of State participation will be to provide adequate, stable and powerful support to the primary society. In extent it should be major partnership. In duration no specific term should be set to it. At the apex and central (district) levels invariably (and at the primary level, generally) not less than 51 per cent of the share capital of the institutions should be held by or derived from the State.

(iii) At the Apex level, the State Government will directly contribute to the share capital of the institutions concerned. At the district and primary levels it will be indirect, that is to say, the State Government will provide funds (e.g., in the shape of additional share capital) to the apex institution to enable it to contribute to the share capital of the institutions at the district level, which in turn will contribute to the share capital of the primary societies.

(iv) At the primary level there should be scope for the society to become "fully co-operative" within a measurable period by the replacement of the State's share capital with the share capital of its own members. At higher levels, partnership should continue till the institution at the base develops the required strength to withstand and overcome the opposition and competition of private vested interests.

(v) Though the implication of major partnership is, that major voting power should vest in Government, ordinarily Government should not be allotted more than a third of the seats on the Directorate of the State Co-operative Bank.

(vi) At the same time Government should have overriding powers on certain specified matters, to reverse or modify decisions of the Directorate or to impose their own decisions. Instances of such specified matters are, soundness of financial policies, larger

objectives of loaning policies such as linking of loans to production and marketing, making large amounts of credit available to the medium and small producers, etc.

(vii) The appointment of the Chief Executive of the State Co-operative Bank should be subject to the approval of the Government.

(viii) In the State Co-operative Marketing Society also (when formed), there should be State participation on similar lines. But for the present, there may be direct State participation in the primary marketing societies, as district and apex marketing societies are either non-existent or inefficient.

26. *Co-ordination of credit and marketing.*—In the loan operations of the primary credit societies, the emphasis should be on "Crop loan", i.e., loans issued for raising crops (irrespective of ownership of land) subject, of course, to due safeguards. But this system cannot by itself become effective and complete unless integrated with co-operative marketing. There should be a close link between the agricultural credit society and the marketing society. The former should finance its members on condition that their produce is sold through the marketing society, with which it works in co-ordination. The village society should act as the agent of the latter, assemble the produce of its members and arrange for its transportation to the marketing society.

27. *Large-sized primary society.*—If the primary society is to carry out this scheme effectively and fulfil its aims, it should be reorganized into a bigger unit covering a group of villages and it should employ a full time, qualified and trained Secretary. Its usefulness should be enlarged by throwing open membership to all persons residing in its area of operations and there should be a right of appeal to the Registrar against refusal of admission to membership.

28. *Administration through trained personnel.*—The Rural Credit Survey Committee has recommended that in view of the vast expansion of credit and marketing activities envisaged by their proposals, proper arrangements should be made for the training of the administrative and technical staff at all levels, under the guidance of the Central Committee for Co-operative Education and Training, Bombay, constituted by the Government of India.

29. *Funds.*—The Rural Credit Survey Committee has recommended the constitution of the following funds under the various agencies mentioned below:—

Under the Reserve Bank of India.—(i) The National Agricultural Credit (Long-term Operations) Fund.

(ii) The National Agricultural Credit (Stabilization) Fund.

The Reserve Bank of India Act has since been amended providing for the constitution of these two funds. According to the amendment, a sum of Rs. 10 crores should be initially credited by the Reserve Bank towards the National Agricultural Credit (Long-term Operation) Fund and thereafter a contribution of Rs. 5 crores should be made annually for the first five years. The Fund is intended (a) to give loans and advances to the State Governments, to enable them to subscribe to the share capital of the co-operative credit societies, (b) to advance medium-term loans to the State Co-operative Banks for agricultural purposes, (c) to make loans and advances to the Central Land Mortgage Banks and (d) to purchase the debentures of the Central Land Mortgage Banks.

To the National Agricultural Credit (Stabilization) Fund, the Reserve Bank should initially credit Rs. 1 crore and thereafter contribute a sum of Rs. 1 crore annually. The fund is intended for issuing loans to the State Co-operative Bank to convert short-term loans into medium-term loans, when it is unable to repay its short-term loan instalments, due to reasons such as drought, famine or other natural calamities.

Under the Ministry of Food and Agriculture, Government of India.—(iii) National Agricultural Credit (Relief and Guarantee) Fund.

A minimum annual allotment of Rs. 1 crore should be made to this fund by the Government of India. The purpose of the fund is to give grants by way of relief to co-operative credit institutions, through the State Government, for the writing off of irrecoverable arrears, arising out of causes such as widespread and chronic famine.

Under the State Government.—(iv) The State Agricultural Credit (Relief and Guarantee) Fund.

(v) State Co-operative Development Fund.

These funds have to be constituted by the State Government.

So far as item (iv) is concerned, the sources will be (a) contribution from the State's annual budget, and (b) allotment from a part of the dividend over 3 per cent earned by the State Government on their share capital invested in the credit co-operatives. The fund is to be applied for the same purposes for which the National Agricultural Credit (Relief and Guarantee) Fund [item (iii) above] is to be applied. Besides, it is also to be utilized to make good the liabilities (if any) arising from the guarantee, given by the State Government to the Reserve Bank, in respect of medium-term accommodation, provided by them for agricultural purposes.

The State Co-operative Development Fund is to be constituted by the annual contributions that may be made by the Government and by the entire dividend payable to Government on its share capital in the co-operative marketing and processing institutions. This fund is to be applied for making contributions to the share capital of the co-operative marketing and processing societies and is a supplementary fund to the National Co-operative Development Fund (referred to below).

Under the Government of India.—(vi) National Co-operative Development Fund.

(vii) National Warehousing Development Fund.

We are dealing with these two funds in the chapter relating to Marketing Societies (Chapter 12).

Under the State Co-operative Bank, Central Banks and large-sized societies.—(viii) Agricultural Credit (Stabilization) Fund.

This is to be constituted by (a) a part of the dividend payable to Government, in excess of, say, 3 per cent on its share capital invested in the credit co-operatives, and (b) compulsory deduction of dividend over a specified limit (slightly higher than the limit fixed for Government) payable on the share capital of others.

The fund is to be utilized for the purposes for which the National Agricultural Credit (Stabilization) Fund is intended.

30. *Views of co-operators.*—The proposals of the Rural Credit Survey Committee are in many respects of a far-reaching character. Some of their proposals constitute a rather violent departure from the principles of co-operation, as hitherto understood in this State. State participation, in the sense that Government should have 51 per cent of the share capital in co-operative institutions, that Government's nominees should participate in the actual managements of co-operative institutions, and that Government should have overriding powers in certain matters, are some of the features which may be said to be inconsistent with the democratic character of co-operative institutions. The proposal that the creditor institution should take shares in the borrowing institution and participate in the management of the latter, is rather unprecedented and militates against the conception of share capital as a second line of defence to the creditor.

The conception of State partnership as adumbrated by the Rural Credit Survey Committee has however undergone important changes, subsequent to the publication of that Committee's report. The Second Indian Co-operative Congress held at Patna, which was attended by the representatives of the Central Government and the Reserve Bank, besides the official and non-official co-operators of other States, accepted the principle of State partnership, but resolved that the extent and duration of State partnership should be

flexible depending on the needs of the individual institutions. The Congress also resolved that the nomination by the State Government to the Board of the State Co-operative Bank should not exceed three persons, that the powers of the nominees should not be exercised in respect of the internal administration of societies, appointment of paid staff, etc., and that the overriding powers of Government should be strictly confined to the loan policies of the institutions. The Conference of State Ministers and Registrars of Co-operative Societies held in April 1955 under the auspices of the Government of India endorsed the views expressed by the Patna Congress.

31. In the Madras State, the proposals of the Rural Credit Survey Committee were considered at a conference of the representatives of the State Co-operative Bank and the Central Banks in February 1955. The Conference passed a resolution opposing State partnership, with its implications regarding nomination and overriding powers. Subsequently, however, non-official opinion appears to have veered to the acceptance of the principle of State partnership, as modified by the All-India Co-operative Congress of February 1955 and by the State Ministers' Conference of April 1955. At a meeting of the Board of Directors of the State Co-operative Bank held in May 1955 the integrated scheme of Rural Credit and Marketing drawn up by the Registrar under the Second Five-Year Plan was considered. The Board was in general agreement with the scheme though no specific reference to State participation was made in the resolution. In a conference of the Presidents of the Central Banks and the State Co-operative Bank held in December 1955, to consider the implementation of pilot schemes preceding the Second Five-Year Plan, it was resolved as follows :—

“ So far as State participation in the share capital of the co-operative credit institutions is concerned, either it should be as share capital through the State Co-operative Bank which will take shares in the Central Co-operative Banks which in their turn, will take shares in the primary credit institutions, or partly as share capital and partly as loan in the same order, except at the primary level. If it is share capital, it should be dividend free at all levels for a period of at least five years and if it is as loan, it should be interest-free for the same period.

The strength of the nominees of the Government on the Board of Management of the State Co-operative Bank should not exceed three.

The principles to be adopted for selection of the three nominees of the Government on the Board of Management of the State Co-operative Bank are left to the Government themselves.

The State Co-operative Bank may nominate one member each to the Boards of Management of the Central Banks for the present.

The nominees of the State Co-operative Bank on the Board of Management of the Central Bank may be either a local man or the local agent of the State Bank of India."

During our visit to the State Co-operative Bank in January 1956, we got the impression that the Directors of the State Co-operative Bank were generally opposed to State participation, but at a meeting of the Board of Management held in February 1956 the State Co-operative Bank resolved to accept a sum of Rs. 1.2 lakhs as contribution by the Government to the share capital of the State Co-operative Bank for re-investment by the State Co-operative Bank in the shares of the Central Banks, and by the latter, in the twelve proposed large-sized societies under the integrated credit scheme, subject to the following conditions :—

the share capital should be dividend free for a period of five years;

the nominees of the Government on the Board of Management shall be only three and they shall be officials, of whom one shall be from the Co-operative Department;

the nominees of the Government will have each only one vote in the general body and they shall exercise this power in person.

32. The answers to our questionnaire indicate that co-operators generally welcome State assistance, but are of the view, that the participation of the State in the share capital of societies should depend on the individual needs of each institution, and should not be enforced as a general policy, and that any provision giving a dominant position to the State, by virtue of State participation is calculated to impair the sense of responsibility on the part of the non-official co-operators. So far as the marketing societies are concerned the views expressed to us are generally in favour of the State's participation in them by way of the Government investing share capital, in view of their generally undeveloped condition.

33. *Our suggestions.*—We do not wish to enter into a detailed discussion on the major question of State participation. The principle of State participation as originally envisaged in the proposals made by the Rural Credit Survey Committee has been diluted to a very great extent. Its objectionable features have been removed by non-insistence of its original features such as contribution by the State of 51 per cent of share capital, reservation of one-third of the seats for the nominees of the Government, overriding powers to Government, etc. By making the duration and extent of State participation flexible according to the needs of each institution, the possibility of over-capitalization has also been eliminated. It cannot be said that the State participation in the light

of the changes accepted at the Ministers' Conference held at Delhi in April 1956 will undermine the democratic character of the movement or will impair the sense of responsibility of those who are working in the movement in honorary capacities. Though we should have considered State participation in its original form as an unhealthy innovation, we think that in the larger interests of the movement, there need be no opposition in principle to State participation as adumbrated now.

However, we make the following suggestions :—

(i) The State Co-operative Bank and Central Banks are fairly well established in our State. They can raise at least part of the additional share capital required for increasing their borrowing power to meet the demands that are likely to be made on them, by the implementation of the schemes included in the Second Five-Year Plan. We are also recommending enhancement of the maximum borrowing power of the State Co-operative Bank and the Central Co-operative Banks by three times and two times respectively of the share capital and the Reserve Fund (from 12 to 15 times in the case of the State Co-operative Bank and from 10 to 12 times in the case of the Central Banks). Hence the State, apart from investing token amounts in them, in pursuance of the policy of State partnership, need not compel them to receive share capital irrespective of their wishes.

We may here state that we see no tangible advantage to these institutions by way of State partnership, except the increased borrowing power accruing from the share capital provided by the State.

(ii) If and when these banks are in a position to retire the share capital of the Government, they must have the option to do so. State partnership need not continue indefinitely as envisaged by the Rural Credit Survey Committee.

(iii) We think that the Rural Credit Survey Committee's remedy of State participation in share capital will not remove the real bottleneck in the rural co-operative finance obtaining in our State. The ultimate limit to the expansion of co-operative credit in rural areas is conditioned mainly by the resources of the agricultural borrowers. There are some who can pay the share capital and join the village credit societies; but there are many more who cannot find the share capital required of them and do not therefore join the societies. The scheme of State participation in the apex bank, central banks and even in the primary societies, does not suggest a solution to this fundamental obstacle to the expansion of co-operative rural credit. The village credit societies should therefore be permitted to advance out of the State derived share capital, loans to their members in necessary, and only in necessary cases, towards part of the share capital to be paid by them, in

relation to the loans required by them. The balance of the State derived share capital may be utilized for investment as share capital in the central banks, etc. Such investment will indeed be necessary in view of our recommendation in Chapter 8 that the borrowings of the village credit societies should be limited to 15 times its paid-up share capital in the central bank.

(iv) An important matter arising out of the channelling of the State's share capital intended for the large-sized village primaries, through the State Co-operative Bank and the Central Banks, is the possibility of over capitalization in the apex and the central banks. Some co-operators appear to take the view that the State's share capital, thus channelled through the apex bank, should be excluded from participating in the dividend, declared out of their net profits by these institutions, so as to obviate such a possibility. There is considerable force in this viewpoint, especially as the apex bank and the central banks do not dispose of these moneys at their option. Therefore, we suggest, that so far as the share capital of the primary societies which is channelled through the apex and the central banks is concerned, the State should be eligible only for such dividend, as is declared by the primary societies which ultimately receive the State's share capital. If the total of such dividend received from all societies in a year is in excess of the amounts payable to the Reserve Bank in that year, the excess may be added on to the State Co-operative Development Fund. We understand that the Reserve Bank proposes to lend the money required for taking shares in the primary societies to the State Government free of interest for a period of two years. The primary societies need not, therefore, be required to declare any dividend on the State derived share capital, for a period of two years. In this connexion we recommend that the State's share capital invested may be dividend free for five years, as only by then, the village societies will have stabilized themselves. It is hoped that the Reserve Bank will make its loans to the State Government, similarly interest free for five years.

(v) Another question connected with this matter is the responsibility of the apex bank and the central banks with regard to the share capital channelled through them to the primary village societies, in the event of such share capital being lost, on account of heavy losses sustained by the latter. Such a contingency is normally unlikely. Loans are issued by societies on a consideration of the security and repaying capacity of the borrowers. The supervision exercised by the Central Bank on the working of the societies should eliminate the possibility of heavy losses. When a loss occurs, there will be other reserves also for the society to fall back upon, such as Reserve Fund, Bad Debt Reserve and Paid-up Share Capital of members. To provide for this remote and contingent loss, is not one of practical importance. Should, however, this unlikely contingency happen, it is not fair that the Central Bank should be called upon to make good the loss, for to

do so, might impair the financial stability of the Central Bank which has merely passed on the money to the village credit societies. However, the Central Bank is not divested of its responsibility to ensure that the village credit society does not work in loss, much less heavy loss. In other words it should act in such a manner as not to lay itself open to the possible charge of negligence. We do not think that this is a matter of practical importance. Losses affecting the share capital of the State are unlikely to occur in the primaries. If at all it happens in exceptional conditions, the agency to bear the loss may be decided by the Government with due regard to the circumstances of each case. We are inclined to say in general, that the stability of the central banks should not be impaired by being called upon to bear such losses.

So far as the other recommendations of the Rural Credit Survey Committee are concerned, such as the direct investment of share capital in the primary marketing societies, the establishment of large-sized societies on limited liability, issue of loans on the security of anticipated crops, integration of credit and marketing, the administration of societies by trained personnel, etc., we endorse them generally. We have given our suggestions regarding the implementation of these proposals in the appropriate chapters. As far as the Land Mortgage Banking system in our State is concerned, it has the means of raising the required share capital, and we do not recommend the scheme of State partnership, advocated by the Rural Credit Survey Committee in regard to the Land Mortgage Banks.

34. In this connexion, we would like to refer to the possibility of a misconception arising in the minds of the public, from a superficial study of the report of the Rural Credit Survey Committee, that State partnership would be the panacea for all the ills of the movement and ensure its success by itself. One cannot be oblivious to the fact that even hitherto State participation, was existing in a way and to a certain extent. The movement has been all along State sponsored and State guided, and has been getting the required funds, mostly because of State association with the movement. If, in spite of this, the movement is considered to be a "failure", State participation as adumbrated cannot, by itself, ensure the success of the movement. Success can be achieved only by the co-ordinated implementation of all the proposals recommended by the Rural Credit Survey Committee in its valuable report. State partnership must be considered to be only a necessary prop, till the movement is able to carry on, through its own momentum. The movement must envisage a time, when it will be able to stand on its own legs and fulfil its purposes unaided by State partnership. If this hope has to materialize, non-official leaders of the movement should work with vision and devotion, keeping in view the basic ideals and purposes of the movement.

35. Before we conclude, we would like to refer to an important matter touching the development of the co-operative movement in the State. The progress of the movement since 1919, when Co-operation became a State subject under the responsibility of a popular Ministry, has been due to the care and interest bestowed on it by the successive Ministries, and the devoted services of many non-official co-operators. The Reserve Bank and the Rural Credit Survey Committee have also acknowledged the progress achieved by the movement in this State on the whole. To keep up this progress, it is absolutely necessary to maintain intact the responsibility of the State Government which must be able to plan, co-ordinate and develop the movement on the lines suited to the conditions of this State. If this responsibility is to be real and effective, it is necessary that the two funds constituted for the development of co-operative marketing, etc. (viz.) the National Co-operative Development Fund and the National Warehousing Development Fund, will have to be administered solely by the State Government, instead of by the National Co-operative Development and Warehousing Board at the Centre. The Central Board should have the power of merely allocating the share of these funds for this State on the basis of its population, and the responsibility for administering the funds as well as for initiating, developing and implementing co-operative policies relating to this State must be left entirely to the latter body. We suggest that for this purpose, a State Co-operative Development Board, on the lines analagous to the National Co-operative Development Board may be set up with the Minister in charge of Co-operation as the Chairman. The members of the Board may be the representatives of the apex co-operative institutions, village credit societies and marketing societies, one or two eminent non-official co-operators, a representative of the Board of Revenue and the Finance Department, the Director of Agriculture, the Director of Animal Husbandry, the Chief Engineer (Buildings), etc., with the Registrar as member-Secretary of the Board.

If and when such a Board is constituted, it is not necessary to continue the present Co-operative Advisory Council and its present functions may well be entrusted to this Board.

CHAPTER 4.

A BIRD'S EYE VIEW OF THE GROWTH OF ALL TYPES OF CO-OPERATIVE SOCIETIES FROM 1940 TO 1955.

36. Before reviewing the progress of each type of co-operative organization in this State, we would briefly refer to the progress made by the movement as a whole from 1940 to 1945. This, we think, will be a useful background to the consideration of the progress made by particular types of co-operative organizations, dealt with in the subsequent chapters.

1. *General progress.*—The general progress made by co-operative organizations of all types in this State from 1940 to 1953 (composite State) and for the period 1954 and 1955 (residuary State) is indicated by the following statements. Two graph sheets are enclosed to illustrate the progress. The progress from 1940 to 1945 corresponds to the first phase of the development of the movement and the progress during the subsequent period corresponds to the second phase of the movement.

<i>Composite State.</i>				
	1940.	1945.	1953.	Percentage of increase from 1940 to 1953.
Number of societies.	14,416	15,724	25,850	79
Number of members.	1,165,000	1,743,000	3,865,000	231
<i>Rupees in crores.</i>				
Share capital ..	2.53	3.82	12.81	406
Reserve Fund ..	1.84	2.50	12.04	576
Working capital	24.04	34.16	97.03	304
<i>Residuary State.</i>				
			1954	1955
Number of societies ..	..	..	14,885	15,100
Number of members ..	..	..	26,23,000	26,62,000
<i>Rupees in crores.</i>				
Share capital ..	..	..	8.73	8.65
Reserve Fund ..	..	..	8.54	8.96
Working Capital	..	..	62.00	64.72

The statements indicate that while the progress during the first phase of the movement (1940 to 1945) was considerable, it was striking during the second phase. This increased pace of expansion during the second phase is due to the factors explained in Chapter 2, such as post-war conditions leading to imposition of controls on foodstuffs and clothing, the effects of Independence and the policy of planning, the increasing part played by the Reserve Bank in the scheme of agricultural finance, etc.

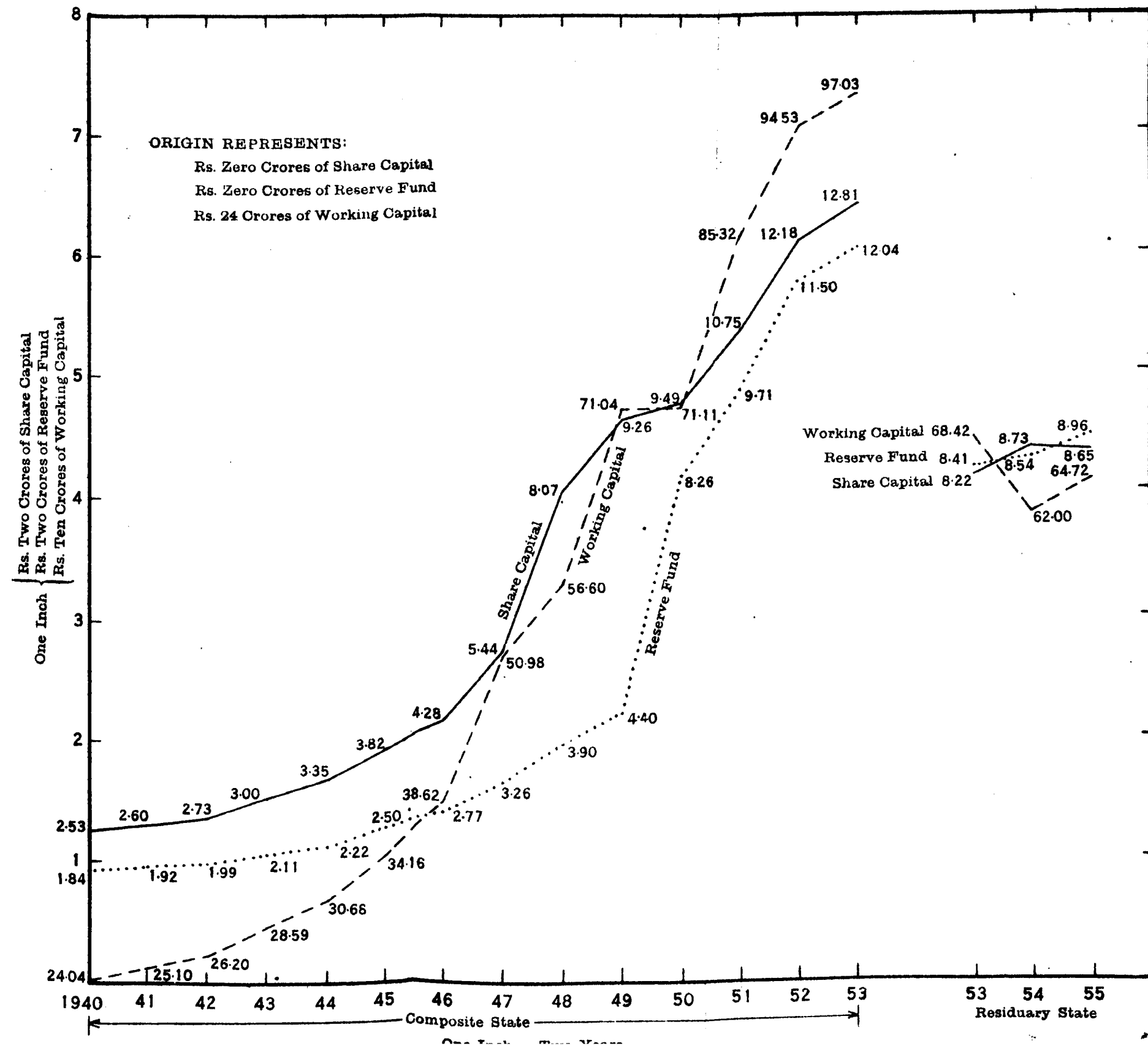
37. The total number of 15,100 societies in our State as on 30th June 1955 consisted of the following types :—

State Co-operative Bank ..	1
Central Land Mortgage Bank ..	1
State Handloom Weavers' Co-operative Society ..	1

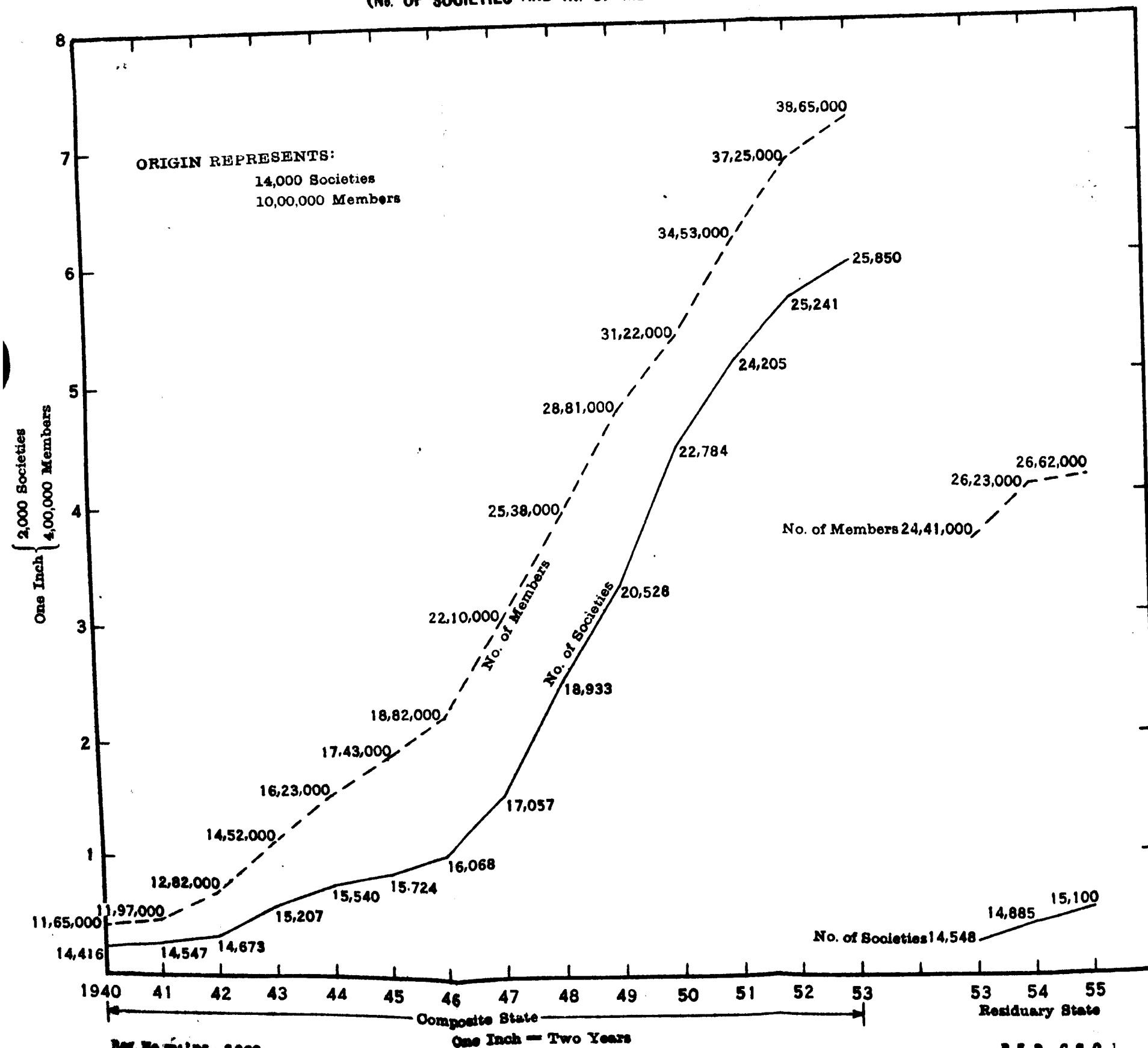
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State Co-operative Union	1
Spinning Mills	1
Language Federation	1
Co-operative Training Institutes	2
Central Banks	18
Co-operative Wholesale Stores	13
Agricultural Credit Societies	10,489
Land Mortgage Banks	73
Marketing Societies	114
Milk Supply Unions	19
Milk Supply Societies	562
Primary Co-operative Stores	786
Students' Co-operative Stores	365
Better Farming Societies	99
Cattle-breeding Societies	13
Urban Housing Societies	178
Rural Housing Societies	29
Urban Banks	173
Employees' Societies	505
Other Non-Agricultural Credit Societies	206
Handloom Weavers' Co-operative Societies (including one Silk Weavers' Co-operative Society)	231
Fishermen Co-operative Societies	160
Cottage Industrial Societies	8
Motor Transport Societies	148
Supervising Unions	148
Audit Unions	3
Insurance Societies	3
Miscellaneous types, such as Printing Press, Poultry farming, Better living societies, Educational societies, etc.	145
Total	15,100

PROGRESS OF THE CO-OPERATIVE MOVEMENT IN THE MADRAS STATE
(SHARE CAPITAL, RESERVE FUND AND WORKING CAPITAL)



PROGRESS OF THE CO-OPERATIVE MOVEMENT IN THE MADRAS STATE (No. OF SOCIETIES AND No. OF MEMBERS)



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CHAPTER 5.

VILLAGE CREDIT SOCIETIES.

38. The village credit society has always been, as it still is, the basic and the essential unit in the credit structure of the co-operative movement. By its membership and share capital, it dominates the co-operative picture. However, the war period saw a shift in the direction of the movement by the expansion of consumers' co-operatives, to meet the problem of shortages in food and other essential commodities. With the cessation of hostilities the problem relating to village societies came once more to the forefront, as is evident from the emphasis laid on the development of co-operative credit in rural areas, by the several conferences and the committees, which have considered these problems during the post-war years, the latest and the most authoritative committee being the Rural Credit Survey Committee of the Reserve Bank.

We propose to review the progress and working of the village credit societies in our State during the years 1939-40 to 1954-55, under the following heads: Number of village credit societies and membership, loans issued (with reference to purpose, value, etc.), collection of overdues, deposits, multi-purpose activities, nature of liability, etc.

39. Number of societies and membership.—The number of village credit societies rose from 11,097 in 1939-40 to 17,201 in 1952-53 (composite State). In the residuary State their number rose from 10,151 in 1952-53 to 10,489 in 1954-55.

The number of members which was 6 lakhs in 1939-40 rose to 15.87 lakhs in 1952-53 (composite State). In the residuary State, the corresponding figures for 1952-53 and 1954-55 were 9.30 lakhs and 10.12 lakhs. The average membership which was only 54 in 1939-40 increased to 89 in 1952-53 (composite State). In the residuary State, the corresponding figures for 1952-53 and 1954-55 were 93 and 96 respectively. The all-India average for membership of village credit societies is 46 (1953-54) and the average membership in our State compares favourably with the former.

As will be seen from Appendix 8, till about 1945-46, the progress was rather slow and halting and thereafter marked. For the entire period down to 1954-55, the rise in average membership was 78 per cent. The Co-operative Planning Committee appointed by the Government of India (which submitted its report by the end of 1945) suggested a target of 50 per cent of the villages and 30 per cent of the population, to be brought into the co-operative fold, within ten years, in two stages. With a view to achieve the target, the Government of Madras sanctioned a sum of Rs. 1,27,020 per annum for payment of subsidies to the Central Banks to meet the cost of additional supervisors employed for this purpose. This

scheme was implemented for a period of a little over four years from 1948-49, but was discontinued in January 1953. It is significant that during the scheme period of about four years, there was a rise in membership by 27 per cent while during the period of eight years preceding it, the rise was only 29 per cent.

According to the latest Census, there are 19,491 villages in the State with a total rural population of 2.79 crores. By 30th June 1955, the village credit societies had covered 58.9 per cent of the villages and 23.5 per cent of the rural population (in terms of families).

40. *Share capital.*—The paid-up share capital of the members in village credit societies increased from Rs. 54.89 lakhs in 1939-40 to Rs. 209.30 lakhs in 1952-53 (composite State), i.e., by nearly four times. In the residuary State it increased from 123.88 lakhs in 1952-53 to Rs. 140.78 lakhs in 1954-55. The average share capital per society and per member were Rs. 494.6 and Rs. 9.1 in 1939-40 and Rs. 1,216.8 and Rs. 13.6 in 1952-53 (composite State). In the residuary State, the corresponding averages were Rs. 1,220.4 and Rs. 13.3 in 1952-53 and Rs. 1,342 and Rs. 13.9 in 1954-55. The all-India averages of share capital per society and per member were Rs. 901 and Rs. 20 in 1953-54. Though the average, per society, in our State, compares favourably the average per member is far less than the all-India average.

A statement showing the progress in share capital is given in Appendix 4.

41. *Loans issued.*—In Appendix 5 particulars of the loans issued by village credit societies and outstanding against their members are given. It may be seen therefrom that the total amounts of loans issued to members increased from Rs. 147.29 lakhs in 1939-40 to Rs. 709.58 lakhs in 1952-53 (composite State). In the residuary State, the corresponding figures were Rs. 375.48 lakhs and Rs. 435.00 lakhs in 1952-53 and 1954-55. The average loan issued per member increased from Rs. 25 in 1939-40 to Rs. 48 in 1954-55. The loans outstanding increased from Rs. 354.15 lakhs on 30th June 1940 to Rs. 1,124.55 lakhs on 30th June 1953 (composite State). In the residuary State the loan outstanding was Rs. 684.06 lakhs on 30th June 1953 and Rs. 664.16 lakhs on 30th June 1955. While the average outstanding per member was Rs. 59 on 30th June 1940, it was Rs. 65 on 30th June 1955.

It may be appropriate to assess here, the extent of contribution made by the rural credit societies, in relation to the entire annual borrowings in the rural areas. The All-India Rural Credit Survey has estimated the annual borrowings of the rural population all over the country at Rs. 750 crores. This may be taken as the basis, for our appraisal of the annual borrowings in our State.

The total rural population of the country being 29.50 crores and that of our State being 2.79 crores, the borrowings of the rural population in our State may be computed as Rs. 71 crores ($\frac{750}{29.50} \times 2.79$).

By an alternative method, it may be computed as Rs. 100 crores. The average borrowing per agriculturist family in the four districts of our State, in which the credit survey was conducted, is Rs. 342. With reference to the total number of agriculturist families in our State, the total annual borrowings of the agriculturists may be computed to be about Rs. 100 crores. Adding to this, the estimated annual borrowings of the non-agriculturists also (Rs. 8 crores as worked out elsewhere in this chapter) the total may be taken to be Rs. 108 crores. As this estimate is based on the data collected from four districts of our own State, this may be considered a better index of the annual borrowings of the rural areas in our State.

Apart from the village credit societies, the primary land mortgage banks and the marketing societies issue loans to the agriculturist members. The urban banks also issue loans to their agriculturist members. The total amount of loans issued by all these agencies in 1954-55 was Rs. 6.45 crores. In relation to the estimated annual borrowings of Rs. 108 crores by the rural population of our State, the co-operatives can be said to have supplied about 6 per cent of their total annual borrowings.

Next, we may ascertain the total rural debt of our State in 1955 and the proportion which the co-operative debt bears to it. To arrive at these figures, we depend on the estimates made by the Economist appointed by the Government of Madras in 1946. According to him, the rural indebtedness was of the order of Rs. 272 crores in 1939 and Rs. 218 crores in 1945. The period between 1939 and 1946 was one of high prices, which greatly helped the agriculturists to clear part of their debts. But conditions after 1946 were not equally favourable. Though prices had not fallen considerably during this period, the benefits of high prices were off-set by recurring failures of monsoon and crops. In these circumstances, it is but reasonable to assume that the debt position has not altered greatly for the better or worse. On this assumption, the proportionate rural debt of the residuary State of Madras in 1955 may be assessed at Rs. 166 crores. The outstanding against members of village credit societies and the land mortgage banks as on 30th June 1955 (Rs. 10.12 crores) account for 6.1 per cent of the total rural indebtedness.

42. *Purposes for which loans were issued by the village credit societies.*—The loans issued by the village credit societies could be classified under three main heads, namely, those issued for productive purposes, those issued for the discharge of prior debts and those issued for non-productive purposes. Productive purposes

include items such as cultivation expenses, purchase of cattle, improvements to lands, etc. In these, are also included provident purposes, that is, loans issued for education, medical treatment, domestic necessities, etc. Non-productive purposes include items such as expenditure on marriage and other ceremonials. Prior debts, for the discharge of which loans are issued, might have been contracted either for productive or for non-productive purposes. In Appendix 6, we have given figures showing the extent up to which loans were issued by the village credit societies under the three heads referred to above during the years 1944-45 to 1954-55. The figures in this appendix show that there has been a gradual diminution in the percentage of loans issued for non-productive purposes and for the discharge of prior debts and a gradual increase in the percentage of loans issued for productive purposes. We hope that the figures given in the Administration Report are correct.

43. *Analysis of purposes.*—It would be instructive to analyse the purposes for which loans have been taken by members. The following statement gives an indication of the purposes for which loans were issued during the year 1954-55 :—

Purpose.	Amount issued.	Percentage to the total amount issued.
(RS. IN CRORES.)		
Purposes connected with		
<i>Agriculture—</i>		
Cultivation expenses	2.52	86.34
Purchase of cattle	0.88	
Kits	0.02	
Improvement to lands	0.29	
Purchase of country carts	0.01	
Purchase of lands	0.04	
<i>Other purposes—</i>		
Purchase of raw materials	0.02	2.76
Trade	0.10	
Education	0.01	0.23
Buying or repairing houses	0.07	1.61
Purchase of food and other necessities of life	0.25	5.75
Loans for clearing prior debts	0.13	2.98
Loans for marriages	0.010	
Loans for other ceremonials	0.003	
Loans for other non-productive purposes	0.002	

It may be seen, that the purposes connected with the land greatly preponderate over other purposes and that among the various purposes connected with the land, the item relating to cultivation expenses accounts for the bulk of the loans issued by the societies. Next in order, appear consumption needs (5.75 per cent). This generally represents the loans taken by members during the off-season when they have exhausted their stock of food-grains. The loans taken for the discharge of prior debts mostly relate to petty debts, as debts for higher amounts requiring a longer period of repayment are diverted to the land mortgage banks. The amounts taken for marriages and other ceremonials constitute a negligible portion.

Loans issued for purchase of raw materials and trade accounted for 2.76 per cent of the total loans issued. This may be taken as an indication of the extent to which these societies have been able to serve the village artisans. The average borrowing of a non-agriculturist family in the four districts of Coimbatore, Chingleput, Ramanathapuram and Malabar has been calculated to be Rs. 57 from the data available in the report of the Reserve Bank's Rural Credit Survey. Adopting this figure as the basis, the total annual borrowings of the non-agriculturist families in the rural area of the State (70 lakhs of people or 14 lakhs of families) could be estimated at Rs. 789 lakhs or roughly Rs. 8 crores. Hence the finance supplied by the village credit societies to this class of people amounted to 1.5 per cent. It is an index of the fact that village credit societies have not been of much help to the village artisans and traders.

44. *Value of loans.*—The classification of the loans issued during the year 1954-55 on the basis of their value, is given below :—

	Loans issued.	Percentage to the total loan issued.
(RS. IN CRORES.)		
Loans not exceeding Rs. 50	0.29	6.7
Loans exceeding Rs. 50 but not exceeding Rs. 100.	0.64	14.7
Loans exceeding Rs. 100 but not exceeding Rs. 250.	1.55	35.6
Loans exceeding Rs. 250	1.87	43.0

It may be seen that about 57 per cent of the loans issued are for sums of Rs. 250 and less. This could be taken as an indication that the societies have served the interests of smaller people in a large measure.

45. *Loans classified according to security.*—Figures for classifying the loans outstanding on the basis of security, are available only from the year 1949 onwards. The statement below gives the comparative position as on 30th June 1955 and 30th June 1949 :—

Nature of security.	Loans outstanding on 30th June 1955 against members.	Percentage to the total outstanding as on 30th June 1955.	Percentage to the total outstanding as on 30th June 1949.
	(RS. IN LAKHS.)		
On the security of deposits ..	1.63	0.30	0.35
Jewels	3.34	0.50	0.75
Standing crops	0.18	0.02	0.33
Produce and finished goods ..	10.17	1.50	3.90
Mortgage of immovable properties.	232.19	34.96	30.02
Personal sureties	416.64	62.72	64.65
Total ..	664.15		

From the above statement, it is clear that the majority of the loans issued were on personal sureties and those on the mortgage of immovable properties accounted only for slightly over one-third of the total amount of loans issued. The loans issued on the security of deposits are obviously small as the societies depend more on borrowed funds than on their own deposits. Loans on the pledge of jewels are also negligible as most of the societies are not properly equipped to undertake such transactions. Loans on the security of standing crops have been very insignificant. The provision in the by-laws for the issue of such loans has remained a dead letter. It is due to a feeling of reluctance, to issue such loans on the part of the societies and Central Banks, possibly on account of the considerable risk involved in the transaction. The loans issued on the security of produce and finished goods, though not insignificant yet form only a very small proportion of the total loans issued. The chief reason for the inability of the societies to encourage such loans is the absence of godowns or other storage facilities.

46. *Loans classified according to periods.*—The position of loans outstanding, classified on the basis of their periods as on 30th June 1955 is disclosed by the following statement :—

Period.	Amount.	Percentage to the total amount issued.
	(RS. IN LAKHS.)	
Loans not exceeding one year	395.01	59.4
Loans exceeding one year but not exceeding three years.	195.81	29.5
Loans exceeding three years but not exceeding five years.	69.65	10.5
Loans exceeding five years	3.68	0.6

As already observed, the loans issued for cultivation purposes predominate over other purposes. Naturally, short-term loans form 60 per cent of the outstandings.

47. *Overdues.*—Statements showing the position of overdues in respect of loans due to the village credit societies by their members are given in Appendices 7 and 7 (a). It may be seen from these statements that the overdues under principal have been generally decreasing up to 1949-50. Thereafter, there has been a tendency for overdues to increase. On 30th June 1955, the percentages of overdues under principal (long-term and short-term) were 11.87 and 26.31 respectively. Under arrear and current interest, the percentages were 39.41 and 28.13 respectively. It is indeed disquieting to note that there are heavy arrears even under interest.

48. *Deposits and working capital.*—On 30th June 1955, the village credit societies held deposits from members and non-members to the tune of Rs. 19.64 lakhs and Rs. 17.34 lakhs respectively. The average deposit per society and per member worked out to Rs. 352.5 and Rs. 1.9 respectively. The corresponding all-India averages on 30th June 1954 were Rs. 396 and Rs. 9. The total working capital of the village credit societies on 30th June 1955 was Rs. 823.38 lakhs; the average working capital per society being Rs. 7,849 (against an all-India average of Rs. 4,406 as on 30th June 1954). The statement given in Appendix 8 will show that there has been a steady increase in the deposits of members and non-members from 1939-40 to 1950-51; thereafter, there has been a marked fall under both. Under deposits from non-members, the highest figure was reached in 1950-51. Deposits constitute only a small portion of the working capital of the village credit societies as may be seen from the fact that in 1953-54 they constituted only 4.6 per cent of the total working capital, against an all-India average of 8.5 per cent. It is rather disconcerting to note that the deposit position in our State is far lower than the all-India average.

49. *Multi-purpose activities.*—Many village credit societies were undertaking non-credit activities when control of foodgrains was in force. Most of them have now given up this activity. The extra activities now done by some of them are confined to the purchase and distribution of seeds, chemical fertilizers, agricultural implements, etc. During 1953-54, 468 rural credit societies are reported to have undertaken non-credit activities, purchasing and selling goods worth Rs. 27.89 lakhs and Rs. 29.68 lakhs respectively. During 1954-55, 129 societies undertook such activities other than credit and their purchases and sales amounted to Rs. 4.08 lakhs and Rs. 4.87 lakhs respectively. Apart from the ordinary village societies which undertook non-credit activities by virtue of the existing provisions in their by-laws there were also 116 full-fledged multi-purpose societies on 30th June 1955, which supplied domestic and agricultural requirements of their members to the extent of Rupees 47,952.

Under a scheme of intensive cultivation through village societies in select districts during 1953-54, the rural credit societies distributed 8,022 tons of chemical fertilizers, 612 tons of iron and steel and 10,647 agricultural implements. They are said to have arranged for 128,224 manure pits for the manufacture of rural compost. They distributed 900 bags of seeds obtained from the agricultural depots. They were able to obtain from the Revenue Department 396.83 acres of land on lease for cultivation purposes. These were sub-leased to their members, who raised on them paddy, ragi and other crops. It is clear from the foregoing, that the societies have not taken up activities other than credit on any sizable scale. Indeed, such activities are on the decline.

50. *Profit and loss position.*—Out of 10,499 village credit societies in the State on 30th June 1955, as many as 3,673 worked at a loss. A statement is given in Appendix 9 showing the profit and loss position of these societies from 1939-40 to 1954-55. It may be seen from it that the number of societies which worked at a loss is considerable. Comparing the position with some other States like Bombay, Madhya Pradesh, Punjab, Uttar Pradesh and West Bengal (Appendix 10), the position in our State is such as to cause concern and this state of affairs cannot be allowed to continue indefinitely.

51. *Liability.*—The agricultural credit societies in this State are mostly constituted on unlimited liability basis. Out of 10,499, as many as 10,351 are based on unlimited liability. The position is similar in Andhra State, which till recently was part of this State. In Bombay, out of 10,595 societies, as many as 2,407, i.e., nearly a fourth are constituted on limited liability. The position in Madhya Pradesh is more or less similar to that of Bombay; here 2,469 are on limited liability basis as against 7,029 on unlimited liability basis. In Uttar Pradesh as many as 29,685 societies are based on limited liability whereas only 2,605 are based on unlimited liability. Recently a change in the nature of liability has been introduced in this State in the case of rural banks; the liability in their case is fixed at five times the paid-up share capital of members. This is a *via-media* arrangement between limited liability and unlimited liability during the transitional period. Generally co-operative opinion in our State is veering towards the adoption of liability limited by guarantee.

52. *Formation of rural banks.*—The formation of rural co-operative banks was taken up in 1955. Government sanctioned the establishment of 26 rural co-operative banks and all these have since been registered. Twenty-five of them have started their work. As on 30th June 1955, there were 12 rural banks with 4,690 members with a paid-up share capital of Rs. 8.60 lakhs. They held fixed deposits of members and non-members to the extent of Rs. 26,400.

They issued loans on the pledge of immovable properties, pledge of jewels, etc., to the extent of Rs. 35,357. They were started as an experimental measure to dispense mainly medium-term loans and to mobilize local savings through various kinds of deposits, and spread banking habits among the rural population.

53. *Summary of the present position.*—To sum up, as on 30th June 1955, there were 10,499 village credit societies in the State, of which only an insignificant number was on the basis of limited liability. The average membership and share capital of a society were 96 and Rs. 1,342 respectively. The average share capital per member was Rs. 14. The average amount of deposits in a society was Rs. 352 and the average deposit per member was Rs. 1.9. The societies satisfied about 6 per cent of the credit needs of the agriculturists and 1.5 per cent of the credit needs of the artisans and traders. The average amount of loans issued to a member during 1954-55 and the average loan outstanding against him were Rs. 43 and Rs. 65 respectively. As much as 96.7 per cent of the loans issued were for productive purposes according to records. Thirty-five per cent of the loans outstanding on 30th June 1955 were secured by mortgage of immovable property and 62.7 per cent by personal sureties. The loans outstanding for short-term purposes exceeded other loans, the percentage being 59.4. The overdues from members to societies under both principal and interest were considerable. A disquietingly large number of societies worked at a loss. Only a few societies have undertaken multi-purpose activities.

PROBLEMS AND RECOMMENDATIONS.

54. *Size of the societies.*—From the facts set out in the foregoing paragraph it is urgent and desirable that the village societies should be reorganized and expanded so as to serve the rural population, carrying out in practice the ideals of a welfare State. The first problem is the one relating to the size of the village credit societies. We have already seen that the existing village credit society is an uneconomic unit. It is based on the Raiffeisen maxim of "one village, one society" and is unsuited to the present-day needs, whatever might have been the reasons for its introduction in the early years of the twentieth century. No doubt it has certain distinct advantages. Mutual supervision is facilitated. The affairs of the societies could be managed easily by villagers, especially in the beginning, when literacy was low. Credit could be made available to men of limited means, even to those who have no tangible security to offer. However, the experience of the past working of these societies had revealed serious drawbacks and deficiencies which more than outweigh these advantages.

Having restricted area of operations and limited membership, the society is unable to command adequate volume of business. More than 3,600 societies worked in loss on 30th June 1955. It is

not, therefore, able to function as an economic unit, build up reserves, etc. Nor is it in a position to inspire confidence among the prospective investors or attract local savings.

Further, it is unable to employ paid staff for its day-to-day administration. Even for preparing its loan applications, it has to wait for the visit of the supervisor, which takes place once in about two months. Of the 10,489 societies, only 127 are of the "A" class (i.e.), those which receive no outside help except by way of audit, and the rest are of the "B", "C" and "D" classes. Thus the number of societies which are able to prepare their own loan applications and wherein the supervisor's work is limited to checking the correctness of the applications is a mere handful. The society is, therefore, unable to obtain and disburse timely loans to its members. It has fostered a feeling among members both present and prospective that it is rarely possible to get loans in time from the society. The area of operations being small, there is dearth of required man-power to manage the affairs of the society efficiently. Absence of informed leadership, endowed with initiative and public spirit has contributed not a little to the state of 'suspended animation' in which most of these societies find themselves.

Again, as a result of its inability to employ paid staff, account-keeping leaves much to be desired and naturally demands more of the time of the supervisory and audit staff.

The society's resources are so limited that it cannot think of a building for its office or a godown for the storage of its members' produce. It is usually located in the house of its President or Secretary, leading to rather undesirable consequences. The President or Secretary tends to think that the society is not a public concern, but his own. The villagers also tend to develop a similar complex. It is unnecessary to stress the need for making the office-bearers as well as the members and others feel and act, that the co-operatives are public bodies open to all.

In a small area, local rivalries and factions tend to assume disproportionate importance and affect adversely, the working of societies.

Thus it is inevitable that these societies do not and cannot contribute to the desired extent towards "better farming", much less "better business" and "better living".

The solution seems to be in the creation of a large-sized primary society. The answers and evidence received by us mostly support this proposal. Having a fairly big area and large membership, the large-sized society will be able to command adequate business to make itself an economic unit. There will be greater scope for the selection of suitable personnel to man its panchayat. It can attract

local savings to some extent. Its income will warrant the employment of paid staff to attend to day-to-day work. It can, therefore, maintain accounts properly and dispense credit promptly from out of its own funds or by obtaining timely finances from the Central Bank. It can acquire or hire a building for its office and godown. Local factions will lose much of their fervour and force in a large area. The societies working well, require only minimum help from the supervisory staff. Audit can be done quickly.

The experience gained so far is in support of the formation of large-sized societies. In Alamuru, for instance (in the East Godavari district which formed part of the composite Madras State) a large-sized society is functioning. This was started in 1938. Its area of operations extends to villages within a radius of 5 miles. It was started with a membership of 95 and a share capital of Rs. 745. On 30th June 1954, it had reached a membership of 4,447 and a share capital of Rs. 1.29 lakhs. On 30th June 1954 it had deposits to the tune of Rs. 5.91 lakhs, while the loan taken by it from the Central Bank was only Rs. 0.67 lakh. During the year 1953-54, it has issued loans to its members to the extent of Rs. 8.27 lakhs. It had a paid staff of Secretary, Accountant, Executive Officer, clerks, etc. Its membership included a number of Harijans, tenants, field labourers, etc.

In our own State, there are a few societies which are bigger in size than the usual type of village societies. We examined the particulars in respect of 32 such societies in 11 Deputy Registrars' circles. These 32 societies had loans outstanding against their members exceeding Rs. 50,000 each. Many of these societies had worked at a profit and attracted considerable local deposits. On 30th June 1954, their average membership, share capital and deposits were 364, Rs. 12,932 and Rs. 20,449 respectively as against 96, Rs. 1,342 and Rs. 352 of all the village credit societies in our State (as on 30th June 1955). The average loans issued to a member in these large societies during the year 1953-54 was Rs. 170 against an average of Rs. 43 as on 30th June 1954 per member in the village credit societies of our State.

Now this idea of a large-sized society is not entirely new. As long ago as 1940 the Committee on Co-operation constituted by the Government of Madras recommended the reorganization of the village credit societies on the basis of large-sized units. In the year 1947, the department itself initiated proposals for the starting of rural banks which were in the nature of large-sized societies. The idea of a large-sized society was again revived in the report of the Rural Banking Enquiry Committee appointed by the Government of India in November 1949. In their report submitted to Government in May 1950 they stated, "The weakness of the co-operative structure seems to lie mainly in these institutions (village credit societies) where it comes directly into contact with the rural people

rather than in the superstructure, and more thought and effort should be devoted to their development. No other alternative machinery of a suitable type appears to be available at the primary level and the generally favoured plan now is the establishment of strong multi-purpose societies able to employ competent paid staff for each group of contiguous villages. We believe that these attempts should be encouraged and supported, particularly by providing the needed staff for inspection and supervision by the Provincial Government."

The latest authority to support the idea of a large-sized society is the Rural Credit Survey Committee appointed by the Reserve Bank of India. They have stated in their report that "one of the main lines of future development of the primary credit structure should be in the direction of organizing larger-sized societies with limited liability". The Second Five-Year Plan for the country envisages the formation of such societies on a large scale.

In the light of the draw-backs inherent in the structure of the small-sized societies and the achievements of a few large-sized societies existing at present and of the weighty opinion pronounced by several committees, we recommend the reorganization of the village credit societies into large-sized units. At the same time, we are of the opinion that care should be taken to ensure that the constitution of such societies should not result in the denial of credit facilities to people of small means and to people living outside the headquarters of the large-sized societies; nor should the personal aspect which ought to imbue a rural credit organization be ignored. This leads us to the consideration of the size of the proposed large-sized society.

55. Size of the large-sized society.—No hard-and-fast rule could be laid down as to the minimum or maximum number of members or the number of villages; nor is it possible to define the limits of a society in terms of an area within a radius of so many miles or a population strength of so many persons. Conditions differ from region to region. The density of the population, the proximity of villages and the means of communication between one another are not always identical. Local conditions will have, therefore, to be taken into account in determining the area of a large-sized society. In our view, the overriding consideration should be generally the possibility of so developing the loan transactions of the institution within a reasonable time as to make it possible for the institution to have at least Rs. 2 lakhs of loans business eventually and also to realize the other objectives for which its transformation was brought about.

Such of the existing societies as have scope for developing their transactions on the lines indicated above may be left undisturbed. If there be neighbouring villages without societies they could be conveniently added on to the jurisdiction of such societies, and

the starting of new societies avoided. The remaining societies may be amalgamated into large-sized societies or their registration cancelled to give place for the new large-sized ones. There are two ways of bringing about the existence of large-sized units, one by the process of amalgamation and the other by the process of liquidation.

The procedure for amalgamation is governed by section 13 of the Co-operative Societies Act. Under this section, amalgamation can be brought about only by the consent of the societies concerned. This voluntary principle on which the section is based, is not suited to meet the present needs. We contemplate a structural change of societies on a mass scale and on a state wide basis, with a view to make them the major, if not the sole suppliers of rural finance in the near future. It will not be possible to bring about such changes speedily, unless there is an element of compulsion, and compulsion is justified in the larger interest of societies. Hence, the section requires amendment, by providing for amalgamation by compulsion (where necessary). Powers of compulsion in this regard may be vested in the Registrar to be exercised in consultation with the Central Banks.

An amendment to section 13 of the Act has been suggested by us in Chapter 24 of our report to achieve the object in view.

56. Rural banks.—We may here refer to the experiment of rural banks introduced recently in pursuance of a scheme proposed by the Registrar in December 1954 and sanctioned by the Government in March 1955. We visited two such rural banks. They were in the initial stages of their working. The drawbacks inherent in a small-sized society have already been referred to. These drawbacks pointed to an imperative need for reorganizing the rural credit structure by the establishment of strong units. It was also considered that the existing rural credit societies have not provided adequate medium-term finance to the agriculturists though they have succeeded in providing short-term finance to the ryots to a certain extent. Hence the idea of starting rural co-operative banks was thought of. These banks have been started not as substitutes to the existing agricultural credit societies, but only as supplementary to them. The intention is that they should tap local deposits, supply medium-term loans to ryots on mortgage security, issue produce loans, jewel loans and loans on approved securities and to promote banking habits among the villagers by providing them facilities for the investment and withdrawal of moneys with them in current and savings accounts. The area of operation of a rural bank covers a group of contiguous villages, say about 10 villages within a radius of about 5 miles. The liability of the bank is limited to five times its paid-up share capital. The authorized share capital is fixed at Rs. 50,000, made up of 5,000 shares of Rs. 10 each. Government have sanctioned the formation of 26 such banks

and also the appointment of 26 Senior Inspectors to supervise their working. Twenty-five banks have been started so far and have commenced business.

Representations have been made to us with regard to the lines on which the rural banks have been allowed to work. (i) When there are already village credit societies functioning in most of the villages, why should the ryot go to a separate agency for his medium-term credit alone? (ii) Why should not the rural banks undertake the supply of short-term loans as well to the agriculturists saving inconvenience and cost to the ryots?

There is much force in the argument that there should be only a single agency for the issue of both medium-term and short-term loans. Our impression is that the rural bank was conceived only as an experimental measure; but in the wake of starting such banks, the need for the formation of large-sized societies as adumbrated by the Rural Credit Survey Committee has been accepted by the Central and State Governments and we find that most of the schemes relating to co-operative credit in the Second Five-Year Plan are based on this policy of starting large-sized societies. In this context, we think that it is desirable to incorporate the rural banks also into the credit structure instead of continuing them as separate agencies for the issue of medium-term loans. In short they should become large-sized primary societies.

57. Interests of small borrowers in the large-sized societies.—As already observed by us, steps will have to be taken to safeguard the interests of men of small means and also the interests of the villagers who are outside the headquarters of the large-sized societies. We are not sure whether a mere provision in the by-laws of these societies, that a part of their credit limit should be reserved for the issue of small loans or for the issue of loans to those residing outside the headquarters of the society, would be effective. We desire to point out that it is the duty of the supervisory staff of the Central Banks and the department to ensure that no discrimination is made against men of small means and against members residing outside the headquarters of the society. We find that more than 50 per cent of the loans are issued by the existing village credit societies to men of small means and we are anxious that this position should not only be maintained but improved in the new set-up. It is also necessary that each village in the area of operations of the large-sized society is given representation on its Committee.

58. Issue of loans to tenants.—Out of a total rural agricultural population of 209 lakhs in our State, 37 lakhs are tenants, i.e., those who make a living mainly by taking on lease the lands of others. The problem of supplying their credit needs has become important in the context of our ideal of a welfare State. It is regrettable that at present their credit needs are not fulfilled by

village credit societies as pointed out by the Rural Credit Survey Committee. The grant of loans has generally followed landed property rather than credit-worthiness. A tenant may be honest, industrious and credit-worthy but he is not able to obtain loans under the present practice if he does not own some lands. This practice, besides being unjust, hinders agricultural production. The proposed land legislation gives the tenants protection against arbitrary eviction and also 60 per cent of the share of the gross produce. Their status and economic position are bound to improve in the future. Though this improved position should minimise the hazards attendant on the issue of loans to tenants, yet when village credit societies embark on a scheme of granting loans to tenants as a matter of policy and on a vast scale, they require some sort of guarantee from Government to make good the possible losses arising out of the issue of such loans. We find the Rural Credit Survey Committee of the Reserve Bank has recommended the institution of a Relief and Guarantee Fund by the Central and State Governments to be utilized for purposes of writing off arrears arising out of widespread chronic famine. We support the need for instituting such funds from which money must be made available to these societies to make good the loss (if any) arising from the issue of loans to tenants. We also recommend that there must be a policy of "phased programme" in this regard.

Legislative safeguards.—To minimise the risks of financing tenants, it is necessary to create effective legislative safeguards with a view to ensure that the security of "anticipated crops" does not become illusory. Under section 21 of the Madras Co-operative Societies Act, a society is entitled in priority to other creditors, to enforce on the crops raised by the borrower, an outstanding demand due to it (society) under certain circumstances. The section will become ineffective when another creditor holding a decree against a member attaches the crops. The priority in favour of the society will work effectively, only if the priority created by the section is converted into a first charge subject to land revenue.

The Townsend Committee on Co-operation, the Vijayaraghavachariar Committee on Co-operation, the Twelfth Conference of the Registrars of Co-operative Societies, the All-India Co-operative Planning Committee, the Central Banking Enquiry Committee, the Gadgil Committee on Agricultural Finance have all recommended that the lien on crops should be converted into a first charge. Some States, like Bombay, Bihar and Orissa, have already converted the priority into a charge, by suitably amending the Co-operative Societies Act. The general trend of opinion expressed to us is in favour of a similar amendment to the Madras Act. A few have, however, expressed doubts about the proposed amendment. In their opinion such legislation is likely to scare away persons from the movement altogether and to drive them to the hands of the private money-lender or commission agent. We do not think that

this fear is well founded. The risks involved in issuing loans on the basis of anticipated crops require the protection of the proposed amendment. It may be remembered here that the loan was given by the society for raising the crops.

But this alone is not enough; and it is necessary to note that the mere creation of a legislative safeguard investing the crops with a first charge in favour of the society, cannot serve the purpose under all circumstances. While it is easy to realize the first charge on an immovable property, it is very difficult and almost impossible to trace the charge on movables—particularly crops if they have been harvested and removed from the field; for instance, crops coming under the charge can be easily removed and sold, the charge becoming ineffective. Therefore, the following further safeguards are necessary :—

If the first charge is really to serve its purpose, the amendment should also contain provisions, prohibiting the alienation of the charged property without the previous permission of the society and declaring any unauthorized transfer of the charged property void and compelling the borrower to deposit the charged crops at the place and time specified by the society (if the society apprehends that he might remove the produce).

There is also an obvious need to provide for the speedy execution and realization of the charge. It should not involve an elaborate procedure. The society should be enabled by an application to the Registrar to attach and sell the crops without obtaining a decree. Such provisions are also found in the Bombay Co-operative Societies Act.

In this connexion the State Co-operative Advisory Council has referred to the Committee a suggestion that Central Banks should be invested with powers to initiate execution proceedings against defaulters in co-operative societies in cases where the societies themselves have failed to take such action. We do not think this course is necessary, as there are other means of making the societies act.

59. *Limitations of the present co-operative finance.*—There are three aspects to this question : One is that the societies have not covered all the areas in the State. The percentage of villages covered on 30th June 1955 is 58.9. The second is that even in areas which the co-operatives have covered, they have yet to bring within their fold a considerable proportion of the population. The rural population brought within the fold of the rural credit co-operatives is 23.5 per cent. The third is that even in respect of their members, the societies satisfy only a part of their credit needs. The first object can be realized within a reasonable future. The second and third are rather interwoven.

The report of the Reserve Bank's Committee has given the following figures showing the contribution made by various agencies in the field of rural credit :—

Agency.	Proportion to the total borrowings.
	PER CENT.
(i) Government	3.3
(ii) Co-operatives	3.1
(iii) Commercial banks	0.9
(iv) Relatives	14.2
(v) Landlords	1.5
(vi) Agriculturist money lenders	24.9
(vii) Professional money lenders	44.8
(viii) Traders and Commission agents	5.5
(ix) Others	1.8
Total ..	100.0

Figures are not separately available for our State.

Of the various agencies mentioned above, the contribution of commercial banks is very negligible and even this business must for all practical purposes represent loan dealings with big landlords including planters. The loans taken from relatives are said to be free of interest (we are not wholly sure of the accuracy of this statement) and the class of people who take such loans will see no particular advantage to prefer the society, so long as their relatives are prepared to oblige them. The financing by landlords is mostly for their tenants. It could, therefore, be said that there is neither a need nor scope for co-operative societies to cover the fields served by these three agencies. The total contribution made by the last four agencies and the Government works out to 80.3 per cent. The domain in which these agencies are operating could, with advantage to the ryots, be taken up by societies in addition to the service already rendered by them. But the question is whether it is necessary and practicable to cover this entire 80 per cent. It does not appear necessary for the purpose of conferring the benefits of institutional credit on the ryots, that the entire field of rural credit should be monopolized by co-operative societies. Even in West Germany, the birth place of the Raiffeisen Rural Credit Societies, it is said that only about 60 per cent of all direct short-term credits to farmers are handled by societies. The question of practicability must also be considered. It is not possible to cover the entire field of rural credit unless there is a complete ban on private money-lending. Such a ban is not desirable either; it is not likely to become an unmixed blessing for the ryots, for co-operation alone cannot be expected to satisfy all the credit needs of the rural families.

to finance the tenants and men of small means on a large-scale and to grant them loans in time.

We recommend that under the circumstances it would be enough if the co-operatives are able to supply 50 per cent of the credit needs of the rural population in 15 years. If this result is achieved, it will automatically have a wholesome effect on the private sector of money-lending. In fact, we understand, this is the objective of the Second Five-Year Plan drawn up for the development of co-operative credit. This development of village co-operatives would itself be a stupendous task and tax to the utmost the resources and energies of co-operators—paid and honorary.

60. *Suggestion to remove certain impediments which limit the expansion of the co-operative finance.*—With a view to pave the way for the expansion of co-operative finance, the following suggestions are made :—

(i) Where the borrowers are unable to pay the dues on account of causes beyond their control such as drought, cyclone, etc., extensions for repayment must be granted. To them fresh finance should not be denied, especially for cultivation purposes and purchase of domestic necessities.

We learn that the practice is not to grant such extensions beyond the co-operative year. A more liberal policy may be adopted. While the abuse of the power to grant extension should be guarded against, when it is granted in all deserving cases, the period of repayment should be extended up to the period of next harvest by the borrower.

(ii) Generally, if societies are in default to the Central Banks, fresh loans are not ordinarily granted by the latter though, as per rules, they can grant fresh loans if the overdues do not exceed 25 per cent of their outstandings, etc. We feel that the Central Banks need not deny fresh finance to their affiliated societies for financing their new members and non-defaulting members, provided they have taken suitable action to realize the overdues of members' loans.

We are glad to note that the Registrar has already taken action on these lines.

61. *Village Co-operative Societies vis-a-vis other agencies of Rural Credit.*—The dominant part still played by professional money-lenders in the sphere of rural credit raises the question whether co-operative credit can at any time eliminate them even assuming that not all the money-lenders carry on business on fair and reasonable conditions. The credit needs of the agriculturists are so complex and the money-lenders are so well established that

it would be difficult if not altogether impossible to remove them from this field. The expansion of co-operative credit movement through the large-sized societies and the policy of "full finance" proposed to be adopted as the goal must reduce the role of the money-lenders and exercise a salutary influence on the conditions under which they carry on business. It may be observed here in passing that the co-operative credit movement, besides supplying finance to agriculturists, had in fact exercised a notable influence on money-lenders by obliging them to reduce the rate of interest on their loans. Co-operative societies have benefited agriculturists directly by financing them and indirectly by improving the conditions of money-lending.

Legislation to regulate and control money-lenders is necessary to remove the abuse and exploitation of agriculturists. Such legislation has been introduced in this State periodically like the Usurious Loans Act of 1919, the Debtors Protection Act of 1935, the Madras Debt Conciliation Act of 1936, the Madras Agriculturists Debt Relief Act of 1938 and the Madras Indebted Agriculturists (Repayment of Debts) Act of 1955.

The Agricultural Finance Sub-Committee appointed by the Government of India recommended that Acts should be passed in all the provinces providing for the compulsory registration and licensing of money-lenders. The Fifteenth Conference of the Registrars of Co-operative Societies held at Madras in 1947, supported the views of the Agricultural Finance Sub-Committee, with regard to the regulation of money-lending. The Rural Credit Survey Committee has now very strongly urged the introduction of a law to control money-lending on the lines recommended by the Agricultural Finance Sub-Committee. The present Bill before the Madras Legislature, which seeks to control and licence money-lenders other than agriculturists, is in our view, a timely measure.

62. *Statutory creation of charge by borrowers' declaration.*—One of the ways by which a member of the Society may be enabled to get full finance is by the creation of a charge by him on the property owned by him. This will make him more credit worthy and in addition enable him to get his loan in time and promptly. The creation of this charge can be modified by him at any time with the consent of the society. Therefore, it is not a permanent hindrance to his rights to deal with his properties. It may be noted here that Section 24-AA of the Bombay Co-operative Societies Act provides for the creation of a charge of this kind.

63. *Government Agencies in the field of rural credit.*—Under the Agriculturists Loans Act, 1884, loans up to a period of two years are given by the Revenue Department to the agriculturists. Under the rules framed under this Act, loans up to Rs. 1,000 could be given for the purchase of seeds, grain and cattle and for the cultivation

of sugarcane, ginger, turmeric and plantain and up to Rs. 2,000 for the cultivation of coffee, tea and rubber and for the purchase of fodder, construction of cattle-sheds, purchase of carts, manures, etc. Loans up to Rs. 200 could be given for the relief of distress recognized by Government. Under the Madras Land Improvement Loans Act, 1883, long-term loans are given for construction of wells, installation of engines and pump-sets, reclamation of land and such other works. No limits have been prescribed for the amount of loan that could be sanctioned under this Act.

Under both these categories a total of Rs. 2.89 crores and Rs. 49.02 lakhs were issued during the years 1952-53 and 1953-54 respectively.

Under a scheme of intensive manuring, the Agricultural Department issued loans to the agriculturists to the extent of Rs. 58.48 lakhs and Rs. 42.26 lakhs during 1953-54 and 1954-55 respectively.

In the Community Development and the National Extension Service Blocks, an amount of Rs. 25 lakhs have been so far sanctioned to the agriculturists for the purchase of seed and manure. The loans bear lower rates of interest than the rates charged by co-operative societies.

The need for direct financing by the State and the effects of such financing on the working of the village credit societies have been discussed from time to time. The consensus of the opinion is that the State should not continue to issue loans directly under the Acts referred to above in areas where co-operative societies are functioning for the following among other reasons: Lack of co-ordination, needless duplication of work and temptation to over-borrow. On principle, such loans should be issued by specialized agencies such as the village credit societies which are expected to have closer control and supervision over the genuineness of the need and the proper application of the loans. These Acts were passed before the introduction of the co-operative movement in this country and now that the movement is endeavouring to give maximum finance to agriculturists if necessary with State help, the Revenue Department need not continue to issue these loans. It will be very difficult for the Revenue Department to supervise the application of the loans. The grant of loans normally and the supervision thereof may well be left to the rural credit societies.

It is not necessary to repeal these Acts, for the Registrar can be empowered by a necessary amendment to use their provisions for granting these loans out of funds placed at his disposal. This will bring about a single agency for the distribution of credit to agriculturists and the Registrar will of course grant these loans through the rural credit societies.

64. *Collection of overdues of members' loans.*—The causes for overdues in members' loans can be broadly divided into (i) extraneous factors such as drought, flood, etc., seriously affecting the income of the borrowers and (ii) internal factors such as the indifference and wanton default of borrowers and apathy of the management and the supervisory staff. Where the arrears are due to external factors, it is just and necessary to grant extension. We have already dealt with this subject. Overdues due to the latter causes cannot be justified on any account. One of the essential basis of co-operative credit is the realization on the part of members of their sense of obligation to the society. Unless this becomes a reality, "co-operation is an illusion" both financially and educationally, as observed by the MacLagan Committee. In such cases the dues should be collected relentlessly in the interests of the borrowers and societies.

We would like to refer in this connexion to a tendency on the part of the societies and those concerned with their supervision to be content with the clearing off, of the overdues of the societies, to the financing banks ignoring the overdues of members to the societies. During the year 1953-54, for instance, the overdues of societies to Central Banks were only 20.2 per cent and 4.9 per cent under long-term and short-term principal respectively; but the corresponding percentages of overdues from members to societies were 46.2 per cent and 25.1 per cent respectively. Apparently the resources of the societies other than demand deposits, ^{at it can be derived from} members, for example, share capital, deposits, undistributed profits, etc., have been utilized to clear off the overdues to the Central Bank. We wish to emphasise that the collection of the dues from the members is as imperative as the collection of dues from societies to the Central Banks.

It is relevant here to consider the propriety of collecting penal interest on overdue instalments of principal and the rate of such levy. Without going into the several changes in policy in the past in this regard, we may briefly mention that this levy was abolished in the thirties but reintroduced in the last decade. The abolition was to lessen the burden of the borrowers during a period of falling prices of agricultural produce, etc. It is only fair that if the borrowers did not pay because of their real inability, they should not be harassed with penal interest. When the conditions of the agriculturists improved in the forties, penal interest was reintroduced. In the absence of such penalty borrowers would have no incentive to be punctual with the result, that overdues would accumulate. Especially, as the rate of interest in the society is far less than the rate charged by private creditors, there will inevitably be a tendency on the part of the members to pay off the dues to the latter first. Further, there should be some distinction between members who

are punctual and those who are not. In the light of these facts, we think that the levy of penal interest is justified now. However, if the rate of penalty is very high, the borrowers would be hit hard. The fact that the village credit society collects penal interest and does not pay corresponding penal interest to Central Banks may encourage a tendency for laxity on the part of the office-bearers of societies in the collection of dues from the members, particularly as it will augment the profit of the society. But the penal interest must not be such as to be a burden on the agriculturists themselves and we suggest that the penal interest may not exceed 25 per cent of the usual rate of interest.

65. *Rate of interest charged on loans issued to the members.*—The question regarding the rate of interest on the loans issued to members of village credit societies has of late been exercising the minds of co-operators. The Reserve Bank charges $1\frac{1}{2}$ per cent on the loans issued by it for agricultural operations and marketing of crops. The ultimate borrower is charged $6\frac{1}{2}$ per cent. The apparently large difference between these two rates has focussed public attention on this subject. There are several aspects to the question, viz., whether the ultimate rate is reasonable, whether the margin between the borrowing and lending rates of the State Co-operative Bank, Central Banks and village societies admits of any reduction, or any of the financing agencies between the Reserve Bank and the village credit societies could be eliminated, to lower the rate of interest from the ultimate borrower.

From the answers and evidence received by us, we may say that the rates of interest charged by private agencies in rural areas are much higher, often ranging between 12 to 18 per cent and in some cases between 18 to 24 per cent. The rates charged by societies in Madras compare favourably with those prevailing in some States like the following: Andhra— $6\frac{1}{2}$ per cent. Bombay— $6\frac{1}{2}$ per cent to 10-15/16 per cent. Orissa— $8\frac{1}{2}$ per cent. West Bengal— $7\frac{1}{2}$ per cent. Assam—11-3/16 per cent. Bihar—7 per cent. Uttar Pradesh—9 to $12\frac{1}{2}$ per cent. Punjab—9-3/8 per cent. The interest rate of $6\frac{1}{2}$ per cent charged by the village credit societies of our State cannot, therefore, be said to be unreasonable.

We have already seen that more than 50 per cent of the loans issued by the village credit societies are below the range of Rs. 250; loans below Rs. 50 and those between Rs. 50 and Rs. 100 form 6.7 per cent and 14.7 per cent respectively. Any reduction in the interest rate by $\frac{1}{2}$ or 1 per cent will not mean much to the majority of these classes of borrowers. They are concerned with timely and adequate supply of credit more than a slight reduction in the rate of interest, while the latter is certainly welcome to them. Therefore, the point to be examined is whether such reduction

can be effected now without affecting the capacity of the village societies to function and develop satisfactorily as business units and serve their members usefully.

In this connexion we would like to quote some of the observations of Mr. Chester Davis in his report on Rural Credit in India:—

“Overemphasis on getting loans to the cultivator on the lowest possible interest rate has retarded the capital growth of the co-operatives and restricted their ability to serve the borrower and help him to use the money he borrows to improve his income and economic position.

“It is much easier to lend through a local society that is well provided with capital, is growing and is well managed than through one that is under-capitalized, is static or hide bound and so small, that it is to depend largely on the voluntary unpaid service of officer members for management.

“The question needs to be thought out whether there are not at least two considerations, more important in co-operative credit than the lowest possible interest cost to the ultimate borrower. One is the important objective of giving the co-operative society margin enough that it can build up the owned capital in which the borrower member, of course, has an equitable share. The other consideration is the desirability of providing the society with means to be of real service to the member borrower so that it can give him credit when he needs it, and assist him to use it productively.”

The present margin of $1\frac{1}{2}$ per cent for village societies, viz., the difference between the borrowing rate of $4\frac{1}{2}$ per cent and the lending rate of $6\frac{1}{2}$ per cent is hardly sufficient to build up adequate resources, particularly now that they have to extend their financial assistance to owners as well as to tenants involving considerable risks in the collection of loans. It is more necessary to strengthen the profits of the credit societies than to reduce the interest to the ultimate borrowers. We should not, however, be understood to be against a reduction in the rate of interest to the ultimate borrower, if this can be done without detriment to the long-term interests of the societies and their financing bodies.

The next aspect of the question is whether the margin between the borrowing and lending rates of the State Co-operative Bank, Central Banks and village credit societies could be reduced with a view to bring down the ultimate rate. Taking the State Co-operative Bank, it advanced loans during 1954-55 to the Central Banks to the tune of about Rs. 196 lakhs for financing agricultural operations and marketing of crops. Out of this amount, the bills discounted with the Reserve Bank at the concessional rate of $1\frac{1}{2}$ per cent per annum amounted to Rs. 188 lakhs. Practically therefore the entire advance to the Central Banks for financing agricultural operations

was obtained by the State Co-operative Bank at the concessional rate from the Reserve Bank of India. At present, it adds a margin of $\frac{3}{4}$ per cent on the moneys received from the Reserve Bank at $1\frac{1}{2}$ per cent and lends to Central Banks at $2\frac{1}{4}$ per cent for financing the village credit societies and marketing societies. (Till recently it was adding a margin of 1 per cent and lending at $2\frac{1}{2}$ per cent.) Having regard to the fact that there is not much of supervision cost to be incurred by the State Co-operative Bank in passing on the Reserve Bank's money to the Central Banks, we suggest that the State Co-operative Bank may consider the desirability of effecting further reduction of $\frac{1}{4}$ per cent in due course. When it is remembered that this bank has been responsive to the needs of the movement by reducing the rates of interest whenever there was need and scope for it, we have no doubt that it will do the needful in this direction.

So far as the Central Banks are concerned, the rates paid by them on deposits range from 3 to $3\frac{1}{2}$ per cent. During 1954-55, out of Rs. 533.83 lakhs advanced by them as loans to the village credit societies and marketing societies, only about 30 per cent represented the moneys obtained at the concessional rate of interest from the Reserve Bank through the State Co-operative Bank and the remaining 70 per cent represented their borrowings by way of deposits at higher rates of interest. The financial condition of all Central Banks is not uniform. It is not, therefore, possible for all the Central Banks to reduce their rate of interest corresponding to the reduction in the lending rate of the State Co-operative Bank. When the Central Banks are not in a position to effect similar reduction, we suggest that the savings accruing from the increased margin available to them consequent on the reduction in the rate by the State Co-operative Bank could well be earmarked by them for being distributed to the village credit societies on some equitable basis, i.e., without being appropriated towards their own profits. At the same time we also recommend that the Central Banks should aim at lending to the village societies at not more than 4 per cent in due course and work purposely towards that end. The same object can be achieved by the Central Banks eventually foregoing collection of supervision fund from village societies and charging only $4\frac{1}{4}$ per cent on loans to village societies. The latter course is preferred to the former for a variety of reasons.

So far as village credit societies are concerned the margin between their present borrowing and lending rates is $1\frac{1}{2}$ per cent. Out of this margin a sum of 9 annas goes in payment of supervision fund to the Central Banks. Another sum of 12 annas goes in payment of remuneration to one of its panchayatdars, who attends to scriptory work. For all practical purposes therefore the margin to the society is only 8 annas in respect of a loan outstanding of Rs. 100 against members. The inadequacy of the present margin is demonstrated by the fact that as many as 8,678 societies out of 10,489

worked at loss during 1954-55. The present margin is therefore admittedly inadequate. The village societies usually require a margin of 2 to $2\frac{1}{4}$ per cent. They can have this margin only when the Central Banks are able to reduce the rate of interest or forego the collection of supervision fund as suggested above. For the present we can only make the following suggestion with this desirable end in view. We feel that the maximum remuneration permissible for scriptory work to a panchayatdar under by-law 30 might well be reduced.

It has been suggested that if the Reserve Bank lends directly to the Central Banks instead of through the State Co-operative Bank it will become possible for the Central Banks to give further relief to the village credit societies in the interest rate. This suggestion of bypassing the State Co-operative Bank ignores the historical necessity of an apex bank and overlooks the future context in which it is expected to play a much greater part in the dispensation of rural credit. The tendency in the States where there is no apex bank is to form one, and we cannot think in terms of eliminating an existing apex bank here. Under the Reserve Bank of India Act, the Reserve Bank has to deal only with the State Co-operative Bank. Even assuming this provision is amended, it is much easier for the Central Banks and the Reserve Bank to deal with each other, through the agency of a strong apex bank, than directly.

Another suggestion made to us is that even if the existing channel of the State Co-operative Bank should be retained, the Central Banks might get all their requirements from the Reserve Bank through the State Co-operative Bank at the concessional rate of 21 per cent and need not go in for deposits at higher rates. We do not think that this course is wise, even if practicable. It will reduce the Central Banks eventually to the position of mere agencies of the Reserve Bank of India. The Central Banks cannot divest themselves of their legitimate function of mobilizing the local savings of their areas and channelling them into rural parts. They cannot refuse deposits flowing into them from a well-established clientele. Besides, the need for capital formation in the country is of such great magnitude as to necessitate the opening of any number of channels through which resources could be mobilized and canalized. We cannot, therefore, recommend the suggestion referred to above, as it will in due course make the Central Banks indifferent in tapping local deposits.

In the light of the foregoing we are inclined to say that there is not much scope at present for reducing the rate of interest to the ultimate borrower from $6\frac{1}{4}$ per cent, the prevailing rate.

66. *Thrift activities in village co-operative societies.*—One of the common criticisms of the working of village credit societies is that they have entirely overlooked the co-operative maxim "No

thrift, no credit". It cannot be said that they have played any significant role in mobilizing rural savings and fostering habits of thrift as expected of them by the founders of the Movement. As on 30th June 1954 the deposits held by them from members and non-members amounted to Rs. 18.34 lakhs and Rs. 16.65 lakhs, respectively, forming 4.6 per cent of their working capital (against a corresponding all-India average of 8.5 per cent). The average deposit per member was only Rs. 1.8.

The paucity of deposits is attributed in the main to the low saving capacity of the agriculturists which in turn has its roots in handicaps such as uneconomic holdings, seasonal failures, etc. It has been assumed that no substantial surpluses and savings are available in the rural sector. The Rural Banking Enquiry Committee (1950) which examined the validity of this assumption have observed as follows: The rural population consists of various classes, some of whom at least—the big landholders, cultivators of economic holdings, thrifty sections of small holders and traders—possess a margin of savings, except during period of abnormal conditions. The surpluses enjoyed by such people have generally been invested in the purchase of land and jewellery, acquisition of additional livestock, etc. Sometimes these surpluses have also flowed into urban enterprises. To suggest that there has been no substantial savings in the rural sector in normal times, is to ignore the existence of a relatively more affluent and thrifty section among the rural population. From a study of the deposit position in the savings accounts of the rural post offices also, the Rural Banking Enquiry Committee has come to the conclusion that the assumption that there are no substantial rural savings is not well-founded.

We find that the by-laws of village societies contain many provisions for the promotion of thrift and mobilization of savings—such as collection of share capital in instalments, opening of fixed deposit accounts with a minimum of Rs. 5 and recurring deposit accounts with a minimum subscription of Re. 1 per mensem, working of chit funds and home safe deposits, etc. Except for fixed deposits, home safe deposits and chit funds in a few societies, there has been no progress worth mentioning in this line. Chit funds and home safe deposits are excellent means of inculcating habits of thrift among the villagers and sustained efforts should be made to popularize them. Indeed, there are many chit funds which are worked by private agencies in the countryside. The working of some of them, at any rate, is not to the advantage of the subscribers; but still people join them. This shows that there is need and scope for working chit funds. Home safe deposits are best suited to agricultural labourers, artisans, etc. Unless savings over a period of years are effected by some such method, it will not be possible for the common people of the villages to become prosperous. As our aim is to upgrade their economic status

in consonance with the national objective of a welfare State, we urge that concentrated and persistent efforts should be made by the department and Central Banks to implement the provisions in the by-laws in respect of these deposits.

Through share capital collections also thrift can be promoted. The amount of loan allowed to a member is related to the number of shares held by him. Usually a minimum share capital of Rs. 10 is insisted upon for a member requiring a loan of Rs. 100. This amount of Rs. 10 which the member is obliged to invest in the society is neither looked upon by him as a method of saving and an incentive to thrift nor looked upon by the society as a means of building up its owned capital and strengthening its resources. The member borrowing Rs. 100 thinks it his duty to repay July Rs. 90 and expects the society to adjust the share capital already paid by him. The society also does not insist on the repayment of the loan balance and is quite prepared to adjust the share capital even though it leads to the severance of his relationship with the society. We consider that the share capital should not be allowed to be adjusted to the balance of loan and that the outstanding should be collected in full. When a next loan is taken, fresh share capital may be collected. This process may go on till the share capital of a member reaches at least Rs. 50. If share capital cannot be collected in cash before the second and subsequent loans are disbursed, it may be collected by retention out of the loan amount at the time of disbursement. Though at the time of retention, it is not the outcome of thrift, yet it acquires the character of thrift later on when the loan taken is repaid in full. We feel that though the implementation of these suggestions may not be immediately popular with the members, patient and persistent education of the members will make them workable and successful.

67. *Liability of the village credit societies.*—The existing village credit societies are based on the Raiffeisen principle of unlimited liability. Small size and unlimited liability go together, as the proximity of the borrowers ensures mutual knowledge and mutual supervision and mitigates the dangers inherent in this kind of liability. Opinion regarding the effect of unlimited liability on the expansion of village credit societies is divided. Some consider it as the very keystone of the co-operative arch. On the other hand, some not only consider that it has been of little practical use, but that it has been a deterrent to the increase of membership in the societies. This question was dealt exhaustively by the previous Madras Committee on Co-operation and there is nothing further for us to add to the general aspects of this issue. We feel that this question has to be decided in the light of practical considerations and public opinion.

Taking the figures of the last five years (1950-51 to 1954-55) unlimited liability contribution orders were passed on an average

in 48 liquidated societies per year involving 273 cases. The total amount for which such orders were passed works out to about Rs. 58,000 per year, but actually these were enforced only in 226 cases to an extent of Rs. 10,800 only. In some circles like Tirunelveli, Tuticorin, Erode, Coimbatore, Sivaganga and Mangalore, no contribution order was passed during the last five years. In some other circles such as Malabar (North), Malabar (South), Kasaragod, etc., the amounts involved in the contribution orders passed are very negligible. On the other hand, the Central Banks have been writing off comparatively large amounts due from the village credit societies during these years. The amounts written off works out to about Rs. 63,000 per year. In the light of these facts it cannot be said that unlimited liability has been of much practical utility. A change over from unlimited to limited liability may not, therefore, make much difference from the point of view of the Central Banks.

However, as a sudden switchover from unlimited to limited liability as ordinarily understood (i.e., liability limited to subscribed share capital), may give rise to unjustified apprehensions, we feel that the unlimited liability may be replaced by guarantee liability, i.e., liability which is a multiple of the subscribed share capital of members. Co-operative opinion seems to be increasingly in favour of this type of liability.

Indeed, with the formation of large-sized societies, in which one cannot expect the features of the existing societies such as proximity and mutual knowledge to the same extent, unlimited liability has necessarily to be given up. The liability of the existing village credit societies may be left undisturbed till they are transformed into or merged with large-sized societies.

Under section 4 of the Madras Co-operative Societies Act it is compulsory that the liability of a primary credit society, the majority of whose members are agriculturists, etc., should be unlimited. We recommend that the section may be so amended as to leave the nature of liability open. We suggest the form of amendment in Chapter 24 of our Report.

68. *Admission and expulsion of members.*—Under the existing by-laws of village credit societies (as indeed of other kinds of societies) and under rule XVII-A of the rules framed under the Co-operative Societies Act, certain categories of persons such as those who are bankrupts or insolvents or those who have been convicted of any offence involving moral delinquency, are ineligible for admission as members. Barring such cases, any person over 18 years of age within the limits of the area of operations of the society is eligible for admission. However, no person could claim admission as a matter of right and the panchayat of the society has power to grant admission or refuse it without assigning reasons.

This provision is apparently based on a recognition of the fact that a village society is expected to secure a select clientele admitted for their presumable trustworthiness. This is also a rule of ordinary banking. The members are potential borrowers and their character is obviously an important factor for the success of the undertaking. Further, as the liability of the village society is generally unlimited, the by-law is designed for the purpose of ensuring that candidates for membership are not likely to make this contingent liability really dangerous.

It has been stated that the provision by which the panchayat has such an absolute power as refusal of admission, has been responsible for keeping out of societies considerable sections of the rural population especially in places where there are factions and party feelings. It has also been represented that in several places, the provision has been made use of in a *mala fide* manner to keep out of societies whole classes and communities. While we consider that the effects of vesting such power in the panchayat on the membership of societies are rather exaggerated, we are inclined to think that there should be a provision for appeal against the decisions of the panchayat in the light of the facts set out below :—

(i) The societies enjoy certain privileges at the expense of the tax-payer and hence they cannot be allowed to be managed as close preserves of certain individuals or cliques.

(ii) Once a society is functioning, no other similar society is permitted to be started in its area, with the result that those who are denied admission have no means of securing the benefits of the particular type of society.

(iii) The future objective is to bring within the co-operative fold bulk of the rural families and provide them with institutional finance on a vast scale. The absolute power vested in the panchayat as regards admission of members is likely to hinder the realization of this objective.

Regarding the authority in whom the power of disposing of the appeal should vest, various suggestions have been made to us. One is that the appeal may lie to the general body. The second is that the appellate authority may be the Union. The third is that the Central Bank might be the appellate authority, and the fourth is that a committee may be constituted for this purpose consisting of the representatives of the society, the Central Bank and the department. The suggestion to vest the appellate power in the general body is open to objection on the ground that where the society is dominated by a powerful faction the right given to the aggrieved person would be only illusory. Appeal to the Supervising Union may not be effective in all cases, as only some of them are working efficiently. But the Central Bank can take a more objective view

of the matter than either the general body of the society which is too close to take a dispassionate view or the Union which is similarly handicapped. The constitution of a separate committee for this purpose does not appear to be necessary at any rate for the present. We think it is enough if provision is made for an appeal to the Executive Committee of the Central Bank against refusal of admission, and the Executive Committee may decide after giving an opportunity to the parties concerned to be heard. The very provision for such appeal to the Central Bank is likely to have a salutary effect on the panchayats of the societies. It is better that a statutory provision is made for such appeal.

The question regarding the expulsion of members has also assumed importance in some places. We heard at Salem that in some societies there have been wholesale expulsions of members. Under the model by-laws of the village credit societies, it is open to the general body to expel a member who had deceived the society in anyway or who, as the principal borrower, has driven the society to the necessity of recovering his dues by way of execution. A member could also be expelled "if his general conduct is such as to render his removal necessary in the interests of the society." Under rule XVIII-B of the rules framed under the Co-operative Societies Act, an expelled member cannot be readmitted for a period of two years from the date of such expulsion without the sanction of the Registrar. When a right of appeal has been conceded against refusal of admission, a right of appeal against expulsion should also be similarly conceded. The provision for expulsion could possibly be exploited to their advantage by unscrupulous persons who happen to dominate a society for the moment. An appeal in cases of expulsion may also lie to the Executive Committee of the Central Bank and rule XVIII-B may be suitably amplified.

One of our colleagues (Sri M. Shiva Rau) is of the view that the provision for appeal against refusal of admission to membership or against expulsion, cannot by itself help the aggrieved party as the panchayat of a society can well place obstacles in the matter of granting loans to such members thus nullifying practically the effect of success in appeal. While we recognize such possibilities, we are of the view that such a provision for appeal is necessary and desirable. The very existence of such a provision will tend to prevent arbitrary exercise of the powers vested in the panchayat and the general body in these matters. The Central Banks, if they choose, have several ways of ensuring that their decisions are not thwarted by the affiliated societies.

69. *Election to panchayats.*—Under the by-laws of the village credit societies the panchayatdars have got to be elected once in every year. It has been suggested to us by some witnesses that this should be changed so as to provide for election once in three years.

The advantages claimed for the changed system are that it would minimize the occasions for the manifestation of local factions and also ensure continuity of administration.

Normally, the personnel of the panchayats, at any rate the chief office-bearers, do not change from year to year. The same persons continue for a number of years. The reason is not far to seek. A society covers only a restricted area of operations and proper human material to man the panchayats is not plentiful in rural areas. Paucity of persons to man the institutions coupled with the apathy of the generality of members has led to the continuance of the same set of persons as chief office-bearers. Of course, here and there some groups may have suddenly become conscious of the existence of the society and attempted to change the management. But such occasions are not many. It cannot, therefore, be said that the mere holding of election every year has tended to promote faction or to disturb the continuity of administration. In the case of all unlimited liability societies we feel that the one-year period of office which at least provides an opportunity for the convening of the general body meetings for purposes of election and make both the panchayatdars and members aware of their limitations and rights respectively to some extent may continue.

In this connexion, we would like to add that these general body meetings should be so conducted as to instil in the generality of members a knowledge of democratic forms and procedures. It is understood that the general body meetings in many places are not properly convened or conducted. By some administrative arrangement, it should be ensured that the general body meeting is held in the presence of an official of the Central Bank or office-bearer of the Union after due notice to all the members. For obvious reasons, we attach great importance to the implementation of this recommendation.

For large-sized societies, however, the period of the panchayat may be three years.

70. *Remuneration to panchayatdars in village credit societies.*—The by-laws of a village credit society lay down that the work of the panchayat shall be gratuitous; but provision is made empowering the general body to sanction payment of remuneration to any panchayatdar for clerical work done by him, at a rate not exceeding 12 annas for every Rs. 100 of the average working capital of the year (excluding the reserve fund). There is also a provision enabling the general body to sanction out of the net profits (after allocating to the reserve fund) remuneration up to 25 per cent of the net profit to any member for any specific service rendered by him to the society including work done as Secretary. The scale of remuneration is to be with reference to the extent of collections effected out of the loans due from members.

It is now generally accepted that the panchayatdars who attended to the work of the societies should be remunerated as otherwise there would be no incentive for them to do these duties. It is no doubt a departure from the orthodox Raiffeisen principle that no honorary worker should be remunerated, but the climate in our country is such as to necessitate this departure. The reasonableness or otherwise of the present scale of remuneration, however, deserves to be examined carefully.

So far as remuneration sanctioned out of net profits is concerned, it is reasonable and no change is called for. Regarding the remuneration allowed out of general funds, the position needs modification. The margin between the borrowing and lending rates available to the society to meet its working expenses is only 1½ per cent. Taken in conjunction with the supervisory fund of annas eight payable by the society, the scripitory remuneration of annas twelve is rather high in relation to the resources of the society, especially as it is a payment out of general funds which goes to loss account and which can be paid even if the society works in loss. We feel it could be reduced. The average working capital of a society excluding reserve fund is about Rs. 7,000 and the average remuneration at annas eight will be about Rs. 35 per year. As this is only in the nature of honorarium (it will not be possible for village societies to pay fully for the services rendered by the honorary office-bearers) and as the clerical work to be done in a village credit society is not generally much (the preparation of loan applications, ledger postings, etc., being attended to by the supervisors), a reduction cannot be said to be unjustified.

71. *Multi-purpose activities in village credit societies.*—The by-laws of a village credit society provide for its undertaking activities other than credit also, such as joint purchase and distribution of the agricultural and domestic requirements of the members as their agent, joint sale of the members' produce as their agent owning agricultural implements and machinery for hire to members, etc. In practice, however, most of the village credit societies have been functioning only as single purpose societies, serving only the credit needs of their members. During the period of controls, some of these societies were permitted, even encouraged, to purchase food-grains and other controlled articles such as kerosene, sugar, etc., and sell to their members and non-members subject to safeguards such as the maintenance of separate accounts, appropriation of a portion of net profits (20 per cent) made in this business to a business losses reserve, etc. After the withdrawal of controls this activity has practically ceased.

Some of the village credit societies have amplified the provisions of their by-laws so as to take up, besides the non-credit activities usually permitted in their by-laws, other activities also such as owning and hiring processing plants like flour mills and rice-hullers,

sinking wells, making roads and repairing irrigation tanks by entering into contract with Government or local bodies, taking on lease land for demonstrating to the members improved methods of farming, etc. Such societies are designated officially as multi-purpose societies. But these multi-purpose societies also have been confining their activities to a large extent to the sphere of credit, and the multi-purpose provisions in their by-laws have remained mostly inoperative.

The comparative merits of the multi-purpose over the single-purpose societies have been discussed at length by the Madras Committee on Co-operation (1940) and the arguments on both sides are perhaps nicely balanced with reference to the existing village societies. It is claimed on behalf of the multi-purpose societies that they are best calculated to bring about the all-round improvement of the agriculturists by striving to fulfil the triple role of "better farming", "better business" and "better living". It is more convenient for the villagers to deal with a single institution for all their needs and thereby establish closer relations with the societies. Besides, the need for qualified personnel and economy in establishment charges make the multi-purpose society a better instrument than several societies each performing a separate function. Finally the misapplication of loans can be minimized by disbursing them in kind like manures, agricultural implements and domestic requirements. The example of Japan and the trends of the co-operative movement in many agricultural countries of the world encourage the development of multi-purpose societies.

On the other hand, multi-purpose societies are not considered suitable to our villages where there are not enough competent persons to manage even a single society; multi-purpose activities may result in the failure of all the functions. Credit societies are based at present on unlimited liability with a limited area of operations and it is not safe to change this principle and combine banking with marketing functions. It is considered better that a society performs one function efficiently rather than take up many and succeed in none.

These above arguments have considerable force with reference to the present small-sized village societies, but cannot have validity in the context of the new large-sized village societies. A large-size society is expected to have efficient management and employ paid staff for carrying on its day-to-day affairs. Its area of operations and membership will be larger than those of the present society and it will therefore be an economic proposition for it to undertake non-credit activities. Such a society will therefore be eminently suited to take up activities in addition to credit such as joint purchase and distribution of the agricultural and domestic requirements of the members, marketing of their crops on an agency basis, running of demonstration plots, etc. We have recommended in

Chapter 11 that the village societies could usefully run demonstration plots with the help of a subsidy from the Government. Wherever large-sized societies exist they can undertake the running of such demonstration plots along with other non-credit activities.

However, we have no objection to the ordinary village societies running demonstration plots as recommended by us in Chapter 11.

CHAPTER 6.

NON-AGRICULTURAL CREDIT SOCIETIES.

72. Non-agricultural credit societies include co-operative urban banks, employees' credit societies, etc. Unlike credit societies in the agricultural sector which are mostly small units, non-agricultural credit societies are strong units, with large membership and share capital and with considerable financial resources of their own. The following figures illustrate the comparative position of the agricultural credit societies and the non-agricultural credit societies with reference to average membership, share capital, etc., as on 30th June 1955 :—

	Non-agri- cultural credit societies.	Village credit societies.
Average membership	710	96
Average share capital per society ..	Rs. 24,910	Rs. 1,342
Average share capital per member ..	35	14
Average deposits held per society ..	96,140	353
Average working capital per society	1,53,981	7,850

73. A statement showing the progress of these societies from 1940-41 to 1954-55 is given in Appendix 11. It may be seen therefrom that the number of societies which was 1,173 on 30th June 1942 increased to 1,271 on 30th June 1953 (composite State). In the residuary State the number was 823 on 30th June 1953 and 842 on 30th June 1955. These societies had on their rolls 3.27 lakhs of members with a paid-up share capital of Rs. 96.39 lakhs in 1941-42, the corresponding figures during 1952-53 (composite State) being 6.38 lakhs and 213.80 lakhs, respectively. In the residuary State, their membership and share capital rose up from 5.15 lakhs and Rs. 165.73 lakhs in 1952-53 to 5.98 lakhs and Rs. 209.74 lakhs in 1954-55, respectively. The deposits held by these societies amounted to Rs. 271.21 lakhs in 1941-42 and Rs. 772.93 lakhs in 1952-53 (composite State). In the residuary State, the deposits held by these societies amounted to Rs. 626.74 lakhs in 1952-53 and Rs. 809.50 lakhs in 1954-55. The working capital of the societies increased from Rs. 455.00 lakhs on 30th June 1942 to Rs. 1,218.15 lakhs on 30th June 1953 (composite

State) while in the residuary State it increased from Rs. 964.55 lakhs on 30th June 1942 to Rs. 1,296.52 lakhs on 30th June 1955. The loans issued by them increased from Rs. 293.12 lakhs in 1941-42 to Rs. 1,065.42 lakhs in 1952-53 (composite State) and from Rs. 1,059.29 lakhs in 1953-54 to Rs. 1,149.98 lakhs in 1954-55 (residuary State). The total net profits earned by these societies in 1954-55 amounted to Rs. 15.20 lakhs and the net loss Rs. 1.74 lakhs. The foregoing figures show that the working of these societies has been generally satisfactory.

74. We deal below with the two important types of non-agricultural credit societies, namely, the urban banks and employees' credit societies.

URBAN BANKS.

Non-agricultural credit societies accepting deposits and loans (other than loans from central banks) exceeding Rs. 20,000 and maintaining fluid resources according to the standards prescribed by the Registrar are recognized as urban banks. Their principal functions are to promote thrift by attracting savings and recurring deposits from members and to advance loans to them by raising deposits from members and non-members and by borrowing from the Central Banks.

As on 30th June 1955, there were 173 urban banks in the State with a membership of 3.17 lakhs and a share capital of Rs. 82 lakhs. Most of the urban banks carried on their business with their own resources. The loans taken by them from the Central Banks amounted only to Rs. 122.25 lakhs while the deposits held by them amounted to Rs. 431.80 lakhs. Their working capital was Rs. 693.47 lakhs. Their deposits formed 62 per cent of their working capital. During the year 1954-55 the urban banks issued loans amounted to Rs. 451.04 lakhs and recovered Rs. 440.87 lakhs leaving a balance of Rs. 399.11 lakhs, outstanding against the members. The arrears at the end of the year were Rs. 78.79 lakhs which worked out to 16 per cent of the demand. Of the outstanding against members, a sum of Rs. 186.71 lakhs (about 47 per cent) was on the mortgage of immovable properties and the balance was on personal surety or on the pledge of jewels. Of the total loans issued by the urban banks in 1954-55, a sum of Rs. 81 lakhs represented loans given to agriculturist members for cultivation purposes.

EMPLOYEES' CREDIT SOCIETIES.

75. Credit co-operatives have been formed in this State for the benefit of the employees in Government, local bodies, commercial firms, mills or other large organizations. Some of them, for example, public servants' societies have been organized on the basis of common service or department, while others are on a

territorial basis. Societies of the former type admit members over a large area, the lack of contact between the members being made up by their belonging to a common service or department.

On 30th June 1955 there were 503 employees' credit co-operatives in the State. Of these 52 were for industrial employees, 152 for Government servants, 179 for the employees of local bodies and the remaining 120 for employees of business concerns. These societies had a membership of 2.35 lakhs and a paid-up share capital of Rs. 118.45 lakhs. Their reserve and other funds amounted to Rs. 27.27 lakhs and Rs. 9.21 lakhs, respectively. They held thrift deposits of their members to the extent of Rs. 158.33 lakhs. Their working capital was Rs. 566.79 lakhs. They lent Rs. 671.59 lakhs during 1954-55 and recovered Rs. 631.18 lakhs. The loans outstanding against their members on 30th June 1955 were Rs. 492.19 lakhs. The proportion of overdues to demand under loans to members was 3.08 per cent. Some of these societies had also undertaken joint purchase and sale of the requirements of their members. The value of the goods sold by these societies amounted to Rs. 5.32 lakhs during the year 1954-55. The figures indicate that the general working of the societies had been on the whole satisfactory.

PROBLEMS AND RECOMMENDATIONS.

Urban Banks.

76. *Qualification for Directors.*—It has been suggested that it is advisable to prescribe qualifications for the directors of urban banks by way of share-holding or deposits with a view to ensure that the administration of these institutions is in the hands of persons with some financial stake. The previous Committee on Co-operation in Madras also recommended the adoption of this course in special cases. Government accepted the recommendation and big urban banks were advised to amend their by-laws suitably. A few have amended their by-laws accordingly. The point for consideration is whether such qualifications should be made applicable to all the directors and all the urban banks.

The insistence on such a qualification for all the directors would shut out members who are unable to fulfil this condition but who are otherwise eligible and suitable. It will however be advantageous if there are some directors with "deposit" qualifications. Such a principle has already been recognized in the case of Central Banks. [Vide rule XXVI (1) and (2) of the rules framed under the Madras Co-operative Societies Act.] We recommend that a similar provision may be made in the rules empowering the Registrar to fix the proportion of directors in urban banks who shall hold fixed deposits and the minimum amount of fixed deposits that should be held by them. The rule may be made applicable only to big urban banks—say banks with a working capital of Rs. 1 lakh and more.

77. *Election of Directors.*—When the size of urban banks in regard to both membership and area of operations is large, it may be difficult to secure by the generally prevailing system of election (i.e., by all the members electing all the directors) representation on the Board of Management of all the interests or localities in the area of the bank. To obviate this difficulty, it has been suggested that the directors may be elected on a territorial basis, i.e., by dividing the area of the bank into suitable wards, etc.

It may be argued with some justification that this system will tend to instil and develop a narrow and partisan outlook on the part of the directors and possibly hamper harmonious and effective administration. It will also not be easy to divide the areas so as to ensure more or less equal number of members in each ward, much less to ensure the continuance of such a position over a period of years. In view of these practical difficulties we consider it unnecessary to introduce the territorial system of election. It is, however, important to ensure that members of an urban bank residing in the several wards of its area of operations are given reasonable facilities to exercise their voting power. This can be secured by the opening of polling booths at convenient centres. The adoption of this course will enable a large number of members to participate in the election of directors. We recommend that this system may be adopted by big urban banks having a large membership or wide area of operations.

78. *Representative general bodies.*—A few urban banks in the State with large membership and vast area of operations have made provision in their by-laws, for the constitution of representative general bodies, in addition to their full general bodies. The members of the representative assembly are elected by different constituencies on a proportion, say one for every 50 or 100 members as fixed in the by-laws. The full general body reserves to itself powers relating to important matters such as change of liability, division of the society or its amalgamation with any other society, amendment to by-laws regarding the constitution and mode of electing the directors, etc. The representative general body is vested with other powers such as the adoption of the annual report and budget, consideration of the audit certificate, election of the Board of Directors and amendment to by-laws not expressly reserved for the full general body.

The constitution of the representative general body is the best conceivable arrangement to overcome the difficulties in the conduct of the periodical general body meetings in banks where membership is large and scattered over a wide area. By the full general body reserving to itself, basic powers through which it can exercise final control, the principle that the general body is the ultimate authority in matters relating to the administration of the society is retained.

In the absence of provision for a representative general body, in actual practice only members in the headquarters of the societies or nearby attend the general body meetings and influence their decisions. It cannot be said that the general body mirrors the opinion of the generality of members in all cases. It has been truly said that "co-operation is not like democracy but democracy itself". Hence the general body which is the sovereign organ of a co-operative society should reflect the general will of the members. If this is to be a reality, we consider that there should be provision for a representative general body in societies having more than, say 1,000 members each and an area extending over a taluk. As the societies may not always be ready to make such a provision in their by-laws, we recommend that a provision may be made in the rules empowering the Registrar to direct the constitution of such representative general bodies in consultation with the committees of the societies concerned and it shall be incumbent on the societies to implement his directions within a period to be specified by the Registrar.

Lending policies of Urban Banks.

79. *Issue of long-term loans.*—The maximum period up to which loans are issued by urban banks is generally three years. The period may, however, exceed three years, but not five years if the Registrar, under rule VIII-A of the rules framed under the Co-operative Societies Act, permits the issue of such loans. In the latter case, the total amount of such loans is subject to the proportion fixed by him, which under the rule cannot exceed 50 per cent of the total amount of loans issued for periods exceeding one year but not exceeding five years.

It has been represented to us in some quarters that urban banks should be permitted to issue loans for periods up to seven to ten years. There are two aspects of this question, viz.: (i) whether the urban banks have resources to issue such long-term loans, and (ii) whether it is necessary for them to issue loans for long periods.

(i) The deposits taken by urban banks are usually for periods up to three years and generally speaking they do not command substantial long-term resources which can be utilized as loans for periods exceeding five years.

(ii) Loans for such long periods are stated to be necessary for purposes such as purchase and construction of dwelling houses. It is also said that if a longer period is allowed, it will enable persons with meagre repaying capacity to borrow loans from the urban banks.

So far as construction of new houses is concerned the members can avail themselves of the facilities offered by co-operative building societies and they exist in almost all urban and semi-urban areas. Generally speaking, members of urban banks are small traders, artisans, professional classes, etc., and they should be able

to repay the loan in instalments from the income realized by them out of the use to which the loan has been put—unless it be for other than productive purposes. It is not desirable to encourage loans for the latter purposes. Nor can the urban banks advance loans for heavy capital expenditure as they are intended normally to supply only working capital for small industrialists, artisans, etc.

We consider, therefore, that urban banks should not normally lend for periods exceeding five years. When, however, the surplus long-term resources of any urban bank justify the grant of such loans, it can move the Registrar to address Government for the relaxation of the relevant rule.

However, as there are house mortgage banks in a few places, in the State (referred to in the Chapter on Housing) which issue loans for periods exceeding five years on the mortgage of houses, it is desirable that relaxation of the rule referred to above is given only in places where such mortgage banks do not exist.

80. *Jewel loans.*—The by-laws of urban banks permit the issue of loans on the security of gold jewels, bullion and silver articles, and in fact many urban banks do undertake this business. The maximum individual credit limit is usually fixed at Rs. 500 to Rs. 1,000. Subject to this limit, loans are granted up to 70 per cent of the estimated value of the security. Under the by-laws it is enough if persons requiring jewel loans become B class members by paying a nominal share capital ranging from four annas to one rupee. Except for the loans taken by them, they are not eligible for the other privileges of membership.

It has been suggested that such loans should be encouraged in urban banks by liberalizing the maximum-credit limit and by freely allowing renewals of loans provided interest is paid.

It is universally accepted that investment in jewellery is almost a national habit with us and has to be discouraged in the interests of capital formation and national development. Liberalization of conditions relating to jewel loans will tend to perpetuate this ruinous habit. So far as the suggestion for allowing renewals is concerned, we think that it is not desirable as loans are to be given for self-liquidating purposes and the payment of principal should, therefore, be insisted upon on the due dates. Otherwise the transaction will acquire a commercial complex and obscure the very nature of co-operative loans. Regarding liberalization of the maximum credit limit, we feel that it may be considered by the Registrar on the merits of each case, such as the classes of people served by the urban bank, their credit needs, efficiency of management, etc.

81. *Produce loans.*—Urban banks issue short and medium term loans on personal sureties, on the security of deposits, jewels and immovable properties. They may also issue loans on the pledge of

non-agricultural manufactured products, but they are not generally permitted to issue loans on the security of primary agricultural produce. It has been suggested that the urban banks should be permitted to issue loans on the security of agricultural produce with a view to develop their loan transactions.

There are a good number of agriculturists among the members of urban banks. During the year 1954-55, the urban banks issued loans to their agriculturist members to the tune of Rs. 81 lakhs. Agriculturists in rural areas obtain loans on the pledge of their produce from village credit societies. Similarly if agriculturist members in urban banks desire to take loans from urban banks on the pledge of their agricultural produce, there is no reason why they should be denied this facility. No doubt there is generally a marketing society at the headquarters of every urban bank; but some agriculturist members of urban banks might prefer to obtain produce loans from the urban bank itself, as they already have other dealings with the bank. In such cases, the urban banks need not be prohibited from issuing loans on the pledge of produce.

82. *Rate of interest on loans issued by the Urban Banks.*—The rate of interest usually charged by the urban banks on the loans issued by them to their members is $7\frac{1}{2}$ per cent. In some urban banks, the rates are less, ranging from $6\frac{1}{2}$ to 7 per cent. The rates paid by the urban banks on their deposits usually range from $\frac{1}{2}$ per cent to $4\frac{1}{2}$ per cent. As the rate charged on the loans issued by the urban banks is dependent on the margin required by each institution for establishment charges and other working expenses, we feel that the rate of $7\frac{1}{2}$ per cent is not high.

The penal interest charged by the urban banks ranges from $9\frac{3}{8}$ per cent to $12\frac{1}{2}$ per cent. While there is need for making a distinction between those who pay the instalments promptly and those who are irregular in the payment of instalments, we feel that the rate of $12\frac{1}{2}$ per cent charged as penal interest in some banks must be said to be high. We recommend that the rate of penal interest in the urban banks may be kept at a rate which is only 25 per cent above the normal lending rate.

83. *Undertaking of Commercial transactions.*—Commercial transactions undertaken by the urban banks are now confined to collection of bills, drafts and railway receipts, transfer of funds through issue of cheques, collection of insurance premia on behalf of insurance companies, etc. In exceptional cases, discounting of cheques of members has been permitted subject to the following safeguards: The urban banks should have a list of approved banks and members in respect of whose cheques only discounting might be done; there should be a maximum limit beyond which discounting should not be allowed in respect of a member; and the approved member should execute a letter of guarantee with one or

two sureties to make good the losses (if any), etc. Most of the urban banks do not undertake this business due to the risks involved.

The urban banks may continue to do all these functions for their members and constituents. However, discounting of cheques should be restricted to members only as at present as it amounts to giving advances.

The point raised for our consideration is whether the scope of commercial business now undertaken by the urban banks should be extended. The urban banks are expected to cater mainly to small industrialists, traders, artisans, lawyers, teachers, etc. Their primary aim should be to render banking services to their members at the lowest possible cost. Having regard to the fact that the banks enjoy certain concessions from the Government, we consider that they should desist from doing purely commercial banking business for people other than their members and constituents. However, they may be permitted to grant loans to non-members also on the security of their deposits and central land mortgage bank debentures.

84. *Fluid resources.*—Under the rules framed under the Act and the orders of the State Government, limited liability primary credit societies which accept deposits and loans exceeding a total of Rs. 20,000 not being loans obtained from the central banks have to maintain fluid resources according to the standards given below :—

- (i) Full amount of matured deposits (fixed, recurring and provident fund) pending payment.
- (ii) 25 per cent of the fixed deposits falling due in the next 30 days.
- (iii) 25 per cent of the savings deposits.
- (iv) 25 per cent of the current deposits.

Experience has shown that the standard is sufficient. Nor has it worked any hardship on the banks as is evidenced from the fact that none of the persons who submitted written replies or tendered oral evidence pleaded for reduction in this standard.

The forms in which fluid resources are to be maintained by urban banks are—

- (i) Cash balance on hand.
- (ii) Moneys invested in current deposits in the Co-operative Central Banks, State Co-operative Bank, State Bank, etc.
- (iii) Moneys invested in the savings deposits of the Co-operative Central Banks, State Co-operative Bank, post offices, etc., to the extent of the amount readily withdrawable without notice.
- (iv) 80 per cent of the market value of Government promissory notes and the entire purchase value of post office cash certificates.

(v) Undrawn portion of the cash credit with the Central Bank for refund of deposits.

We find that while in the case of Central Banks, 90 per cent of the market value of the Government securities is taken into account, it is 80 per cent in the case of the urban banks. Again whereas 80 per cent of the market value of the debentures of the land mortgage banks can be taken into account in the central banks, this item does not find a place in the case of the urban banks. The urban banks may be also allowed to take into account 90 per cent of the market value of the Government securities and 80 per cent of the value of the debentures.

85. *Development of chit funds.*—One of the ways by which urban banks could encourage the habit of saving on the part of their members and canalise their savings into them, would be by the organization of chit funds. The by-laws contain provisions for the introduction of this system. The maximum amount of the chit fund, the period and the minimum number of members required to operate the fund, are generally fixed at Rs. 2,400, twenty-four months and ten persons respectively. These are all provisions calculated to help men of limited means also. But actually most of the banks do not work these provisions.

The usefulness and popularity of the chit funds is evident from the fact that many joint stock concerns have come into being for this purpose in urban areas. The system of chit funds will be specially helpful in developing the habit of thrift, among people of limited means who get monthly or daily income. We recommend that the urban banks may be exhorted to popularise chit funds and thus help to foster habits of thrift. By doing so the urban banks will render distinct public service in another sense. Because such facilities are not provided by responsible organizations, people not infrequently invest in chit funds run by persons of questionable integrity and are victimised ultimately. The running of such chit funds will serve to protect them and also set the standard for people running chit funds privately.

86. *Appropriation to reserve fund out of net profits.*—Under rule XII (a) of the rules framed under the Co-operative Societies Act, an urban bank is required to carry not less than 25 per cent of the net profits to the reserve fund. The question has been raised whether the minimum percentage fixed in the rule in this regard may not be increased.

The urban banks in the State had a total paid-up share capital of Rs. 82 lakhs and a reserve fund of Rs. 36.69 lakhs as on 30th June 1955. Their reserve fund thus fell far short of their paid-up share capital. It should be the endeavour of the urban banks to build up their resources as quickly as possible, so that their reserves may at least equal their paid-up share capital. It may be pointed out that in the case of the Central Banks, the rule requires them to appropriate one-third of their net profits to the reserve fund till

their reserve fund and other reserves equal their paid-up share capital and thereafter one-fourth of their net profits to reserve fund. The idea behind this proposed differential allocation is based on the wholesome principle that adequate reserves should be built up in time to meet unforeseen losses so as not to impinge on the share capital of the institution. We recommend that the appropriation to reserve fund out of net profits may be enhanced accordingly by a suitable modification of the rules.

EMPLOYEES' SOCIETIES.

87. *Need for associating the heads of offices, etc., with the managements of societies.*—It has been the policy of the department to associate the heads of offices, firms, etc., with the managements of societies by making them ex-officio presidents of the Employees' Societies. A provision to this effect is found in the by-laws of these societies. The presence of the head of the office on the Board of Directors is expected to have a restraining influence on the tendency of the members to borrow freely, and to impart a healthy tone to the working of the societies. We had occasion to visit a municipal employees' society in the South Kanara district, which had not the benefit of the association of the head of the office with its management, as he was unwilling to undertake this additional responsibility. It could have worked better if it had been possible for it to secure the services of the head of the office. On the other hand, it has also been represented to us, by an important Employees' Society, that the provision for associating the head of the office with the management of the society is an undesirable provision in a democratic organization, as the presence of the ex-officio president on the managing body tends to retard the free and democratic functioning of that body. A co-operative society is to be regarded not only as a business concern but also as an institution for imparting training in democratic administration and collective action. While all these may be true, there are practical advantages in the present system which may be said to outweigh the above disadvantages and which will become less and less with the development of a democratic outlook in our socio-economic relations.

It is, therefore, desirable in our view to associate the heads of offices with the management of Employees' Societies. We suggest that in the case of Employees' Societies composed of Government servants and local bodies, Government may advise the heads of offices to agree to function as ex-officio presidents, so that the societies may have the benefit of their services.

88. *Loan policies in Employees' Societies.*—One of the major problems in an Employees' Society is the propensity of their members to indulge in over-borrowing. Most of the members are consumers rather than producers. As the old adage goes "Producers' credit leads to prosperity while consumers' credit leads to

poverty." The true hall-mark of co-operative credit is that it should be self-liquidating, and it cannot be said that this is the case with the credit allowed by these societies. With a view, therefore, to devise an effective curb on the tendency to indulge in frequent borrowings by the members, the following suggestions merit consideration :—

(i) A time-limit should be fixed between one ordinary loan and a subsequent loan.

(ii) Pay security loans should be limited to a certain percentage of the basic pay of a member.

(i) The by-laws usually provide that no member shall be ordinarily eligible for a second loan on personal surety before he has repaid at least one-third of the loan previously taken by him or before the expiry of four months from the date of disbursement of the first loan. He is not allowed to have more than two loans outstanding against him at any time. This limit is exclusive of the loan taken by him on his personal responsibility to the extent of the pay earned by him. This restriction is adequate.

(ii) So far as pay security loans are concerned, there is now no restriction as to the number of times a member can borrow or as to the extent of the pay up to which he can borrow. It often happens that the members receive only a negligible fraction of their pay on the pay day, after adjustment to their dues, with demoralizing effect on their outlook and efficiency. It seems, therefore, highly necessary that the maximum of the pay security loan which a member can take is limited to 25 per cent of the basic pay of the employees.

In this connection, it is relevant to consider whether the individual maximum credit limit in the Employees' Societies should be reduced. At present some societies allow loans up to four times the pay of a member and some up to five or six and even eight times the pay of a member. Some societies include dearness allowance and other allowances also in computing the credit limit while many take into account only the basic pay. Having regard to the objectives of these types of societies it is necessary to restrain the tendency to overborrow on the part of their members who are mostly consumers. It is, therefore, desirable that no member is allowed loans to the extent of more than five times his basic pay and dearness allowance.

As societies may not agree to incorporate in their by-laws such salutary provisions, we recommend that the Registrar may be empowered under the rules to reduce the individual maximum borrowing power in Employees' Societies.

Recovery of instalments.

89. *Need for making a statutory provision to make it obligatory on the part of the employer to deduct the loan instalments from the wages and salaries of the employee members.*—So far as

societies composed of the employees of the Government and local bodies are concerned, Government have prescribed a procedure for the recovery of loan instalments from the members. The pay disbursing officers should, at the time of disbursement of salaries to the employees, collect the dues to the societies in accordance with the demand lists sent to them and remit the moneys to the concerned societies. The deductions are not, however, to be shown in the pay bills and in the acquittance given by the employees. Thus it is purely an informal arrangement enforced by an executive order of the Government. It has generally been working satisfactorily and where overdues have accumulated, the societies concerned are mostly to blame for not having sent the demand lists in time to the pay disbursing officers or for not having pursued the matter further in the event of these officers not recovering the dues as per the demand lists.

It has been suggested that the procedure of collecting loan instalments through the pay disbursing officers should be placed on a statutory basis, by an amendment to the Co-operative Societies Act. Firstly, it would provide a statutory basis for the recovery of the loan instalments instead of the present informal arrangement. Secondly, the pay disbursing officers of private companies, firms and other organizations will be legally bound to recover the loan instalments. Thirdly, it will put an end to the tendency on the part of some unscrupulous members to revoke their original undertaking agreeing to the deduction of loan instalments from their pay. Lastly it will overcome the difficulty created by the amendment to the Civil Procedure Code raising the non-attachable limit of salary from Rs. 20 to Rs. 100.

Under section 34 of the Madras Shops and Establishments Act, deduction for payment to co-operative societies approved by the State Government, is one of the authorised deductions from the wages of an employee. There is a similar provision in section 7 of the Payment of Wages Act (Central Act IV of 1936). A provision in the Co-operative Societies Act, making it obligatory on the part of the employer to deduct the loan instalments from the wages and salaries of the employee members, will not be repugnant to the provisions of the existing labour laws.

Though deductions at source are not calculated to inculcate habits of punctuality in a deliberate and conscious manner, it has many advantages administrative and otherwise and may be rigorously enforced in the interests of the societies as well as their members. We, therefore, recommend that the Co-operative Societies Act may be suitably amended to make it mandatory on the part of the employers to recover the loan instalments due to the societies. We are suggesting the draft form of the amendment in Chapter 24.

90. *Thrift activities.*—The primary object of Employees' Societies is to inculcate habits of thrift in their members to enable

them to provide for the future. To carry out this object, their by-laws contain a provision for collecting compulsory subscriptions from their members, at rates ranging from As. 8 to Rs. 5 based on the pay of the employees. These subscriptions are periodically converted into deposits, and interest is allowed on both subscriptions and deposits. Loans are not granted on the security of these deposits as in the case of other deposits. On 30th June 1955, the 503 Employees' Societies in our State held thrift deposits amounting to Rs. 158.33 lakhs which worked out on an average to Rs. 67 per member against an average loan outstanding of about Rs. 209.

The Employees' Societies have been permitted to allow withdrawals from the thrift deposits of members for the purpose of paying their insurance premia on the policies taken with the South India Co-operative Insurance Society or any other insurance society registered under the Co-operative Societies Act after suitably amending their by-laws. Now that life insurance has been nationalized, the Employees' Societies may be permitted to allow withdrawals from thrift deposits for purpose of paying premium in respect of all life policies.

91. *Joint purchase and distribution.*—The by-laws of Employees' Societies provide for the joint purchase and distribution of the domestic and other requirements of their members. Purchases are to be made only to the extent of the requirements of those members who are able to pay cash or to whom the society is prepared to give a loan for the purpose.

During the year 1954-55, the value of the goods purchased and distributed amounted to Rs. 5.32 lakhs.

We commend the continued adoption of this system by the Employees' Societies subject to proper accounting, etc.

CHAPTER 7.

SOCIETIES FOR HARIJANS AND OTHER BACKWARD COMMUNITIES.

92. Co-operative societies for Harijans and other backward classes such as Kallars, etc., are intended for the economic uplift of the members belonging to these communities. Most of these societies are only credit organizations. The progress made by these societies is indicated in the statement given below :—

Year.	Number of societies.	Number of members (in lakhs.)	Share capital.	Loans out- standing to		Loans out- stand- ing against members.	
				Central Bank.	Govern- ment.		
<i>Composite State.</i>							
1947-48	..	2,103	1.1	6.3	6.35	2.45	15.6
1948-49	..	2,536	1.5	10.3	8.97	3.02	19.3
1949-50	..	2,679	1.9	11.0	7.89	2.70	19.9

c. Composite State—cont.						
Year.	Number of societies	Number of members (in lakhs).	Share capital.	Loans outstanding to		Loans outstanding against members.
				Central Bank.	Government,	
(Rupees in lakhs)						
1950-51 ..	2,445	1.7	11.0	12.25	1.56	22.7
1951-52 ..	2,785	2.1	13.0	12.40	4.32	28.0
1952-53 ..	2,802	2.1	13.2	13.23	5.20	29.5
Residuary State.						
1953-54 ..	1,635	1.0	10.8	9.53	4.57	26.3
1954-55 ..	1,633	1.0	11.13	8.83	2.27	27.08

In addition to these societies, the general societies have also enlisted members belonging to the Harijan and other backward communities. On 30th June 1955, the number of such members on their rolls was 51,257 out of a total membership of 10.12 lakhs.

Figures regarding the amount of loans issued by these societies to their members are not available in the administration reports; but figures received by us from 14 out of 16 central banks (except Madurai and Tiruchirappalli) show that they issued loans to these societies during the year 1952-53 to 1954-55 as shown below. As these societies depend only on borrowings from the central banks and not on deposits, the loans issued by the central banks to the societies may be taken as an index of the amount of loans issued by the latter to their members.

Year.	Number of societies financed.	Amount of loans issued. (Rs. in lakhs.)	Average per society. Rs.
1952-53 ..	200	2.62	1,310
1953-54 ..	197	2.25	1,143
1954-55 ..	196	2.44	1,247

The average membership of these societies during 1954-55 was 61; based on this figure, the average loan issued per member during this year was Rs. 20. In respect of village credit societies, the average loan issued per member is Rs. 48. The smaller role of the societies for Harijans, etc., is perhaps due to the lower credit needs of their members when compared to the needs of the members of the village credit societies.

93. *Are separate societies required for Harijan and other backward communities?*—The question whether there should be separate societies for Harijans and other backward classes or not, engaged the attention of the Madras Committee on Co-operation (1940). In consideration of the backward conditions of these people the Committee recommended by a majority, that separate societies might be formed for their benefit; but that option might be given to such of those people as were desirous of joining the existing societies.

to do so. Government, however, ordered that separate societies for these classes of people should be eschewed unless they were necessary for carrying on a particular activity, for example, house building, colonization, etc., or when local circumstances warranted. The present policy with regard to the formation and working of societies for scheduled classes is governed by the above orders and the Harijans are encouraged as far as possible to join co-operative societies, registered for the general public.

Separate societies for Harijans and backward classes were formed in the past on a large scale as it was considered that the general societies composed mostly of members belonging to the so-called higher classes might not be willing to admit them as members, or might not give due consideration to their interests even if admitted. But conditions now are not the same as they were about a decade back. The outlook of the so-called higher classes has changed for the better; the backward classes also have become more and more alive to their rightful place in the social and economic life. Generally speaking, therefore, there is no need for forming societies exclusively for Harijans and other backward classes. In fact the number of such societies during the past ten years has remained more or less static; whereas the total membership of these societies on 30th June 1955 was one lakh, as many as 51,000 persons belonging to Harijan and other backward classes had admitted themselves as members in the general societies. This indicates that the need for separate societies is not now as imperative as before. Hence we recommend that the policy should be not to start separate societies, exceptional cases however being considered in the light of local conditions.

Regarding the existing separate societies also we feel that their composition should be changed. Our national goal is to evolve a casteless social system and any institution that tends to perpetuate class divisions and stereotype existing relations—constituting a great impediment to the development of a democratic and national outlook—cannot be allowed to remain as it is, especially in the co-operative sector. Co-operation stands for the greatest mingling of castes and communities on the basis of homogeneity of economic interests and hence caste basis is a negation of these co-operative values. With this background, this question has to be examined.

As far as the backward communities other than the Harijans are concerned, we feel that there is no need for preserving them as exclusive organizations for the benefit of certain communities. Their separate existence will only foster a tribal outlook among them and hinder their integration with the other sections of the population whose economic activities are also inextricably bound up with them. Hence territorial basis should replace the tribal basis which is the case at present in respect of these societies. The membership of these societies may be thrown open to all classes of people in their area of operations. But such reorganization of

these societies should not be allowed to operate as a bar against special State help, if any, in force or intended. The only criterion for determining whether such help should be granted or not, must be whether such societies serve large numbers of the communities eligible for such help.

For instance, if the Kallar societies in the Madurai district which constitute the largest number among the societies for backward classes admit others too, these classes will still continue to have a decisive voice in their administration. The proposed change is not generally likely to operate to the disadvantage of these communities to any extent.

As far as Harijan societies are concerned, our impression is that most of them are not functioning satisfactorily and usefully. No purpose is served by allowing these societies to have a lingering existence. Societies which are dormant and which have no prospects of working usefully may be liquidated forthwith; especially if there are good working general societies in the area or neighbourhood. Alternatively such societies may be reorganized as general societies if there are no societies of such category. Of course, when large-sized societies come into existence, as indicated in Chapter 5, the Harijan societies will also be amalgamated with the former, just like other village credit societies. They may be allowed to function as separate entities only where they are working successfully and where otherwise the Harijans will not get credit facilities easily or adequately. Even in such societies, provision should be made for the admission of non-Harijans. We would add, however, that in cases where membership of Harijan societies is thrown open to others, the concessions now enjoyed by them from the Government, such as scriptory grant, exemption from audit fund, etc., should continue, if they constitute a majority.

Even in the last instance these societies should be affiliated to the supervising unions for purposes of supervision, etc., like the other rural credit societies. Indeed, in many districts, such a welcome development has been taking place. The present arrangement of having a few special inspectors for supervision of these societies scattered over a wide area is not effective. The results are not at all commensurate with the expenditure on their staff. We, therefore, suggest that the policy should be to replace expeditiously the present system of supervision over these societies on the lines indicated above. At the same time, we suggest that the Government may distribute as subsidy among the central banks; the amounts now spent on these special inspectors so that they can strengthen their supervisory staff.

94. *Financing of societies for Harijans and other backward classes.*—Out of 1,633 societies of this category, as many as 960 societies are solely for Harijans. These societies are now financed by the central banks. Their loan applications are scrutinized by

the special staff of Inspectors, who are in charge of their supervision and are recommended to the central banks by the Deputy Registrars concerned. We are told that the central banks are rather hesitant to sanction loans to these societies as the members are generally unable to offer any tangible security. Some central banks have stated that collection work in these societies is also found to be difficult. It has been suggested that if Government loans (both short term and medium term) could be made available to these societies, it would be possible to resuscitate them and enable them to help their members to clear off their prior debts and meet their current credit requirements. This alternative does not, however, commend itself to us for the following reasons :—

(i) We have recommended earlier in this chapter that it is not necessary to form separate societies exclusively for the Harijans, etc., and that they should be encouraged to join as members of the general societies in their area. A scheme of Government finance for the existing Harijan societies would encourage a demand for the formation of more and more separate societies. Persons belonging to this community will be inclined to join the separate societies rather than the general ones. This tendency will only serve to perpetuate the evils referred to earlier.

(ii) In the future set up, loans are proposed to be issued by village credit societies even to tenants on the strength of their anticipated crops. So Harijans who do not own lands but are tenants will be eligible for such loans just as others. Their chances of getting loans of this kind are brighter if they join the general societies as the central banks will finance such societies more readily in view of their stronger financial resources.

(iii) Even those Harijans who are not tenants and who have no tangible security to offer stand a better chance of getting loans from the general societies, for, when their repaying capacity, honesty of purpose, etc., are assured by this society it will carry greater weight with the central banks than if it is done by a separate society with comparatively meagre resources. The position of the Harijans is not peculiar; they stand in the same position as others.

For all these reasons we consider that the financing of the Harijan Credit Societies should be continued to be done by the central banks.

We suggest in this connection, that central banks should make special efforts to secure the admission of Harijans in the common societies. Perhaps annually, one week may be observed and celebrated as the Harijan admission week, during which period concentrated efforts should be made by the co-operators to secure the admission of Harijans into the common co-operatives. We have recommended in Chapter 3 that the State Government's share capital (under the Scheme of State Partnership) may be passed on

as loans to members to enable them to take shares in the societies. We suggest in this connection that the Harijans and other backward classes may be specially helped in view of their general economic backwardness.

95. *Financing of Kallar societies.*—Kallar societies though called as such are somewhat different from those formed exclusively for the Harijans. These societies are mostly in the Madurai district in areas almost exclusively occupied by them with a sprinkling of others. Prior to 1922, the Madurai Central Bank was financing these societies. As they were mismanaged and as the loans advanced became mostly overdue and recovery was difficult, Government, at the instance of the Registrar, took over the outstanding debts of the societies and paid off the central bank. Since 1922, Government have been financing these societies through a special staff of Kallar Reclamation.

From time to time, proposals were mooted that the central bank should undertake the financing of these societies. In 1950, the Collector of Madurai proposed that in view of the inadequate funds placed at his disposal for the financing of these societies, the central bank might agree to give loans to them. He stated that there was no fear of the previous history being repeated as the Kallars had improved considerably in education and status, and that the supervisory and collection work in these societies would be attended to by the Government staff, even when the central bank undertook financing. The central bank was not, however, willing to finance the societies without a Government guarantee, in view of its past experience. At the instance of the Registrar, a scheme of financing was agreed to by which the share capital and reserve fund of the Kallar societies amounting to more than Rs. 2 lakhs were transferred to a trust account in the name of the Collector, from out of which loans were to be given to these societies by the Collector. Additional funds required to finance the societies were to be provided by the Government. This system of financing is in vogue from the year 1952.

In 1955, the proposal of the central bank financing these societies was again revived by the Collector on the ground of inadequacy of funds provided by Government. In his opinion the allotment of Rs. 2 lakhs per annum is quite inadequate to finance about 300 Kallar societies under him. The central bank was consulted, and it was agreeable to the proposal only if a Government guarantee was forthcoming and the Government agency for supervision (Special Deputy Collector with the Co-operative staff under him) was also continued.

It cannot be said in the light of previous experience that the attitude of the Madurai Central Bank is unreasonable. As it is not desirable for the Government to finance them fully or to give a

complete guarantee the central bank should, in our opinion, take up the financing of the societies, on the Government giving a guarantee of 20 per cent of the total loans issued and 50 per cent in the case of individual societies. It is right that these societies should be made an integral part of the co-operative movement of the district.

The Government should also provide subsidy to enable the central banks to maintain supervisors at the rate of one for ten societies. These two special conditions, in our view, may be in force only for a period of 10 years.

96. *Place of co-operatives in the execution of State schemes relating to grant of house-sites, etc., for Harijans.*—Prior to 1935, co-operative societies intended for the acquisition and allotment of house-sites to persons belonging to scheduled classes, were started in a few districts. Government acquired the lands under the Land Acquisition Act and made them over to the society, on condition that it paid the purchase price plus the cost of acquisition, etc., in not more than twenty annual instalments. The society parcelled out the land into plots of not more than five centres each and allotted them to the members on similar conditions. Failure to pay the instalments entailed the resumption of the land by Government and forfeiture of the amounts paid till then. If the full cost was paid, the sites were made over to the society which in turn transferred them to their members. No member could alienate the site to any one, other than a member of the "scheduled" class.

In 1936 Government reviewed their policy with regard to the grant of house-sites to the scheduled classes. Government undertook thereafter to bear half the cost of acquisition of the house-sites subject to a maximum of Rs. 150 per acre in the case of dry land and Rs. 350 per acre in the case of wet land. The balance was to be paid by the applicants. The Revenue Department was responsible for the recovery of the instalments.

In 1949, the policy was again changed on the recommendation of the Provincial Harijan Welfare Committee. In G.O. No. 1025, Development, dated 12th November 1949, Government decided to grant house-sites free of cost to all Harijans who did not own house-sites and who could not afford to pay the cost of the sites. The cost of the land required for the provision of amenities was also agreed to be provided by the Government. The provision of mere house-sites cannot however be of material help to the Harijans. They should be given liberal assistance by way of interest-free loans and subsidies for putting up small houses. The services of co-operative housing societies also in the State may be utilized by the Government for the construction of houses for Harijans on this basis if the societies come forward to undertake this work.

CHAPTER 8.

CENTRAL BANKS.

97. The origin of the Central Banks could be traced to the Madras Central Urban Bank which was started by public spirited individuals in the year 1905, with a view to finance the primary co-operative societies throughout the State. As the primary societies in the State grew in number and as their credit needs became greater, the inadequacy of a single financing agency to serve them was felt. It was also recognized, that a bank at the metropolis cannot attract deposits from the districts and that the best way of mobilizing local deposits to finance local needs was to organize Central Banks in the districts. In 1909, the Salem District Central Urban Bank came into existence. The benefits of decentralized financial arrangements were soon recognized and Central Banks were formed thereafter in all the districts in course of time.

There is now one Central Bank for each of the fourteen districts of the State, except in Tanjore and Tiruchirappalli districts, each of which has two Central Banks with jurisdiction extending over certain taluks of the district.

Of the sixteen central banks, two, viz., Ramanathapuram Central Bank and Nilgiris Central Bank were formed in 1945-46 and 1953-54, respectively, by the bifurcation of the Madurai-Ramanathapuram Co-operative Central Bank (and extension of the area of the Srivilliputhur Banking Union) and the Coimbatore-Nilgiris Co-operative Central Bank. The Central Bank at Pudukkottai was added to the list when Pudukkottai State was merged with the Tiruchirappalli district.

98. *Membership.*—As may be seen from Appendix No. 12, the number of individual members and society members in the Central Banks of the Residuary State, increased from 2,094 and 6,711 on 30th June 1941 to 2,216 and 12,226, respectively, on 30th June 1955. It may be further observed that the number of individual members has been more or less static from year to year. This is due to the policy of not increasing the number of individuals, followed by all the Central Banks. The rise in the number of new societies has naturally led to the increase of their membership during this period.

99. *Share capital.*—The position in regard to the paid-up share capital of the members in the Central Banks is exhibited in Appendix No. 13. The paid-up share capital increased from Rs. 26.82 lakhs in 1940-41 to Rs. 96.86 lakhs in 1954-55. The average paid-up share capital per Central Bank which was Rs. 1.91 lakhs in 1940-41 increased to Rs. 6.05 lakhs in 1954-55. There has been a marked rise in the share capital position of the Central Banks during the period under review. It will be informative to compare

the share capital position of our Central Banks, with that of the Central Banks in some important States of the country. The following figures show the comparative position as on 30th June 1954. These figures unmistakably indicate that the share capital structure of our Central Banks is sound and strong.

State.	Number of Central Banks.	Paid-up shares capital.	Average paid-up share capital per bank.
		RS. IN LAKHS.	RS. IN LAKHS.
Madras	16	94.38	5.89
Andhra	15	73.33	4.22
Bombay	31	128.23	4.13
Madhya Pradesh	41	51.60	1.26
Mysore	8	12.65	1.58
Punjab	60	55.22	0.92
Uttar Pradesh	61	71.16	1.17

100. *Owned funds.*—The position of the owned funds of the Central Banks and the proportion of owned funds to the total working capital as well as to the borrowed capital, are given in Appendices Nos. 14 and 14 (a). In the Composite State the owned capital which was Rs. 116.75 lakhs in 1940-41 increased to rupees 297.15 lakhs in 1952-53. In the Residuary State, it increased from Rs. 168.97 lakhs in 1952-53 to Rs. 190.81 lakhs in 1954-55. The average owned funds per bank which was Rs. 3.89 lakhs in 1940-41 increased to Rs. 11.93 lakhs in 1954-55.

On 30th June 1955 the owned capital of the sixteen Central Banks in the State represented 15.81 per cent of their total working capital. Judged by any canon of sound banking, the position must be said to be satisfactory.

The proportion of owned capital to the total borrowings has, however, declined from 24.40 per cent in 1940-41 to 18.77 per cent in 1954-55 [vide Appendix No. 14 (a)]. This decline is accounted for by the fact that the Central Banks had to borrow heavily to meet the increased demand for loans from the societies. In other words, the growth of owned capital has not kept pace with the demand for increased credit. This situation was met by the enhancement of the normal borrowing limits of the Central Banks, from ten times their share capital and reserve fund up to twenty times, for specific purposes, such as financing procurement, State trading schemes, etc.

101. *Analysis of deposits.*—The position of the deposits held by the Central Banks is indicated below :—

Year.	Deposits from societies.	Deposits from other Central Banks.	Deposits from individuals and other sources.
<i>Composite State.</i>			
	LAKHS OF RUPEES.	LAKHS OF RUPEES.	LAKHS OF RUPEES.
1949-50	540.83	8.24	567.61
1950-51	567.82	5.15	610.30
1951-52	515.37	4.24	681.59
1952-53	500.81	3.93	661.35
<i>Residuary State.</i>			
1952-53	371.43	2.37	373.68
1953-54	383.65	2.96	345.12
1954-55	417.49	4.89	364.80

The foregoing statement shows that the Central Banks have been able to raise a large portion of their deposits within the movement itself. On 30th June 1955, out of the total deposits held by them, 53.7 per cent represented the funds of societies. In the whole of the Indian Union, out of the total deposits of Rs. 41.19 crores as on 30th June 1954 held by the Central Banks, an amount of Rs. 12.60 crores representing 31 per cent was from societies and the balance of Rs. 28.59 crores representing 69 per cent was from individuals and other sources. Thus the position of the Central Banks in our State compares favourably with the position of the Central Banks in the country.

102. *Loan transactions.*—The particulars of loans issued by the Central Banks to different types of societies are given in the statement in Appendix No. 15. The following trends are apparent from the statement :—

The amount of loans issued to village credit societies has been gradually increasing from the year 1945-46 onwards. Loans issued to the marketing societies have been more or less the same, from year to year. In respect of wholesale stores and primary stores, huge amounts were issued to them as loans and cash credit up to 1951-52. But from 1952-53 onwards, there has been an abrupt fall. This is due to the fact that after decontrol in the year 1951-52, the stores societies lost much of their business and did not find it necessary to seek credit facilities from the Central Banks on any large scale. So far as weavers societies are concerned, there was a substantial increase in the amount of loans issued in the last two years. A major portion of the loans is accounted for by the moneys made available under the Cess Fund Schemes. Loans and cash credit issued to other types of societies relate

mainly to non-agricultural credit societies such as Urban Banks, Employees' Societies, etc. A major portion of the lendings to these types of societies consisted of cash credit.

103. *Overdues in the Central Banks.*—A statement showing the percentage of overdues to demand yearwar in respect of the loans due to the Central Banks is given in Appendix No. 16. The percentage of balance to demand under principal and that under interest which were 30.03 per cent and 7.38 per cent in 1940-41 declined to 13.73 per cent and 1.17 per cent in 1952-53 (Composite State). In the Residuary State the corresponding percentages were 10.76 and 0.27 in 1954-55. These figures show that generally speaking, there has been a gradual decline in overdues both under principal and interest. It is a matter for satisfaction that some Central Banks have shown nil arrears both under principal and interest consistently for a number of years. During 1954-55, the Central Banks at Tirunelveli, Tiruchirappalli, Kumbakonam and Ootacamund realized the entire dues under principal and interest.

104. *Net profits.*—The total net profits of the Central Banks in the Residuary State were Rs. 11.24, Rs. 10.18 and Rs. 8.83 lakhs during 1952-53, 1953-54 and 1954-55, respectively. The gradual fall in the net profits is mainly due to fall in the amount of loans advanced to the consumers' co-operatives.

The Central Banks of our State form the back-bone of the financing organization in the Co-operative Movement. They have established themselves firmly. In addition to supplying finance to the primaries, they have also undertaken the inspection and supervision of societies. They have organized administrative sections for assisting and co-ordinating the work of supervising unions and controlling the supervisory staff. They constitute the nerve centre of co-operative endeavour in the districts.

Problems and Recommendations.

105. *Place of individual members in the constitution of the Central Banks.*—The membership of Central Banks in our State consists of both individuals and societies. The Central Banks have been pursuing a policy of not increasing the number of individual members; the average number of individuals for a Central Bank has decreased from 149 in 1940 to 135 in 1955 and the average number of societies has increased from 479 in 1940 to 764 in 1955. It is in this background that the place of individual members in the constitution of the Central Banks has to be examined.

There are two aspects to be considered, viz.—

(a) whether individual members are necessary and whether they should have representation on the Board; if so, in what proportion, and,

(b) by what method they should be elected.

(a) The Townsend Committee recommended the postponement of the question of eliminating individual shareholders. The Vijayaraghavachariar Committee, by a majority, recommended the elimination of individual shareholders, with a view to make Central Banks pure type of federations, though they recommended co-option of three individuals who are experts in banking, co-operation, etc., to the board of management of the Central Bank.

Among the replies received, the State Co-operative Bank, State Co-operative Union and eight Central Banks are opposed to the elimination of individual directors. One Central Bank wants gradual elimination; one Central Bank wants immediate elimination and the remaining six have given no views. It is claimed by many that the total elimination of individuals is likely to affect the inflow of deposits. But this is a debatable point.

The individuals provide a good field for selection of some eminent persons as directors. In eight out of sixteen Central Banks, the Presidents themselves are individual directors. Further, the individual representatives constitute a counter-pressure—so to speak—to the pressure exercised by the representatives of the societies which are mostly composed of borrowers, in the administration of the banks. It has to be mentioned in this connexion that the cleavage between individuals and society representatives which was evident in the Thirties in certain banks, has ceased to exist.

In the light of the foregoing reasons, we consider that the individual members need not be eliminated.

Regarding the proportion of the individual members to the society members on the Board of management, the strength of the former is now generally less than one-third of the total strength. We consider that the present position may continue.

(b) At present the individual directors are elected by the composite general body. It has been expressed by some, that this method of election frustrates the very purpose of having individuals as directors. However, this method has been in vogue for a number of years. It has contributed to stable and harmonious administration. Apart from apriori reasons, no one has adduced any proof to show that this method of election has actually led to any deleterious consequences. Hence we feel the present procedure may continue.

In this context, it is worth examining whether it is desirable to insist upon any minimum share qualification for individual representatives (other than the directors from among the deposit-holders). Rule XXVI (2) empowers the Registrar to fix such a minimum. So far, however, no such minimum seems to have been fixed under the rule. As it is proposed to insist on a fairly

high deposit qualification for representatives from among deposit-holders, it is not necessary to insist upon a minimum share qualification. The fixation of such a minimum will not serve the purpose in view unless it is fairly high. It will mean that many individual shareholders, otherwise suitable, will be kept out especially as no fresh shares are allotted to individuals now. Hence, we feel that the matter may well be left to the discretion of the Central Banks.

106. *Representation to depositors.*—An allied question is the representation to be given to the deposit holders. Under rule XXVI (1) of the rules framed under the Co-operative Societies Act, the Registrar has powers, among other things, to fix the proportion of individual representatives who shall hold fixed deposits, to the total number of individual representatives on the Board. The proportion of the former should be not less than 25 per cent of the latter. The Registrar has, under the same rule, powers to prescribe also the minimum amount of deposits to be held by these representatives. The deposit qualification prescribed in the by-laws of the banks varies from Rs. 500 to Rs. 2,000.

While it may be said that the prescribing of a deposit qualification limits the scope for choosing representatives from among individual members, the rule ensures that at least a few persons among individuals, with stake, are elected to the Board. The object of having individual representation on the Board, being primarily to bring in an element of counterpoise to the borrowing group, it will be more effectively served by insisting on the election of at least a few individuals who can bear in mind the interests of the depositors. The minimum amount may be not less than Rs. 2,000 in such cases.

107. *Representation to societies affiliated to supervising unions on the Boards of management of Central Banks.*—Generally, at present the general body of each supervising union elects a representative from among its governing body members of the Board, though in one or two places the entire general body of the bank elects the representatives of societies also.

In some Central Banks, there is separate representation for Weavers' Societies, Stores Societies, etc.

The questions to be considered in this connexion are—

(a) whether any change is called for in the method generally followed in electing representatives of societies; and

(b) whether there should be separate representation for societies other than agricultural credit societies and if so what should be their number, and method of election.

The merit of the present system is that each representative is chosen by electors who know them rather intimately. It provides a simpler system of choosing representatives. It creates an incentive in the aspirants to do good work in their areas. It serves to give representation to varied interests. To some extent, it will eliminate the possibility of organized political parties, intruding as such, in co-operative elections. Above all, the system has worked well all along.

On the other hand, the one demerit of this system is that parochial considerations including communal feelings may influence the choice of representatives with the result that really deserving persons may be relegated to the back-ground. The other argument, that a director elected in this manner will exercise his influence in the direction of sanctioning loans liberally while being lukewarm in the matter of collection, etc., cannot be said to have much force, having regard to the present set up and arrangement for sanction and collection of loans and control of the machinery connected therewith.

The balance of advantage in our opinion, lies, in the present system though there is no objection to the continuance of the other methods of election in districts where they are working smoothly and satisfactorily. Hence we do not recommend any change in the existing procedure.

It may be appropriate to consider here the following further aspects of the question :—

(a) whether the directors should be elected only from among the governing body members, and

(b) whether only delegates of 'A' and 'B' class societies should be eligible for election.

Unless the person to be chosen is in the governing body, he cannot have a close knowledge about the working of the societies in his area. Further, election will be simpler as the number of eligibles will be limited. Hence we are of the view that the present practice of election of directors from among the governing body members may continue.

The other question has a bearing on the constitution of the governing body of the supervising unions and it is therefore dealt with appropriately under "Supervising Unions". However, we feel it is desirable to lay down that delegates of societies which are overdue to Central Banks for a period of more than three months should not be eligible for being elected as directors of the bank, and that they should cease to be directors if their societies default for a period exceeding three months. Such a provision will serve to tone up the administration of the banks.

In considering the system of representation of societies affiliated to the supervising unions in the boards of the Central Banks, the question of representation to be given to each union has also to be examined as the size of the unions affiliated to a Central Bank differs rather widely. In some cases the number of affiliated societies is as low as 12 to 25 and in some others as high as 74 to 132 in the same district. Is it proper to give representation at the rate of one director for each supervising union, irrespective of its size?

Though equity may apparently require representation on the basis of the number of societies affiliated to a union, a deeper examination of all aspects of the matter shows that the number of societies cannot be the sole criterion in deciding the matter. The transactions of societies, the total number of members in all the affiliated societies, etc., must be said to have a bearing no less important. These factors are also variable from time to time. Representation on such basis will therefore lead to complications. The present system has the merit of simplicity and is easily workable. It has been in vogue for a long time and become an accepted principle of co-operative ideology in the State. Hence we recommend that the present system may continue. The proper remedy for the inherent inequality in the system is to reorganize the unions on a rational basis, so as to make them more or less equal units.

108. *Representation to societies other than those affiliated to the supervising unions, on the Boards of management of Central Banks.*—In recent times, societies other than the agricultural credit societies have developed a good deal, making the movement more balanced and diversified. It is, therefore, necessary to give them also due representation on the Boards of management of the Central Banks. Some Central Banks have already made provision for giving representation to the weavers' societies, stores societies or to non-credit societies in general. We recommend that the following types of societies, viz., (i) weavers' societies, (ii) stores societies, (iii) jaggery and other cottage industries societies, (iv) marketing societies, and (v) milk-supply societies, may each be given separate representation on the Board of management of the Central Banks, if the number in each category is at least 25.

Regarding the manner of election of their representatives, we suggest that where the number in each class exceeds 25, the representatives may be elected separately by themselves. Otherwise two or more classes of societies may be combined for this purpose, to suit local conditions. We commend the adoption of suitable provisions in the by-laws of the Central Banks to implement these suggestions.

109. *Conversion of Co-operative Central Banks into branches of the Madras State Co-operative Bank.*—This proposal was seriously mooted some years back and was considered at length by the previous Madras Committee on Co-operation. The main argument

on which this proposal was based was that the ultimate borrower would be enabled to obtain cheaper credit, by the elimination of one intermediate agency (i.e., Central Banks). The previous Madras Committee on Co-operation by an overwhelming majority was against this proposal and among the many weighty arguments adduced by them, one was that the major portion of the loans disbursed by the Central Banks was from their own funds. The same position holds good now also. The question has absolutely no practical significance at present, as is seen from the fact that among the replies received hardly any one has raised this issue.

The Central Bank has been assigned a pivotal position in all the schemes relating to rural credit under the Second Five-Year Plan. It will be singularly inadvisable to think of radically altering the present structure of rural credit which has stood the test of time and proved its worth especially as the Central Banks are in charge of supervision of agricultural credit societies in their areas. Supervision by a State-wide agency is unthinkable and will be unacceptable for obvious reasons.

110. *Opening of branches by Central Banks.*—The objects of opening branches by Central Banks are to facilitate collection and disbursement of loans to societies and to ensure closer contact with societies and also to tap local deposits. Incidentally they also attend to collection of bills and issue of drafts, thus helping in the movement of goods and moneys. At present, five Central Banks have opened nine branches.

Generally urban banks have been recognized as transmitting agencies for collection and disbursement of loans, etc. For achieving closer contact with the village societies, supervising unions exist. Urban banks in the area tend to attract deposits as they offer higher rates of interest and even the Central Banks which have opened branches therefore consider this proposition as uneconomical. Branches by themselves, cannot also facilitate quicker disposal of loan applications of societies. The Executive Committee of the Bank has necessarily to sanction the loans. Further the delay is more at the society's end than at the Central Bank's end.

In view of the foregoing reasons, we consider that while the Central Banks must have the option to open branches in places where there is a need for such branches and where there are good prospects of the branches working successfully and usefully, we feel that the opening of branches need not be recommended as a policy to be pursued necessarily by the Central Banks.

The Central Banks should make use of urban banks, rural banks and large-sized societies proposed to be formed, in an increasing measure to facilitate remittance of moneys by the several societies. They can be made use of for the purposes of disbursement of loans also to the extent possible. If this is done, the main purposes of opening branches could be achieved. Tapping of

deposits, collecting of bills and issuing of drafts, etc., which are the other activities of the branches may well be left to local urban banks. The pursuit of such a policy will obviate unhealthy competition between urban banks and central banks, possibly straining their relationship and also causing confusion in the public mind, regarding one of the fundamental objectives of the movement which stresses co-operation as against competition as the way of life.

Some Central Banks have suggested that Government should give subsidy to enable them to run branches, but we find that there is no justification for it in view of our foregoing observations.

111. *Maximum borrowing power of the Central Banks.*—The basis of the maximum borrowing power of the Central Banks was eight times the paid-up share capital plus Reserve Fund up to 1926, when it was raised to ten times. In 1941, the maximum borrowing power was raised to from ten to twelve times, but subject to the condition that the increased limit was utilized only to borrow for the purpose of financing the marketing societies. In 1946, Government empowered the Registrar, for the duration of the schemes relating to procurement and distribution of foodgrains, yarn and mill cloth through the co-operative societies, to permit the Central Banks to borrow up to twenty times their share capital plus Reserve Fund. Pursuant to this relaxation, some banks were permitted to borrow up to twenty times their paid-up share capital plus Reserve Fund. This increased limit is now, however, inoperative as the schemes referred to are not in force.

Taking the position as on 30th June 1955, the Central Banks had a total paid-up share capital and Reserve Fund of Rs. 153.65 lakhs (share capital Rs. 96.86 lakhs and Reserve Fund Rs. 56.79 lakhs). Their normal borrowing power was thus Rs. 15.36 crores (Rs. 153.65 lakhs $\times$ 10). Their borrowed capital on 30th June 1955 was only Rs. 10.16 crores. Thus they had a reserve borrowing power of more than Rs. 5 crores, even without taking into account the additional borrowing power of two times the share capital plus Reserve Fund, granted to them for financing the marketing societies.

The Second Five-Year Plan envisages the increased issue of loans to rural credit societies and marketing societies and it is expected that in respect of village credit societies alone, the outstanding loans against members in the final year of the Plan period will be about Rs. 20 crores. No doubt additional share capital will be collected from the societies also which will augment the maximum borrowing power of the Central Banks. But this alone may not be enough. We would suggest that the normal borrowing power of the Central Banks may be raised from ten to twelve times. It is not necessary to have additional maximum borrowing power for financing the marketing societies only,

as at present. To the extent of the proposed enhancement, this step will obviate the need for Government taking share capital indirectly in the Central Banks.

112. *Deposits of local bodies in the State Co-operative Bank and Central Banks.*—Till the year 1938, local boards and municipalities were permitted by the Government to invest their funds in the Central Banks and the State Co-operative Bank, both under current and fixed deposits, without any restriction. In 1939, Government directed the local bodies to conduct all their ordinary transactions with the Government treasuries, to close their current accounts with the co-operative banks, and to invest in fixed deposits in these banks only certain earmarked funds such as the Provident Fund, the Water and Drainage Fund, the Endowment Fund and Unspent loan amounts. In 1942, Government imposed further restrictions and ordered that local boards and municipalities should not make new investments of moneys relating to the Provident Fund, Endowment Fund, etc., other than in Government securities. Renewals of fixed deposits in co-operative banks were permitted subject to the condition that the amount of renewal, together with the funds already invested in co-operative banks did not exceed 50 per cent of the total investable funds of the local body concerned.

The following further restrictions have been prescribed by Government subsequently: (i) Fixed deposits made by local bodies in the co-operative banks should not be for periods exceeding three years. (ii) Every investment exceeding Rs. 5,000 shall be sanctioned by the Inspector of Municipal Councils and Local Boards. (iii) Applications for the investment of funds by local bodies should be submitted through the Deputy Registrar of Co-operative Societies and recommended by him. (iv) Ordinarily, Central Banks can accept fixed deposits from local bodies to the extent of their paid-up share capital but the Registrar may raise this limit to any amount, not exceeding twice the paid-up share capital.

Local bodies may open current accounts with the Central Banks, but the maximum limit should be Rs. 10,000.

As on 30th June 1955 the total paid-up share capital of all the Central Banks was Rs. 96.86 lakhs. The total amount of fixed deposits from local bodies was Rs. 24.08 lakhs. Thus the deposits received were far less than the share capital of the Central Banks.

The generality of the opinion expressed to us is that the existing conditions are rather unduly restrictive. In view of the fact that enormous funds will be required for financing agriculturists during the period of the Second Five-Year Plan, Government may allow investment by local bodies under fixed deposits, in the Central Banks and State Co-operative Bank without any limit. All the Central Banks (as well as the State Co-operative Bank) are well established and there is absolutely no risk in allowing this. Further, as the funds of these bodies are mostly raised from the

local people, it is but proper that the bulk of such moneys is made available through the Central Banks for carrying on agriculture and other rural industries in the localities concerned.

Regarding the investment in current account, we recommend that each local body may be permitted to invest up to Rs. 25,000 subject to the rules of the Central Banks and State Co-operative Bank in this regard.

113. *Standard and form of fluid resources.*—Under the existing orders of the Government, the Central Banks have to maintain fluid resources according to the following standards and forms:—

A. Standard.—(i) Full amount of fixed deposits matured and not claimed; (ii) 50 per cent of fixed deposits falling due within the next thirty days; (iii) full amount of matured, recurring and provident fund deposits; (iv) 40 per cent of current deposits; (v) 25 per cent of savings deposits; and (vi) 50 per cent of the amount of cash credits allowed to other societies as cover for deposits in them.

B. Forms.—(i) 100 per cent of cash on hand, balance with banks and post office savings bank; (ii) 90 per cent of the market value of Government securities including postal cash certificates or national savings certificates; (iii) 80 per cent of the market value of the debentures of land mortgage banks; (iv) 80 per cent of fixed deposits with other banks (approved by the Registrar); (v) undrawn portion of cash credit or overdraft with the Madras Co-operative Bank or the State Bank of India obtained on securities other than Co-operative Paper (i.e., Government promissory notes, Central Land Mortgage Bank debentures, fixed deposits, etc.)

In maintaining fluid resources, a distinction is required to be made between liabilities to the outside public and those to co-operative societies. Items (i) to (v) under 'A' fall under the first category and item (vi) falls under the second category. Central Banks are required to maintain fluid resources for their liabilities to the outside public in the forms (i) to (v) mentioned above. To meet their "inside" liabilities, that is, demands from societies to which cash credits have been allowed, it is enough if Central Banks obtain the necessary cash credit accommodation from the State Co-operative Bank on the security of Co-operative Paper. The undrawn portion of the cash credit or overdraft so obtained can be counted against the fluid resources to meet "inside" liabilities only.

The views generally expressed to us by the Central Banks are that the present standards and forms are alright and do not need any revision. A few of them have, however, suggested that the distinction made between the "inside" and "outside" liabilities should be abolished, that is to say, the Central Banks should be enabled to count the cash credit obtained from the State Co-operative Bank on Co-operative Paper, against "outside" liabilities also. The State Co-operative Bank maintains fluid resources

in respect of cash credit sanctioned to Central Banks on the security of Co-operative Paper as in the case of cash credit sanctioned on the security of Government paper. There is thus a basis for the abolition of the distinction between "inside" and "outside" liabilities. But we do not think, we need recommend this course at present as there is the risk of the Central Banks availing more and more of the cash credit available on Co-operative Paper and of reducing their investments in liquid securities. Further, in actual working, the maintenance of this distinction between "inside" and "outside" liabilities has not caused hardship to the Central Banks. There is, therefore, no practical need also to abolish the distinction between the "inside" and "outside" liabilities. We would like to make, however, the following few suggestions regarding the forms of maintenance of fluid resources:—

Under the existing orders, the entire amount to the credit of a Central Bank in postal savings account can be taken into account for purposes of resources. We suggest that only the amount readily withdrawable without notice may be taken into account. Regarding the postal cash certificates and national savings certificates, at present only 90 per cent of their value is reckoned for this purpose. We suggest that the amount that will be realized on encashment on a particular date which is noted on the reverse of these certificates, may be reckoned for this purpose.

114. *Modification of lending limits fixed in rule VIII-A.*—Under rule VIII-A of the rules framed under the Madras Co-operative Societies Act VI of 1932, (i) the Registrar is competent to prescribe how much of the maximum lending limit of a financing bank shall be made available (a) for short-term loans and (b) loans repayable after one year and within three years or five years; (ii) out of the limit available for issue of loans for periods exceeding one year but not exceeding five years, a maximum of 50 per cent only can be issued as loans for periods exceeding three years; (iii) the maximum limit referred to under item (ii) above can be availed of only if the Registrar permits it, in recognition of good management of the society. Stating that for purposes such as purchase of cattle, construction of building, land improvements, etc., loans for more than three-year periods are required on a large scale, it has been urged by some Central Banks that the limit of 50 per cent out of the total limit for medium-term loans as prescribed under the second proviso of rule VIII-A should be increased. As the idea underlying this rule is that banking institutions should regulate the period of their lendings with due reference to the period of their resources, we think that no rigid limit need be fixed in the rule. If a bank commands larger funds of more than three years' duration, there is no reason why it should be prohibited from lending more than 50 per cent of the total loans issued for more than one year. We recommend that in order to secure elasticity in the working of the banks, in the context of the increased funds proposed to

be made available in future for issue of medium-term loans the second proviso in the rule fixing the limit for loans for periods exceeding three, but not exceeding five years, may be deleted.

The objects for which loans for more than three years could be issued are also specified in the rule. They cannot be said to be exhaustive. It is, therefore, better that the rule is suitably amended enabling the Registrar to include other objects as well.

115. *Loan policies of Central Banks with regard to societies.*—The principles generally observed by the Central Banks in sanctioning loans to different classes of societies are dealt with below :—

Loan policies with regard to Agricultural Credit Societies.—The loan application should come through the supervising union concerned. A statement showing the overdues of the members and the panchayatdars should be enclosed to the application, indicating the action taken to recover the overdue amounts. A report showing the action taken to rectify the important audit defects should accompany the loan application. A distribution statement should be annexed to the application showing the names of applicants, their assets and liabilities, yearly income, repaying capacity, purpose and the period of the loan applied for and the details of the security offered, to enable the Central Bank to judge the credit worthiness of each applicant. In the case of loans exceeding a certain limit, the Central Banks insist on the societies taking mortgage of immovable property from the members. This limit ranges generally from Rs. 250 to Rs. 500. The past performance of the society with regard to the loans already taken, its general working, management and financial position should be satisfactory. The loans are subject to the maximum credit limit of the society (which itself is fixed at one-eighth of the value of the net assets of the members).

Apart from loans, the Central Banks sanction cash credit accommodation to good working village credit societies managed by efficient panchayatdars. The limit for cash credit is generally fixed at Rs. 2,000 to Rs. 4,000. The cash credit accommodation (which is operated by means of cheques) is with a view to ensure prompt disbursement of short-term loans to members without waiting for the prior sanction of the Central Banks. When a few members have been given loans in this way, the society prepares a statement of loans disbursed, out of the cash credit accommodation, with the names of the borrowers, the amount, security, period, etc., signed by the borrowers. A loan application with this statement is sent to the Central Bank through the Union. The Executive Committee scrutinizes the disbursement statement and the loan application and if satisfied, sanctions the loan. The loan amount is then adjusted to the cash credit account of the society to replenish the amount already drawn.

We are of opinion that the principles and practices adopted by the Central Banks in the sanction of loans and cash credits to village credit societies are generally sound and do not require revision. We would, however, like to make the following suggestions :—

(i) *Co-relation between the paid-up share capital of the society in the Central Bank and the borrowings of the society.*—The present position is that the total loan amount given by the Central Bank does not generally bear a relationship to the value of the shares held by the society in the Central Bank. (As already pointed out, the maximum credit limit of the society is generally limited to one-eighth of the value of the net assets of its members). At the same time, the borrowing of a member in the village credit society is limited to ten times his paid-up share capital and the maximum credit limit of the Central Bank itself is fixed normally at ten times its paid-up share capital plus Reserve Fund. The adoption of net assets as the basis for determining the maximum credit limit of the village credit society is because of the reason that unlimited liability is reckoned as the ultimate security for the loans given to it, the effectiveness of this security being dependent on the net assets of the members. Nevertheless, it is necessary (in addition to the overall limit based on the net assets) to correlate the borrowings of the society to its invested share capital so as to bring the position into conformity with the limit of borrowings for the member on the one hand, and the Central Bank on the other. In the future context of the schemes regarding rural finance through co-operatives, each Central Bank has to increase its share capital to augment its borrowing power and this suggestion is calculated to enhance the share capital of the Central Banks. It will not cause any great hardship to the rural credit societies as the borrowings of the members are proportioned to their paid-up share capital in the ratio of 10 : 1. We recommend that the total loan amount given by the Central Bank to the village credit society may be limited to fifteen times the share capital invested by it in the Central Bank.

(ii) *Delay in the disbursement of loans to members of village credit societies.*—It has been a standing complaint that loans are not generally granted and disbursed with promptitude. It is an old adage that "credit delayed is credit denied". It is needless to stress the importance of issuing loans in time. Promptitude is one of the postulates of good credit. Otherwise the purpose of the loan will not be served. It may well lead to misapplication of loans, giving rise to overdues eventually. It tends to undermine the loyalty of the members to the co-operative societies and tarnish the good name of co-operation. Hence, all possible efforts should be made to eliminate avoidable delays in the sanction and disbursement of loans.

The delay, however, is more at the society's end, as the office-bearers of societies are not generally capable of preparing the loan application, than at the Central Bank's end. The societies wait for the visit of the supervisor for the preparation of loan applications and he visits a society normally once in two months. Once the application reaches the Central Bank, there is no undue delay and the loan applications are disposed of within a month at the most. The Executive Committees of the Central Banks may meet at least twice a month to dispose of loan applications. This is already the case in a few banks and all banks will do well to hold Executive Committee meetings at least twice a month.

It is with a view to minimise the delay that the system of cash credit loans also called "post-sanction of loans" has been devised. But this system can be introduced in the very nature of things only in a few societies. During 1953-54, this scheme was in vogue only in 820 societies out of a total of more than 10,000 societies, the amount disbursed being Rs. 16.16 lakhs.

The permanent solution for minimizing the delay will probably be found only when large-sized societies with efficient paid staff take the place of the existing small units but till then, a way has to be found for minimizing delays. We recommend that the system of forecast loans which is now in vogue only to a very limited extent may be introduced extensively. Under this system, the Central Banks will obtain in advance of the cultivation season, a loan application prepared by the society on the basis of the normal credit requirements of members for cultivation expenses, kist, etc., which could be easily forecast and sanction it in advance of the period when the amount will be required. The sanction is kept in force for a specified period, to enable the society to draw the loan immediately on the eve of the members' needs. It is important that all the enclosures are sent along with the advance loan application itself, as otherwise there will be delay at a later stage in complying with the procedure and the forecast loan will in no way be different from the ordinary loan.

One of the factors that had contributed to the delay in the disbursement of loans was the time taken by the panchayatdars to execute the necessary documents. The Central Banks were originally permitted by the Registrar to accept unregistered pro-notes for short-term and medium-term loans, if the pro-notes were executed in the presence of a director of the Central Bank, representing the societies in his area. As this procedure worked hardship, especially in the case of societies situated in the interior, the Registrar has, at the instance of the Central Banks' conference held in August 1954 permitted Central Banks to accept also documents executed in the presence of such of the members of the governing body of the supervising union concerned, as are recognized for the purpose by a resolution of the executive committee. This relaxation has helped to eliminate delay in the disbursement of loans to some extent.

(iii) *Verification of disbursement.*—An important question connected with the disbursement of loans to village societies relates to the obtaining of disbursement reports from the societies in respect of loans sanctioned by the Central Bank to verify whether the conditions of loan sanction have been complied with. The statement contains particulars of the names of members, amount disbursed, date of disbursement, etc. The signatures of members are obtained in evidence of disbursement and the panchayatdars certify that the loan amounts were disbursed in their presence. In practice, these statements are prepared by the supervisors and the signatures of members obtained with the help of the panchayatdars. We suggest that the supervisors should verify the borrowers independently of the office-bearers concerned. Such action on the part of the supervisors will go a long way in detecting and in preventing frauds and other malpractices in the disbursement of loans. The supervisors may be asked to certify to this effect.

(iv) *Policy with regard to the grant of extension.*—The need for granting extension of the period of repayment in respect of loans due by the village credit societies to the Central Banks arises, when the former desire to give extension of time to their members. The following principles have been suggested by the Registrar for adoption by the Central Banks, in the matter of granting extensions :—

- (a) Applications for extension should have been received in the Central Banks within thirty days from the due date of the loan instalment, duly supported by the resolution of the general body of the society and the governing body of the supervising union.
- (b) The society should have paid the demand under interest in full.
- (c) There should be no interest arrears in the corresponding loans of the members in the society.
- (d) The period of extension granted should fall within the co-operative year, not later than 15th of June, as far as possible.

The following points arise for our consideration :—

(a) whether the condition that the application for extension should have been received in the Bank within thirty days from the due date, is a hardship to the ultimate borrower in the village society, and

(b) whether the condition that the period of extension granted should fall within the co-operative year, not later than the 15th June as far as possible, is necessary.

(c) As the application for extension has to be considered by the panchayat and the general body of the society, and by the governing body of the local supervising union, we are of the view that the limit of thirty days need not be strictly insisted upon. It is enough if such applications are received in the Central Bank in time for the Executive Committee to take a decision. This is quite necessary having regard to village conditions and the quality of managements in charge of the rural credit societies.

(b) Extension regarding the period of loan is sought for because of the inability of the borrower to keep up his obligation due to reasons beyond his control such as failure of harvest. When extension is granted for that reason, we feel that it would not serve the purpose unless it is granted up to the period of the next harvest, in the area of the society. No doubt, it is necessary to ensure that extension is not resorted to merely for reducing the overdues of societies, during the last days of the co-operative year. The scope for abuse could be eliminated by a thorough enquiry into the reasons adduced for extension by responsible officers of the Central Banks.

116. *Loan policies with regard to Non-Agricultural Credit Societies.*—Unlike village credit societies most of which have to borrow from the Central Banks, only some urban banks and employees societies look up to the Central Banks for loans—usually the accommodation granted to the former being cash credit or overdraft. The applications are entertained directly by the Central Banks, as these classes of societies are not generally affiliated to the supervising unions. Apart from the usual financial particulars, an analysis of the loans proposed to be granted or the deposits proposed to be repaid (as the case may be) is also required to be furnished along with the loan applications. In the case of employees' societies, a distribution statement as in the case of village credit societies is usually obtained.

Though the by-laws of the urban banks permit borrowings from five to eight times, their paid-up share capital plus Reserve Fund, the Central Banks actually lend only far less. This is a healthy feature. The urban banks must raise at least a moiety of their requirements through deposits. We consider that ordinarily the amounts lent by the Central Banks to the urban banks should be limited to 50 per cent of the amounts lent by the latter to their members.

Many urban banks sanction jewel loans and commodity loans. Jewel loans are sanctioned not by the Board but by the President or Secretary with a view to avoid delay, and the sanction is ratified by the Board later on. We feel it is necessary for the Central Bank, with a view to assure itself of the safety of the funds lent by it, to arrange for the periodical verification of the securities. Such verification will be useful, if conducted in the interval between one audit and another. A test verification of the loans other than the jewel loans and commodity loans may also be arranged for by the Central Banks.

The relationship between share capital invested in the Central Banks by the non-agricultural societies and their borrowings from the Central Banks may also be similar to that recommended for the village credit societies.

117. *Loan policies with regard to marketing societies.*—Loans and cash credit to marketing societies are sanctioned by the Central Bank in accordance with a set of regulations, the main features of which are indicated below :—

The limit of cash credit for issuing produce loans is fixed subject to the society's maximum borrowing power and with reference to its requirements, its owned capital, efficiency of management, etc., and is secured by the floating assets of the society. When the society has very nearly exhausted the cash credit limit, a regular loan is sanctioned to the marketing society on application, and the cash credit drawn is replenished. The normal credit limit up to which a marketing society can be financed is eight times its paid-up share capital plus Reserve Fund, but this limit can be exceeded if the excess is covered by the pledge of members' produce in the effective custody of the Central Banks. The upper limit for the latter is 100 times the paid-up share capital plus Reserve Fund of the society. The Central Bank insists on the collections made from members being remitted to the Central Bank and not relented. Generally, the produce pledged is required to be kept in the joint custody of the Central Bank and the marketing society under double lock system, one key being with the marketing society and the other with the authorized agent or representative of the Central Bank. If a marketing society has borrowed more than Rupees one lakh during a season, the Central Bank is required to appoint a permanent employee to have custody of the second key of the double lock and to regulate the deposit and release of produce. The release should not be made without his authorization. The society should obtain insurance policies in respect of all loans covered by combustible produce and in respect of loans exceeding Rs. 500 on non-combustible produce. The insurance policy should be in the joint names of the marketing society and the Central Bank.

The Central Bank requires the marketing societies to send fortnightly progress reports containing particulars regarding the loans issued on the pledge of produce and the stock pledged by the members. The office-bearers should append a certificate (counter-signed by the Central Bank's representative) in the progress reports that all the loans are adequately covered by the pledge of produce.

The loan policy of the Central Banks with regard to marketing societies does not call for any modification. One aspect may now ever be considered, viz., whether the maximum credit limit of a marketing society should continue to be as high as 100 times its paid-up share capital plus reserve fund. This limit was fixed both for the society and the individual borrower at a time when the marketing societies were in their infancy and were at a disadvantage in competing with the joint stock banks doing the same business. The time has come for the marketing societies to strengthen their share capital position. The present co-relation of share capital to

borrowings is such as to make both the borrower and the society take only nominal shares in the marketing society and the Central Bank respectively. We recommend that the borrowing power of a marketing society might be fixed at 50 times its paid-up share capital plus the Reserve Fund and that not less than one-fourth of the paid-up share capital of the marketing societies should be invested in the Central Banks.

118. *Loan policies with regard to weavers' societies.*—The Central Banks issue loans to primary weavers' societies, generally up to the extent of their paid-up share capital and Reserve Fund as cash credit, and further amounts as loans on the security, so to speak, of their finished goods, the total lendings being limited to eight times the paid-up share capital and reserve fund. Often it is far below this limit. The Central Banks have a floating charge on all the assets of the society as regards cash credit. Further, the weavers' societies are required to insure the stock in the joint names of the Central Banks and the society.

With the introduction of the Cess Fund Scheme, large amounts have been provided by Government free of interest to the State Co-operative Bank to be passed on as loan to the weavers' co-operative societies by the Central Banks towards the working capital of these societies. The Central Banks are, however, required to lend out of their own funds at least up to the extent of the outstandings against weavers' co-operative societies on 31st December 1953 (which was Rs. 44.10 lakhs for all the Central Banks) and to charge the same rate of interest, viz., 4 per cent on the loans given by them from their own funds as well as from the Cess Fund. (The State Bank lends the Cess Fund money at 1 per cent to the Central Banks.)

The points that call for our consideration are—

(i) whether the safeguards adopted by the Central Banks in the matter of lending to weavers' co-operative societies are adequate,

(ii) whether the cess fund cannot be channelled directly through the Central Banks,

(iii) whether it is necessary for Central Banks to look up to Government for any guarantee against loss arising out of the loans given to weavers' co-operative societies.

(i) The precautions now observed by the Central Banks with regard to cash credits as well as loans can be said to be satisfactory. However, so far as open cash credit is concerned, the control now exercised consists in obtaining statements of financial particulars from the societies at the time of drawal from the account by cheques. It is necessary to cause a physical verification of the stock to be made by the field staff of the Central Bank once in a half-year (preferably in the intervals between the departmental verification at the end of each half-year). Their staff may also test check the stock by surprise on other occasions.

(ii) The Central Banks will no doubt be able to lend at a lower rate of interest to the weavers' societies if they get the moneys allotted out of the Cess Fund directly, and not through the State Co-operative Bank. But as against this, the difficulty for the Government, of dealing with several financing agencies in the State, has to be taken into account. Hence on grounds of administrative convenience, the present practice has much to commend. Moreover it secures scrutiny and control by the State Co-operative Bank in addition to departmental scrutiny and control. Apart from this, it has to be remembered that the financing of weavers' societies out of Cess Fund may not be a permanent feature. In due course, it may be necessary to have recourse to loans from the Reserve Bank which will be available only through the State Co-operative Bank. It will be much better to keep the present hierarchy of financing agencies in respect of financing weavers' societies as in the case of other types of societies. We do not think it necessary or desirable to change the existing method of channelling the funds.

(iii) It has been represented to us during our tours that the Central Banks in the State have generally been adopting an illiberal policy in the matter of sanctioning loans to weavers' co-operative societies. In fact there is a feeling among some weavers' co-operative societies that in view of the attitude taken up by the Central Banks, it would be even desirable to organize a separate financing bank to finance the weavers' societies. The lack of confidence on the part of some Central Banks in the ability of the weavers' societies to repay the loans taken by them in full is justified by them on the plea that the handloom industry has been passing through periods of prosperity and distress alternatively, with the resultant effects on the working of these societies. But in fact, the figures received from thirteen out of the sixteen Central Banks show that from 1940 to 1955 only three of them had to write off some amounts due from the weavers' societies, to a total extent of Rs. 11,237. It has, however, to be stated that this was the position when the Central Banks were financing the weavers' societies on a conservative basis. Now, when the Central Banks are expected to finance on a large scale old and new societies in respect of looms that are increasingly brought within the co-operative fold as per schemes formulated and targets fixed by the department, they cannot be said to be acting unreasonably if they expected the Government to guarantee them against possible losses in financing the weavers' societies. It may be pointed out in this connexion that when Government introduced Relief Schemes during the year 1952-53 and provided funds for financing the weavers' co-operatives through the State Co-operative Bank, they agreed to make good the ultimate business losses of the societies arising from the working of the scheme and also guaranteed to the Co-operative Central Banks the repayment of loans advanced to weavers' societies which worked the scheme. These societies borrowed a total of Rs. 12.96 lakhs from the Co-operative Central Banks for working capital.

Government placed a sum of Rs. 8 lakhs at the disposal of the Registrar for sanction of subsidies to weavers' co-operative societies to make good the business losses sustained in the working of the scheme. Out of 139 societies in the Residuary State, which worked the scheme, 113 sustained losses to the extent of Rs. 2.74 lakhs. Up to 30th June 1954 claims for Rs. 2.58 lakhs in respect of 106 societies were sanctioned. This past experience in the financing of weavers' co-operative societies in times of distress lends support to the view that in order to make the Central Banks grant loans with confidence and without hesitation, some sort of guarantee should be made available to them by the Government. It is understood that the need for such a guarantee has been recognized by the Government of India and they have recently agreed that, in genuine cases of non-recovery of loans advanced for the working capital of weavers' co-operative societies, they would be prepared to bear 50 per cent of the losses incurred in respect of any society, subject to an over-all limit of 5 per cent of the total loans sanctioned by them to the State Government, that is to say, amounts advanced under the Cess Fund Scheme.

The Central Banks, however, feel that the guarantee extended by the Central Government is not adequate to meet the needs of the situation and are of the view that the guarantee should cover the entire losses arising from the non-recovery of loans advanced not only out of the Cess Fund Scheme but also out of their own funds. We recommend to the State Government that they, on their part, may agree to bear 50 per cent of the losses arising out of the non-recovery of the loans subject to a maximum of 5 per cent of the total loans sanctioned by the Government of India. This will go a long way to satisfy the Central Banks and enable them to issue loans to weavers' societies with confidence.

119. *Loan policies with regard to cottage industries societies.*—Central Banks usually allow only short-term loans and cash credit to the cottage industries societies. Though the by-laws of these societies usually allow a maximum borrowing limit of five times their paid-up share capital and Reserve Fund, the Central Banks are hesitant to sanction loans up to this limit to this class of societies for lack of tangible security. This attitude of the Central Banks is understandable.

It may be mentioned that the Reserve Bank Act has been amended empowering it to finance cottage industries through the State Co-operative Bank, provided the payment of principal and interest is guaranteed to them by the State Government. The Central Banks in the State may not, however, require funds from the Reserve Bank to finance Cottage Industries Societies other than weavers' societies. They can meet the demand from their own funds. It has been suggested that in order to induce the Central

Banks to give loans to cottage industries societies liberally, Government guarantee should be given. In the case of cottage industries societies in Bombay, marginal guarantee ranging from 20 to 40 per cent of the loan amounts is given by the Government to the Central Banks. We recommend that a similar guarantee might be given by the State Government. We have also dealt with this question in the chapter on "Cottage Industries (other than Weavers' Societies)".

The loan policies now pursued with regard to other societies, such as, stores, milk-supply societies, etc., are generally satisfactory and call for no comments from us.

120. *Procedure to be followed by the Central Banks as regards disposal of loan applications of societies.*—Loan applications of societies are considered by the Executive Committees of Central Banks either at their meetings or in circulation among the members of the committees. The desirability of considering loan applications as a rule at meetings of the committee and not in circulation has been stressed by the department. Consideration at meetings generally ensures an objective discussion of the loan applications on merits. While some members may hesitate to put in writing their objections as regards grant of loans to particular societies, they will be prepared to voice their opposition at meetings. This advantage will not be available, if loans are sanctioned by circulation. We suggest that as a rule loan applications of societies should be considered only at meetings of the Committee and that only in exceptionally urgent case, when meetings cannot be convened quickly, circulation should be resorted to. As already suggested, the Executive Committee of the Central Bank may meet at least twice a month. This will facilitate quicker disposal of loan applications.

121. *Need or otherwise for collecting penal interest on overdue amounts in the loans outstanding against societies.*—At present some Central Banks charge a higher rate of interest on overdue principal—the additional interest being $\frac{1}{2}$ per cent to $1\frac{1}{2}$ per cent. It may be legitimately argued that there should be some distinction between societies which are punctual and which are not. However, apart from niceties of equity, when the matter is viewed from the real purpose underlying the additional levy, which is to provide an incentive to the borrower to be punctual, we feel that the additional levy is not necessary. While the imposition of a penalty on an individual will serve to induce him to pay off his dues without much delay, if not punctually, such imposition on a collective body like a society may not produce the desired effect.

122. *Need or otherwise for a separate financing bank for different types of societies.*—The pattern of the co-operative financing structure in this State—(indeed in the other States as well)—

is that there is a common co-operative financing agency for all the different types of societies in a district (in some places for a lesser area). The idea of starting a separate financing agency for a type of societies has been given prominence in recent times by some representatives of weavers' co-operative societies who think that by having a separate organization for themselves, they would be able to secure funds for their societies more liberally than hitherto.

This proposal of a separate financing bank for a class of societies cannot be said to be a healthy one and has to be strongly deprecated. The Central Banks of our State have acquired considerable prestige and standing in the course of decades of their existence. They are in a position to mobilise considerable funds by way of deposits at competitive rates. They constitute the backbone of the co-operative credit structure. They have stood the test of time.

In this context a separate financing institution for a particular type of societies is bound to be a weak entity generally unable to command the confidence of the investing public. It should necessarily be on a regional basis, i.e., comprising more than one district. Apart from the inconvenience caused to the societies to be financed in such a case, the overhead charges for both will be certainly greater. Supervision of the financing bank over the affiliated societies will be less effective with deleterious consequences. There are also other drawbacks in this arrangement as indicated below :—

(i) In a common Central Bank different types of societies are represented and consequently there will be checks and balances in the administration. But in a financing bank composed only of one class of societies, there is the danger that their representatives on the Board of Management might not give due consideration to the interests of the bank and the safety of its funds. Their interests may be very often one sided and they may be too eager to satisfy the credit needs of their affiliated societies without at the same time adhering to sound banking principles.

(ii) When losses arise, due to a severe set-back in the line of business in which the members of affiliated societies are engaged, a separate bank will be less able to withstand the shock than a common bank with its varied clientele and vaster resources. It is a well-recognized principle of banking that investments should be diversified and variegated. This idea is pithily expressed in the saying that one should not carry all the eggs in one basket. The constitution of a separate Central Bank for particular classes of societies will militate against this sound principle of banking.

(iii) If there are different types of Central Banks with identical area of operations, there is bound to be the unseemly competition for tapping deposits, etc., which is not desirable. In the present set-up, unity among the different sections of the co-operatives is fostered and promoted which will not be the case if separate sectional

Central Banks are started. So far, the present system of a composite Central Bank has worked harmoniously and usefully, generally speaking, and it will be singularly unwise to disturb this set up.

Two of the welcome features in the working of our Central Banks are that they cater to all types of societies and that they have been free from the attention of organized political parties. It should be the supreme endeavour of all co-operators to preserve these two healthy features of the movement.

Financial help required on an extensive scale to help members of societies engaged in the weaving industry, etc., can well be made available by the existing Central Banks themselves, provided a reasonable guarantee is given by the Government to cover the losses arising out of the non-recovery of advances made by the Central Banks to these societies as proposed elsewhere.

Interest rates (on borrowings and lendings).

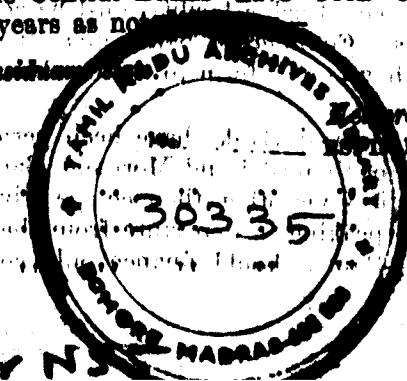
123. *Interest rates on borrowings.*—The rates of interest paid by the Central Banks on fixed deposits range from 2 per cent to 4 per cent with reference to the period of the deposits varying from six months to five years. For current deposits, it is generally $\frac{1}{2}$ per cent up to a specified limit and no interest thereafter. The rate paid on savings deposits is generally 2 per cent. The rates compare favourably with those obtaining in the commercial banks and can be said to be reasonable.

Interest rates on lendings.—The Central Banks require a margin of $1\frac{1}{2}$ per cent to 2 per cent to meet their working expenses and earn sufficient profits to build up reserves and declare a reasonable dividend. Considered from this background, it cannot be said that the rates charged by the Central Banks at present (as noted below) are unreasonable :—

	PERCENT.
Rate charged on loans to agricultural credit societies and marketing societies	4 $\frac{1}{2}$
Rate charged on loans to non-agricultural credit and non-credit societies other than weavers	5 $\frac{1}{2}$ to 5 $\frac{3}{4}$

Indeed the net profits of the Central Banks have been on the decrease for the past three years as noted below.

Year.	Net profits.
1952-53	11.24
1953-54	10.18
1954-55	8.83



In 1954-55 out of sixteen Central Banks, only four banks could earn profits sufficient to declare the maximum dividend of 5 per cent allowed under the rules. Incidentally, it may be mentioned that the lending rate of the Central Banks in this State compares favourably with those of the Central Banks in other States. In the light of the foregoing, no general reduction in the lending rates of the Central Banks is called for. However, any Central Bank which is in a position to reduce its lending rate, may do so, provided such reduction will not militate against the building up of its reserves and maintenance of adequate field staff, etc. In view of the need for cheapening the cost of credit to agriculturists, the possibility of reducing the rate of interest may, however, be kept in view by the Central Banks and the position reviewed from time to time. Such help may also be extended by reducing and foregoing the supervision fees collected from village credit societies instead of by reducing the lending rates.

We may here refer to a feeling among certain sections of the public that the interest charged to the ultimate borrower in village credit societies which is $6\frac{1}{2}$ per cent, is rather high, having regard to the fact that the Reserve Bank lends at $1\frac{1}{2}$ per cent considerable sums for financing agricultural operations and marketing of crops, and that the State Co-operative Bank and the Central Banks should reduce their lending rates, with a view to enable the rural credit societies to effect a reduction in their rates of interest to their borrowers. This question has been dealt with at length in Chapter 5.

124. *Undertaking of commercial activities by the Central Banks.*—Apart from their functioning as a financing agency and balancing centre for the co-operatives in their area, which is their primary business, the Central Banks carry on general business of banking such as acceptance of deposits, collection of bills, transmission of funds by issue of cheques and drafts, etc. These activities are normal functions incidental to the working of any bank and the Central Banks can very well do such business for their constituents. The Central Banks also issue loans to non-member depositors on the security of their deposits. The Madras Co-operative Societies Act permits the issue of such loans to non-members. Indeed they are to be regarded virtually as repayment of deposits in advance. Such a facility must be permitted if they are to attract deposits. Commercial banks give such a facility and the Central Banks have to conform to this banking practice.

The Central Banks have been permitted to issue loans on the security of Central Land Mortgage Bank debentures to individuals, and institutions other than co-operatives also. Though this is, strictly speaking, a departure from the accepted principle that the Central Banks should finance only co-operatives, it need not be

objected to in view of the imperative need to impart an element of liquidity to the debentures of the Central Land Mortgage Bank, especially since all the commercial banks are not readily accommodating the holders of debentures with advance.

Some Central Banks lend to members and non-members on the security of Government paper. The issue of such loans cannot be said to further the interests of the movement. In a way permission to issue such loans may tend to slacken the efforts of the bank in employing and developing avowedly co-operative channels of investment. We therefore suggest that the Central Banks should not grant advances on the security of Government paper except to their regular constituents, i.e., who keep accounts with them.

The Central Banks do not now lend to individuals on the security of commodities, bullion, etc., unlike some Central Banks in some other States like Bombay; nor do they discount bills and cheques. Having regard to the basic purpose of the Central Banks and the enormous leeway to be made in providing finance to the agriculturists, small traders, and industrialists, etc., which is the legitimate concern of the Central Banks, the observance of this healthy practice is commended for adoption in future also.

125. *Administrative sections of Central Banks.*—Each Central Bank has two sections, viz., Banking and Administrative. The main functions of the administrative section are to recruit and control the supervisory staff, and to develop and co-ordinate the work of the supervising unions. Usually an Executive Officer is appointed as the head of the administrative section. He is expected to guide and control the work of the field staff.

In some Central Banks, the Secretary is in charge of the administrative section also. As the Secretary has to devote much of his attention to the banking side, he will not be able to attend to the work connected with the supervision of affiliated societies and control of the field staff, with as much effectiveness as an officer exclusively placed in charge of this work. We suggest that each Central Bank should appoint a full-time Executive Officer with the same status as that of the Secretary, with his duties and responsibilities clearly defined. The Executive Officer should in our view be a co-ordinate officer and not subordinate to the Secretary. One of our colleagues (Dr. P. Natesan) holds the view that the Secretary should be the superior officer, as the presence of two officers of equal status in an institution will, in his opinion, lead to conflict in the day-to-day administration. We do not think that this is a possibility as their functions are distinctive and can be clearly laid down. Further, the Secretary and the Executive Officer will work under the President of the Bank who is the common head of all the sections in the Bank and hence he can easily regulate their relationship. Unless the Executive Officer holds a

status equal to that of the Secretary, it will scarcely be possible for him to command prestige and enforce discipline amongst the field staff working under him who are more numerous than the office staff in the very nature of things. We are therefore of the view that both the Executive Officer and the Secretary should be co-ordinate officers, as far as status (and not necessarily in respect of emoluments) is concerned.

The entire administrative section in the bank and the supervisory staff in the field should be placed under the immediate control of the Executive Officer, subject to the powers of control vested with the supervising unions. The Executive Officer can be expected to discharge his duties effectively only if he is vested with powers to deal with the subordinates who are remiss in the discharge of the duties. Under the special by-laws governing the service conditions of the employees now in force, the authority to censure or fine or withhold increment in respect of certain categories of staff including the staff in the administrative section and the staff in the field, is the Secretary. As these categories of staff are to work under the immediate control of the Executive Officer, we recommend that the Executive Officer should be invested with the powers now conferred on the Secretary by suitably amending the special by-laws.

126. *Supervision over village credit societies.*—There is no longer any opposition to the Central Banks exercising supervisory functions over the village credit societies. Indeed, it is now universally accepted that the Central Bank is the most suitable agency for doing this work. This transformation in public opinion is due to the fact that the management of the Central Banks has been virtually co-operatised from the Thirties, i.e., ever since the representatives of societies became the dominant element in the governing bodies of the Central Banks.

Though the work of supervision is vested in agencies other than Central Banks in some of the other States—(for instance in Bombay), we are of the opinion that it is most necessary that the Central Banks should continue to be in charge of supervision work, especially as supervising unions by themselves, and Federations of the supervising unions in the past failed to do this work satisfactorily. Nor can the work be entrusted to the department for obvious reasons.

127. *Supervision of non-credit societies by Central Banks.*—Some Central Banks have urged that the supervision over non-credit societies should be exercised by them as they finance these societies. The present position is that the stores, weavers' and milk-supply societies are supervised by the departmental special staff, and the other non-credit societies by the general departmental staff.

Stores with a net profit of over Rs. 1,000 have to pay to the Government supervision fees at the rate of 5 per cent on their net profits subject to a maximum of Rs. 3,000. (This levy has been waived by the Government for 1954-55.) Weavers' societies working at profit have to pay 2 per cent on the net profits subject to a maximum of Rs. 500. No supervision fee is collected from other non-credit societies.

The cost of the supervisory staff is much more than the supervision fees collected. During 1954-55, the supervision fees collected amounted only to Rs. 34,049 while the cost of the supervising staff was Rs. 3.89 lakhs. The question of the Central Banks taking over the supervision of the non-credit societies financed by them, has to be examined in this background and also other relevant factors. Even now, for supervising the agricultural credit societies, the Central Banks have to draw from their general funds large amounts. Even then, many banks have not been able to maintain adequate field staff. In some districts, a Supervisor is in charge of 25 societies and more.

Supervision over non-credit societies requires greater technical knowledge, etc.; and hence the persons entrusted with this work must have generally higher qualifications and training. It means that they have to be paid much more than what the Supervisors are paid ordinarily. The Central Banks cannot, in the present circumstances, afford to incur this additional expenditure.

Moreover, it is proposed to increase three-fold their loan transactions, in the rural sector during the Second Five-Year Plan and this work will naturally tax the Central Banks to the utmost and, if this welcome goal is to be reached, the Central Banks have to work with singleness of purpose and cannot afford to disperse their efforts.

Hence we recommend that ordinarily the Central Banks need not take over supervision of non-credit societies. However, if in respect of any particular type of societies, a Central Bank thinks that it can undertake supervision and the department also feels that this can be allowed without detriment to efficiency, we recommend that the question of granting a subsidy to the Central Bank may be considered by the Government, as the employment of special staff by the department to that extent will be obviated.

Loan applications of non-credit societies are now recommended by Deputy Registrars to the Central Banks. In view of the above recommendation to continue departmental supervision, this practice may continue.

128. *Need or otherwise for a Committee of Supervision in the Central Banks.*—Some Central Banks in the State such as Coimbatore, South Kanara and Madurai have, in addition to their Executive Committees, Committees of Supervision, the members of

which are elected from among the members of the Board of management. These committees were formed in the wake of the abolition of the District Co-operative Federations, with the object of developing, assisting and co-ordinating the activities of the supervising unions and of controlling the work of the supervisory staff. They have power to pass the budgets of the supervising unions and to administer the supervision fund, collected from the societies. The President of the bank is the ex-officio President of the Committee of Supervision and the members are drawn mostly from representatives of societies.

The need for the continuance of such a committee, in addition to the Executive Committee, was considered by the previous Madras Committee on Co-operation and they recommended that the decision might be left to the Central Banks themselves, in the light of their local requirements.

The constitution of a separate Supervision Committee is apparently based on the idea that then only adequate attention could be paid to supervision work and that the Executive Committee burdened with other items of work, could not devote sufficient attention to this work.

As there is an administrative section in each Central Bank and generally also an Executive Officer to guide and control the work of the Supervisors, there appears to be no need for the continuance of the Supervision Committee, apart from the Executive Committee which can well attend to the functions now done by the Supervision Committee.

By no means, it can be said that supervision work is more efficient or effective in Central Banks where there are such separate committees than in other Central Banks. Possibly the existence of a separate committee, apart from the Executive Committee, may well tend to impair the unity of administrative policies. Whatever might have been the justification for such a committee in the past when the voice of the representatives of societies in the administration of the bank was not adequately felt, we feel that there is no justification now, when virtually representatives of societies control the administration. We therefore recommend the abolition of the Committees of Supervision in the Central Banks.

129. *Field staff of Central Banks—Scales of pay, etc.*—The field staff of the Central Banks consisting of Supervisors and Bank Inspectors are appointed from among persons whose minimum qualifications are : (a) S.S.L.C. completed or eligible for admission to University or Government services; (b) a pass in the examinations in Book-keeping, Banking, Co-operation and Auditing held by the Institute of Commerce, Madras, or the Central Co-operative Institute, Madras, or any of the mufassal institutes.

The scale of pay of the Supervisors varies from bank to bank. Some typical scales are : Rs. 40—2—60, Rs. 40—2½—65, Rs. 40—2—60—1½—75, Rs. 40—2—80, Rs. 50—4—70—2—90, Rs. 50—4—70—3—100. The general minimum of the pay scale is Rs. 40. In some Central Banks, senior grades of the post of Supervisors have been introduced with higher pay scales, such as, Rs. 80—4—120, Rs. 80—5—180, Rs. 60—3—90, etc. The pay scales of Supervisors and lower division clerks in the Central Banks are identical. Similarly, the pay scales of senior grade Supervisors and upper division clerks are identical. There is generally interchange of staff among persons with identical scales.

The following points call for our consideration :—

- (i) whether the pay scales are adequate;
- (ii) whether the prospects of promotion are sufficiently attractive; and
- (iii) whether there is scope for interchange between the field staff and the indoor staff.

(i) The present pay scales for a Supervisor (minimum Rs. 40) is lower than the minimum pay of a lower division clerk in Government service though the Supervisor is required to study for one more year in an institute and get a pass in four subjects. Considering the arduous and responsible nature of work that is expected of him, the minimum of Rs. 40 is rather low. We suggest that the minimum and the maximum may be at least Rs. 50 and 90 respectively. We are aware that many banks are not able financially to implement this suggestion forthwith. However, this desirable objective may be kept in view and given effect to, when the finances of the bank permit such upgrading.

(ii) While in some Central Banks a few posts of senior grade Supervisors have been introduced, in others there is only one scale. On the whole the prospects for the Supervisors cannot be said to be attractive enough. If there are no prospects of promotion for the employees, normally the tendency will be to turn out work in a routine manner just sufficient to get on without punishment. Prospects of promotion to a higher grade will serve as inducement to an employee to work hard, display initiative and show enthusiasm in his work. We therefore suggest that the Central Banks may convert a certain proportion of the posts of the Supervisors into higher scale posts. The scale may be Rs. 90 to Rs. 120. Promotion to this scale may preferably be made on grounds of merits also and not merely on grounds of seniority.

We also suggest that the qualification prescribed for posts such as Secretary, Executive Officer, etc., namely, degree of B.A., B.Com., or B.Sc., etc., may be waived with the approval of the Registrar in the case of senior scale Supervisors found otherwise

fit for promotion to these posts. It may, however, be insisted that one should have put in at least a minimum of five years' service in the senior scale to qualify himself for promotion to these posts.

(iii) The strength of the indoor staff in a Central Bank is generally limited and it is most desirable in the interests of efficiency and realistic approach to, and consideration of, matters to be dealt with by them, that there should be periodical interchanges between indoor and outdoor staff. Incidentally, this will ensure a spirit of fellowship among the staff of the bank. Excepting the posts of peons, attenders and officers, all the other staff may be treated as supervisory cadre. The implementation of the suggestions above may not wholly serve to attract proper personnel and induce them to give their best always. It is eminently desirable to reserve for the supervisors a certain percentage of posts of Junior Inspectors directly recruited for the department, relaxing age-limits, educational qualifications, etc. Such reservation alone will serve to remove the frustration inherent in the present set-up relating to the supervisory staff. This will be dealt with in greater detail in dealing with the subject relating to the departmental set-up.

We suggest that the Central Banks may hold half-yearly refresher courses for the supervisors for a period of about a week so that they may keep abreast of the latest developments and more than that, recapture the spirit with which workers in the co-operative movement have to function and realize the organic relationship of the particular work done by them to the broad purposes of the movement as a whole. The opportunity may also be availed of to draw up the half-yearly programme of work in each of the supervisor's circle. Most of the Central Banks are already holding half-yearly conferences and the refresher classes may be dovetailed with them.

130. *Security of tenure, Provident Fund, etc.*—So far as matters relating to security of tenure, grant of leave, opportunities to explain and provision for appeal in the case of disciplinary action against the employees, etc., are concerned, the Central Banks have framed a set of special regulations as suggested by the Registrar in consultation with the Madras State Co-operative Bank. We consider that the privileges and safeguards to the employees so far as these matters are concerned are generally adequate.

The Central Banks have also framed subsidiary regulations regarding Provident Fund under which the employee is required to contribute one-twelfth of his pay and the bank is required to make an equal contribution. The service condition in this regard also is satisfactory.

131. *Control over the supervisors by Central Banks.*—The field staff for the supervision of societies (Supervisors) are appointed by

the Central Banks and posted to work under supervising unions. The control over the field staff vests chiefly with the Central Banks and to some extent with the supervising unions.

The supervisors submit their tour programmes, diaries and inspection reports to the Central Bank through the union. The bank approves their tour programmes, reviews their diaries and issues instructions on their reports, generally through the unions.

The by-laws of the Central Bank as well as the supervising unions lay down that the supervisors should work under the direct control of the latter. Though under the special by-laws relating to the service condition of the employees, the Central Bank is the authority competent to award punishments from "censure" to "dismissal"; the governing body of the union is concurrently empowered to censure or fine a supervisor up to Rs. 5 or suspend him for a period not exceeding one month, subject in the latter case to an appeal to the Board of Management of the Central Bank. Transfers of supervisors from one union to another are made by the Central Bank usually in consultation with the unions.

The point for consideration is whether it is necessary to extend the powers of control over supervisors, now enjoyed by the unions.

We consider that the powers now vested in the unions are adequate to serve the purpose in view, viz., immediate control. An extension of these powers will militate against the scheme of centralization of the services of supervisors, under which the Central Bank has been rightly vested with powers of appointment and dismissal. The continuance of the present division of disciplinary powers over supervisors between the Central Bank and the union may, therefore, continue.

132. *Constitution of the services of the Secretaries and Executive Officers of Central Banks on a State basis.*—The question of constituting the services of the non-official employees in the co-operative movement on a "provincial" basis has been engaging the attention of the co-operators from time to time. In 1938, a proposal was made to Government that the Secretaries and Executive Officers of the Central Banks should be "provincialized". Government referred the matter to the Registrar and he consulted the Madras State (then Provincial) Co-operative Bank. The question was also considered at the conference of the Central Banks held in 1938. The conference resolved that there was no necessity to provincialize the services of the non-official staff, but recommended that the Central Banks should recruit Secretaries, Managers and Executive Officers from persons who had the qualifications prescribed by the Registrar. The Board of Management of the State Co-operative Bank was also of the same view. The Registrar wrote to Government that, though he was in favour of "provincialization", non-official opinion was clearly against it at the moment. In these circumstances, Government did not pursue the matter.

The question was again considered by the Madras Committee on Co-operation (1939-40) on a representation made to them by the Provincial Non-Official Employees' Association. The Committee stated that the Central and Urban Banks were independent financial institutions and not branches of a provincial organization, that provincialization pre-supposed a common central organization with adequate financial resources and powers of control over the staff, and that in view of the many administrative and financial difficulties involved in the proposal it was not practicable to constitute such a provincial organization.

The Provincial Conference of the Non-official Co-operative Employees held at Vellore in 1946 reiterated the suggestion for "provincialization" of the non-official co-operative employees. The Registrar, however, informed the Government that this suggestion was not practicable in the light of the recommendation of the Madras Committee on Co-operation.

It would thus be seen that while the non-official employees' organization had been urging provincialization, the State Co-operative Bank and the Central Banks as well as the previous Committee on Co-operation had not been in favour of it. In 1952, however, there was a shift in the opinion of the non-officials. The Madras State Co-operative Conference held in that year passed the following resolution:—

"For Executives of Co-operative Institutions and their immediate subordinates in district societies, big primary societies and provincial societies, a separate cadre of Co-operative Executives should be formed on a State basis liable to transfer and eligible for promotion where possible on a State level under the State Co-operative Bank's control.

"For junior and senior clerks for service in the district institutions and other small institutions a cadre II of employees should be formed, on a district level under the control of the District Bank."

The advocates of "provincialization" of the services of the Secretaries and Executive Officers of the Central Banks base their view on the following grounds:—

(i) Under the existing system, the officers of the Central Banks are not able to discharge their duties without fear or favour. Consequently the control exercised by them over their subordinate staff is not as efficient or effective as it ought to be. (ii) An officer who has to serve a particular institution for all his lifetime acquires a sort of static complex which is not conducive to the progress of the institution. More often than not, he cultivates likes and dislikes towards his subordinates and others and becomes unable to discharge his duties objectively and impartially. If, on the other hand, he is transferred from one institution to another, he acquires greater knowledge and experience and maintains a freshness of

outlook on the many problems connected with the administration of the banks. The institutions also would be greatly benefited by the services of such officers. (iii) The service conditions of the "provincial" cadre with definite pay scales and safeguards, regarding security of tenure, would help to attract competent and qualified hands and make them stick on.

Those who oppose provincialization, base their view on the following grounds:—

(i) The officer who is at the helm of administration should not be subject to transfer. Only a person who continues in the same place could acquire local knowledge which is indispensable for the efficient administration of a bank. (ii) The scheme of provincialization would tend to make the officers lukewarm if not indifferent in furthering the interests of the institutions in which they happen to serve for the time being. They may develop a tendency to disregard the legitimate instructions of their immediate employers, leading to an undermining of their authority, etc. (iii) The Central Banks being the institution which pays for the services of its officers should have the powers of appointment and disciplinary control and not an outside agency constituted under the scheme of provincialization.

(i) The argument that the efficient working of a bank is dependent on the continuance of the same person as the executive head lacks substance. There are many big joint stock banks with branches all over the country where the executive heads are transferred from one branch to another, without detriment to the efficiency of their working. While frequent transfers of officers might affect adversely the working of the Central Banks, if the transfer is made, say, once in about three years, there will be no ground for this apprehension.

(ii) There is some force in the second objection. This could, however, be overcome by investing the immediate employer, viz., Central Bank, with power to impose minor punishments such as censure, stoppage of increment, etc., reserving for a Central agency powers to impose major punishments such as suspension, removal or dismissal.

(iii) Though abstract considerations would seem to justify the proposition that the employer who pays for the services of a person should have powers of appointment and disciplinary control, yet the larger interests of the movement as a whole require that the immediate employer should forego this right.

We may here refer to a scheme of "provincialization" formulated by the Registrar, which was placed before us for consideration. The essential features of the scheme are as follows:—

(i) The sixteen Central Banks of the State will be classified under three groups based on their working capital. (ii) There will be three classes of Secretaries with different pay scales. (iii) There

will be two classes of Executive Officers. The banks in the first group will have Executive Officers of class one and the banks in groups two and three will have Executive Officers of the second class. The pay scales of the Secretaries and Executive Officers have been so fixed in the scheme as to make it possible that the pay drawn by the present incumbents could be fitted into the new scales. (iv) The State Co-operative Bank will be recognized as the Central Agency for appointment, transfer, removal, etc., of the officers. These powers will be exercised by either the Board of the State Co-operative Bank or a special committee of five members constituted from among the members of the Board.

Before going into the merits of the scheme of "provincialization" adumbrated by the Registrar, or suggesting any practicable variant to it, we have to consider whether the time is ripe for the introduction of a scheme of this kind. On the merits of the question we are in favour of "provincialization" for the reasons already stated. The point to be considered is whether a full-fledged scheme of "provincialization" should be implemented immediately or whether "provincialization" should be ushered in only by stages. From the evidence before us, we see that not all the Central Banks are in favour of "provincialization". Some are opposed to it, while a few have suggested its postponement. We do not think that in a matter like this, a radical change of the present set up should be brought about, all at once. The change might well be gradual and every step taken in this direction should be such as to secure the wholehearted co-operation of the Central Banks in general. With every successive step, a more favourable climate will be created for the next step towards "provincialization". Hence, we consider it expedient and desirable to go slow in the direction of "provincialization".

"Provincialization" touches three important aspects, viz., appointment, punishment and transfer. We consider that so far as appointment is concerned, the power may continue to vest in the Central Banks, subject, of course, to the qualifications, etc., prescribed in their by-laws. Regarding punishments also, the Central Banks may retain their existing powers, but major punishments such as suspension and dismissal should be made appealable to an "outside" body of the type we suggest below, so that there might be feeling among the officers concerned that the provisions for appeal in such instances at least are really calculated to ensure an impartial and disinterested disposal of their cases. The existing provisions for appeal are not such as to inspire such a feeling. The same committee may be entrusted with the assignment of securing transfers of the officers and settling other relevant terms, with the concurrence of the Banks. The Committee may consist of three members, President of the State Co-operative Bank, Registrar of Co-operative Societies and one of the Presidents of the Central Banks, elected for this purpose by the Board of Management of the State Co-operative Bank. The first two members will be

ex-officio, and the third will hold office for a period of three years. The latter need not be eligible for re-election to the Committee for a consecutive term. The President of the State Co-operative Bank will be the ex-officio Chairman of the Committee. In disciplinary cases in which the President of the Central Bank concerned who is on the Committee was a party to the imposition of the punishment, he should not participate in their disposal. The Committee, in such circumstances, should co-opt the President of some other Central Bank in his place for the consideration of that subject alone. Though the Committee is expected to function with the co-operation of the Central Banks, its own constitution and the powers envisaged for it, require statutory basis; hence necessary statutory provision should be made.

This scheme suggested by us is not only capable of being implemented in practice (albeit with the willing co-operation of the Central Banks); it will, besides helping in securing and retaining the services of right type of men and enabling them to discharge their duties in a better manner, preserve the autonomous character of the Central Banks and also the prestige and responsibility of their managements. No doubt this is not an ideal arrangement but in the background of the considerations set out by us, we commend this scheme for earnest consideration by all concerned.

133. *Allocation of Reserve Fund out of net profits of the Central Banks.*—Under rule XII (a) of the rules framed under the Co-operative Societies Act, a Central Bank is required to set apart not less than one-third of its net profits to Reserve Fund until the total of its Reserve Fund and other reserves equals the paid-up share capital of its members, and thereafter not less than one-fourth of the net profits shall be carried to Reserve Fund. The idea behind the differential allocations prescribed by the rule is apparently based on the wholesome principle that adequate reserves should be built up in time to meet unforeseen losses so as not to impinge on share capital.

In the scheme of State participation envisaged during the period of the Second Five-Year Plan, etc., the share capital of the Central Banks would be augmented and the difference between their share capital on the one hand and the Reserve Fund and other reserves on the other, would consequently become greater. All the Central Banks will have, therefore, to carry, for a long time, one-third of their net profits to the Reserve Fund. This will not, however, entail any hardship to the Central Banks since fourteen out of sixteen Central Banks had to set apart one-third of their net profits of 1953-54 to the Reserve Fund. The need for building up of reserves for meeting unforeseen losses, augmenting owned funds, etc., is obvious. Hence, we recommend that the present procedure may continue.

134. *Rate of dividend.*—The maximum dividend that can be paid by the Central Banks under the rules is 5 per cent. Having

regard to the fact that the rates on public borrowings have risen since the enactment of this rule, the rate of 5 per cent cannot be said to be unreasonable. Therefore, we propose no change in this regard.

135. *Bad debt reserve in the Central Banks.*—Apart from the Reserve Fund which is a statutory reserve created out of net profits to meet unforeseen losses, etc., the by-laws of Central Banks provide for the creation of a Bad Debt Reserve out of net profits to meet losses arising out of bad and doubtful debts or other investments. As on 30th June 1955, the total amount of bad debt reserve to the credit of all the sixteen Central Banks in the State was Rs. 10.45 lakhs against an estimated bad and doubtful debts of Rs. 8.49 lakhs. The existing provision in the by-laws is of a general nature. It is desirable that a specified percentage of the net profits is carried to the Bad Debt Reserve, irrespective of the fact whether any portion of the loans or investments is estimated to be bad and doubtful or not. It is all the more necessary in future as it is proposed to issue sizable amounts to tenants and agricultural labourers also on the security of their anticipated crops involving a degree of risk to Central Banks. We therefore suggest that the by-law relating to the distribution of net profits may provide for carrying necessarily, say 5 per cent of the net profit to the Bad Debt Reserve.

136. *Classification of Central Banks.*—The Central Banks are classified into A, B, C or D classes in audit by the Registrar on the following basis :—

'A' Class.—(i) The arrears under principal should not exceed 25 per cent of the demand. There should be no interest arrears.

(ii) The total of the entire bad debts and 50 per cent of the doubtful debts should be covered by the Bad Debt Reserve of the Bank.

(iii) The short-term liabilities of the bank should not exceed its short-term investments, exclusive of overdues.

(iv) The bank should have maintained the required standard of fluid resources throughout the year.

(v) At least 65 per cent of the loans issued during the year should be for short-term purposes.

(vi) The number of defaulting societies should not exceed 35 per cent of the number of societies indebted to the bank.

(vii) The bank should have worked at a profit.

(viii) The management of the bank should be efficient and the staff duly qualified.

'B' Class.—These banks must satisfy items (iii), (iv), (vii) and (viii) of the standards suggested for "A" class banks and must in addition, satisfy the following standards :—

(i) The arrears under principal and interest should not exceed 50 per cent and 5 per cent of the demand respectively.

(ii) The total of the bad and doubtful debts should not exceed the Bad Debt Reserve and the Reserve Fund of the Bank.

(iii) Not less than 40 per cent of the loans issued to societies during the year should be for short-term purposes.

(iv) The number of defaulting societies should not exceed 50 per cent of the number of societies indebted to the bank.

'D' Class.—(i) The overdues under principal exceed 75 per cent of the demand.

(ii) The bad and doubtful debts exceed the owned capital, i.e., Reserve Fund, the Bad Debt Reserve and paid-up share capital.

(iii) The required standard of fluid resources is not maintained on several days during the year.

(iv) The long-term and medium-term loans issued to societies during the year exceed 75 per cent of the loans.

(v) More than 75 per cent of the societies are defaulters.

(vi) The bank has worked at a loss.

(vii) The management has not been satisfactory.

'C' Class Central Banks.—All banks which do not come under A, B or D class.

For purposes of giving loan accommodation, etc., the Reserve Bank also has adopted a system of classification, which is the same as the one obtaining in our State, except with regard to condition No. (i) of 'A' and 'B' class banks. According to the Reserve Bank, the principal and interest arrears in a 'A' class bank should not exceed 20 per cent and 5 per cent respectively, against 25 per cent and nil per cent fixed in our State. In a 'B' class bank, the arrears should not exceed 40 per cent and 10 per cent of the demand against 50 per cent and 5 per cent in our State.

It has been suggested to us by some Central Banks that such of them as issue medium-term loans up to 50 per cent (instead of the present 35 per cent) should be classified as 'A'. The Tamil Nad Co-operative Conference (1954) supported this proposal and the matter has been taken up by the Registrar with the Reserve Bank. In view of the need felt for the issue of more medium-term loans by the Central Banks, we endorse the step taken by the Registrar.

We would also suggest the following further modifications :—

For being classified as 'A' class banks, the entire interest should have been collected by the Central Banks. It is not unlikely that interest due by a few bad societies involving paltry amounts remain uncollected at the end of the year. The bank should not be degraded for this reason alone. The condition may be relaxed, permitting not more than 2 per cent of demand under interest arrears. Indeed, as per the original suggestion of the Reserve Bank, the percentage of arrears should not exceed 5 per cent of the demand.

The arrears under principal should not exceed 25 per cent of the demand if the bank is to be classified under A class. We recommend a modification of the limit to 20 per cent as suggested by the Reserve Bank.

For being classified under 'B' class, the arrears under principal should not exceed 50 per cent. The percentage allowed is rather high. Hence we recommend that the limit may be reduced to 40 per cent as suggested by the Reserve Bank of India.

CHAPTER 9.

STATE CO-OPERATIVE BANK.

137. The State Co-operative Bank was started in the year 1905 as the Madras Central Urban Bank, to finance the primary societies throughout the State. When Central Banks were started in the districts to serve as the financing agencies in their area, the Madras Central Urban Bank gradually withdrew from those districts. In 1917, it was converted as the Apex Bank. The shares held by the primaries were transferred to the concerned Central Banks, and it became a federation of Central Banks, with some individuals also as shareholders. On 30th June 1955, the State Co-operative Bank had on its rolls sixteen Central Banks and 152 individuals.

A statement showing the share capital, deposits, working capital, etc., in respect of the State Co-operative Bank is given in Appendix 17. The share capital, deposits, Reserve Fund and working capital which were Rs. 6.66 lakhs, Rs. 207.17 lakhs, Rs. 18.25 lakhs and Rs. 264.91 lakhs in 1939-40 increased to Rs. 17.81 lakhs, Rs. 464.54 lakhs, Rs. 45.75 lakhs and Rs. 964.11 lakhs respectively in 1952-53, before the bifurcation of the bank, consequent on the formation of the Andhra State. On 30th June 1955, the corresponding figures were Rs. 11.65 lakhs, Rs. 380.91 lakhs, Rs. 26.00 lakhs and Rs. 587.94 lakhs.

The statement given in Appendix 18 shows the loan transactions of the State Co-operative Bank from 1939-40 onwards. The loans issued to the Central Banks and societies in 1939-40 and 1952-53 were Rs. 113.94 lakhs and Rs. 871.48 lakhs respectively (composite State), that is, the amount of loans issued during 1952-53 was more than seven times the amount of loans issued in 1939-40. During 1954-55 the loans issued to the Central Banks and societies amounted to Rs. 405.58 lakhs (residuary State). The State Co-operative Bank which has been financing primarily the Central Banks, has been playing, in recent years, an increasing role as their financier—particularly as the agency through which the Reserve Bank passes its concessional finance to the Central Banks, for seasonal agricultural operations and marketing of crops.

During the years 1953-54 and 1954-55, the Reserve Bank sanctioned credit limits to the Central Banks through the State Co-operative Bank to the extent of Rs. 229 lakhs and Rs. 240 lakhs respectively. On the strength of these limits which were treated as of a revolving nature, the State Co-operative Bank rediscounted hundies of the Co-operative Central Banks to the extent of Rs. 251 lakhs and Rs. 458 lakhs during the years 1953-54 and 1954-55 respectively.

Problems and recommendations.

138. *Place of individual members in the constitution of the State Co-operative Bank.*—The membership of the Madras State Co-operative Bank consists of both Central Banks and individuals, the former being sixteen in number and the latter 152 (as on 30th June 1955). The Board of management consists of eighteen members, sixteen representatives of the Central Banks and two representatives of individuals. The individual representatives on the Board are elected by the general body of the Bank. The issue for consideration is whether it is necessary to have individuals in the membership of the bank and if so whether they should have representation on the Board of management.

In dealing with a similar question in regard to the Central Banks, we expressed the view that the individuals constituted a counter-pressure—so to speak—to the pressure exercised by the representatives of societies composed mostly of borrowers and that for this reason, among other things, the individuals need not be eliminated from the Central Banks. The same argument holds good here also. Further, the State Co-operative Bank is not for compulsory elimination of individual shareholders. As per the present policy, they can, at the most, continue as members till their lifetime. We do not, therefore, recommend the immediate elimination of individual members from the bank by adopting special measures in this regard.

139. *Share capital structure of the State Co-operative Bank.*—As on 30th June 1955, out of a total share capital of Rs. 11.65 lakhs in the State Co-operative Bank, Rs. 11.50 lakhs were held by the Central Banks and the balance of Rs. 0.15 lakh by the individual members. The paid-up share capital of the sixteen Co-operative Central Banks in the State as on 30th June 1955 was Rs. 96.86 lakhs. It may be seen that only about one-eighth of the paid-up share capital of the Central Banks has been invested in the State Co-operative Bank. In the context of the future plans for expansion of agricultural finance, the borrowing power of the State Co-operative Bank has to be augmented by increasing its owned funds under share capital and reserve fund. Of course, share capital has to be increased without leading to over capitalization. Hence, we recommend that the State Co-operative Bank should insist on the Central Banks investing at least a certain percentage

of their paid-up share capital (say 20 per cent) in the State Co-operative Bank, according to a phased programme. We discussed the need for such a course with the representatives of the Central Banks on the Board of the State Co-operative Bank, and they are also agreeable to the suggestion.

140. *Need or otherwise for an Executive Committee in the State Co-operative Bank.*—It is usual for the Board of management of a co-operative institution with a large number of directors to constitute from among them a smaller body, known as the Executive Committee. Generally, the Boards of management of all Central Banks, wholesale stores and other big co-operative institutions have constituted such committees to be in charge of executive administration, reserving for themselves powers relating to major questions of policy or management.

There is no specific provision in the by-laws of the State Co-operative Bank empowering the Board of management to constitute an Executive Committee; nor has one been constituted. The Board of management of the State Co-operative Bank consists of eighteen members, and this number will be slightly increased when the scheme of State participation leading to State nomination comes into force. Apparently the number seems to be large enough to warrant the constitution of an Executive Committee. But the need for it does not seem to be imperative. Barring the few individuals, the other directors are all representatives of Central Banks, each one of which is important in itself, and would like to have its representative on the governing body of the bank. Each Central Bank represents several hundreds of primary societies, and it is desirable that the management which deals with subjects which ultimately affect their interests, is fully representative. This will give no room for any Central Bank to feel—though there may be no grounds for it—that the interests of its area have not received proper consideration. The directors of the State Co-operative Bank, whom we met, are also of the view that there is no need for an Executive Committee. The strength of the Board of the State Co-operative Bank, though large, cannot be said to be unwieldy and the balance of advantage is, in our view, in favour of the present system as this satisfies them all.

141. *Plurality of votes and voting by proxy in the State Co-operative Bank.*—According to the by-laws of the State Co-operative Bank, every shareholder has as many votes as the number of fully paid-up shares held by such shareholder. Voting at a general meeting of the shareholders may be either in person by each shareholder or by proxy. In the case of a preference shareholder (i.e., individual member), the proxy should be another holder of a preference share in the bank. In the case of the Central Bank, its representative on the Board of management (of the State Co-operative Bank) or in his absence any member of the Central Bank may attend the general body meeting and vote. In the absence

of both, any member of another Central Bank duly authorized by a resolution of the Committee of the concerned Central Bank, may attend the general body meeting as proxy and vote in person. In this context, the following points arise for our consideration:—

(i) Whether it is still necessary to retain the provision for plurality of votes; and

(ii) whether it is necessary to continue the provision for voting by proxy.

(i) Under section 16 of the Co-operative Societies Act, no member of a registered society shall have more than one vote, provided that in the case of equality of votes the Chairman shall have a casting vote. But the State Co-operative Bank has been exempted from the operation of this section. Plurality of votes based on the number of shares held, no doubt, offends against the fundamental principle of co-operation that share capital should not be the basis for determining voting rights and savours of capitalism, particularly as far as individual share holders are concerned. Exemption from the operation of section 16 was presumably given to the State Co-operative Bank in order to enable the Central Banks, the number of whose representatives on the general body was much smaller than the number of individual shareholders, to have due weight. We have recommended earlier that the individual shareholders of the State Co-operative Bank need not be eliminated. In the light of this recommendation, we consider that the provision for plurality of votes should continue.

(ii) Voting by proxy is definitely unco-operative and should have no place in a co-operative institution. In a co-operative institution, the person concerned is expected to attend the meetings, participate in the discussions and contribute to the shaping of decisions. In short, he is expected to play an active and positive role and not merely a passive role, as is generally the case in joint stock concerns. Provision for proxy voting, apart from offending the basic co-operative concept of one man one vote, will lead to apathy on the part of the members which has to be strictly deprecated in a co-operative organization. It may possibly lead to the domination by a few which is undemocratic, to say the least. Proxy voting tends to blur the vital distinction between commercial concerns and co-operatives, by emphasizing the capital and not the personal aspect. The opinion expressed to us by the directors of the State Co-operative Bank during our visit to the institution is also in accordance with this view. We suggest, therefore, that the provision for proxy voting in the by-laws of the State Co-operative Bank may be deleted.

142. *Undertaking of commercial activities by the State Co-operative Bank.*—The State Co-operative Bank is primarily intended to be the balancing centre and financing bank for the District Central Banks—apart from its being a connecting link between the Reserve Bank of India and the metropolitan money

market on the one side and the co-operative movement on the other. But incidentally, it undertakes also the general business of banking such as the acceptance of deposits, collection of bills, transmission of funds by issue of cheques and drafts, etc. It also gives loans to both members and non-members on the security of Government paper, debentures, etc. In connexion with the Central Banks, we have stated that they might give loans to members and non-members on the security of the debentures of the Central Land Mortgage Bank only, and that loans on Government paper might be given only to their regular constituents, i.e., those who keep regular accounts with them. We suggest a similar procedure in the case of the State Co-operative Bank also.

143. *Whether the State Co-operative Bank can lend directly to societies other than Central Banks.*—The State Co-operative Bank is a federation of Central Banks and is intended primarily to finance them for lending to the societies in their areas. In exceptional cases, however, such as the Madras State Handloom Weavers' Co-operative Society, the State Co-operative Bank has been permitted to lend directly. On 30th June 1955, the outstandings in such direct loans amounted to Rs. 55.18 lakhs while the outstanding against the Central Banks was Rs. 221.60 lakhs. We have considered whether the State Co-operative Bank can directly finance societies (other than Central Banks) and not through the Central Banks concerned. Ordinarily, the policy should be to finance the Central Banks only. But there are some exceptional cases of apex co-operative institutions like the State Handloom Weavers' Society or big primaries such as co-operative sugar mills, etc., which require huge funds for their working capital which could be safely and adequately provided only by the State Co-operative Bank. It may not be prudent for a Central Bank to lock up a considerable portion of its resources in a few such institutions. We, therefore, recommend that the policy should be for the State Co-operative Bank to finance all the Central Banks and the apex co-operative institutions and such of those primary co-operatives as cannot, in the opinion of the Registrar, be financed adequately by the Central Banks consistent with their obligations to other co-operatives in their areas.

144. *Interest rates on the borrowings and lendings of the State Co-operative Bank.*—The rates of interest given by the State Co-operative Bank on deposits range from $1\frac{1}{2}$ per cent to $3\frac{1}{2}$ per cent for periods ranging from one month to three years. For current account the rate ranges from half to 1 per cent, with an upper limit for the interest-bearing amount. Borrowings from the Reserve Bank for financing agricultural operations and marketing of crops and for issuing medium-term loans for approved purposes bear interest at $1\frac{1}{2}$ per cent while other borrowings from Reserve Bank of India carry interest at $3\frac{1}{2}$ per cent, i.e., the Bank rate. The rates of interest on borrowings are reasonable.

The rate for financing rural credit societies and marketing societies, irrespective of the purpose and the period of the loan was $2\frac{1}{2}$ per cent till recently. Now this has been reduced to $2\frac{1}{4}$ per cent. There has been a feeling that the margin to the State Co-operative Bank (now $\frac{3}{4}$ per cent) on loans to Central Banks, issued out of the concessional funds made available by the Reserve Bank, is unduly high and should be reduced with a view to make money available at cheaper rates to the ultimate borrowers. This aspect has been dealt with in detail in the chapter on rural credit societies, and we have suggested that the lending rate of the State Co-operative Bank may be reduced to 2 per cent in due course. As the loan transactions are expected to register an appreciable rise during the next five years, we hope it will be possible for the State Co-operative Bank to effect this reduction.

On loans to other types of societies (except weavers' co-operative societies) the rate charged varies from $3\frac{1}{4}$ per cent to $3\frac{1}{2}$ per cent. The bank charges 1 per cent on loans issued to Central Banks for financing weavers' co-operative societies, as it gets the moneys required from out of the Cess Fund, free of interest. The rates of interest, charged on loans to other types of societies, from out of its own funds, can be said to be reasonable.

145. *Inspection of Central Banks by the State Co-operative Bank.*—The State Co-operative Bank maintains a staff of inspectors for the inspection of stores, sale societies and weavers' societies and for the verification of stocks with them. The purpose of the inspection and verification is to ensure that the advances made by the State Co-operative Bank are adequately secured. We are glad to learn that the State Co-operative Bank has now recognized the need for such an inspection in respect of Central Banks and has decided to undertake it. We suggest that the inspection of Central Banks may be undertaken by a competent staff, specially trained for the purpose. The special staff may be given training in the Agricultural Credit Department of the Reserve Bank for a couple of months.

146. *Rate of dividend.*—Under rule XII (a) of the rules framed under the Co-operative Societies Act, the State Co-operative Bank is permitted to declare dividend on its paid-up share capital up to a maximum of 9 per cent. The bank has been declaring the maximum rate for a number of years. Many have expressed the view that the rate is high and should be reduced, while some are in favour of continuing the status quo. A view has also been expressed that the maximum rate should actually be raised from 9 per cent to 12 per cent. The arguments of those who want the continuance of the status quo or the increase of the present maximum are that the benefits of this rate go only to the Central Banks and that any reduction would lower the confidence of the investing public. It has also been stated, that the Central Banks have invested most of their reserve funds in the State Co-operative

Bank, as nearly non-withdrawable deposits, on which a relatively low rate of interest is allowed and that in consideration of this fact, the present maximum rate of dividend should not be disturbed.

The maximum rate of 9 per cent was fixed at a time when money market conditions might have warranted it and when it was necessary to attract more share capital from individual members; but conditions have now changed. The share capital held by the individuals in the State Co-operative Bank is only Rs. 15,000 while that held by the Central Banks is Rs. 11.50 lakhs. The apprehension that the confidence of the investing public will be undermined if the rate of dividend is reduced, is groundless as public confidence in a bank is based on its share capital structure, reserves, etc. This is much more so in the case of a co-operative bank. The State Co-operative Bank has built up a reputation and any reduction in the rate of dividend will have absolutely no adverse effect on the flow of deposits.

The fact that a smaller rate of interest is allowed on the reserve funds invested by the Central Banks should have no bearing on the rate of dividend which should be decided on different considerations. The contention, that the dividend after all goes only to the Central Banks is no reason why the rate of dividend should not be reduced. The State Co-operative Bank itself does not pay interest at more than 3½ per cent even on deposits held by it for periods of three years and more. The need for a reduction in the rate of interest charged by the State Co-operative Bank on loans issued to village credit societies has already been stressed in the Chapter relating to village credit societies. When this suggestion is implemented, it will have the effect of reducing the income of the bank and consequently the amount available out of net profits for declaring the same high rate of dividend. Further, in the context of State participation in the share capital of the State Co-operative Bank and also proposals for making Central Banks take more shares in the State Co-operative Bank, it is doubtful whether the State Co-operative Bank will be able to keep up its present rate of dividend in spite of the expected increase in its loan transactions.

Apart from all these considerations, payment of dividend at such a high rate by the State Co-operative Bank alone (no other co-operative institution is allowed to pay more than 6½ per cent; indeed the Central Banks cannot pay more than 5 per cent) offends the very basic co-operative approach to "Capital" in the sharing of National Dividend. Unlike the communists, etc., who deny a legitimate return on equity capital and capitalists who do not believe in imposing a limitation on the return on such capital, the co-operators advocate that capital should be entitled to a return, but only a reasonable return. What is reasonable has to be decided with reference to the prevailing conditions and the risks involved.

It cannot be said that the shareholders of the State Co-operative Bank are subject to greater risk than their compeers in the Central Banks. Nine per cent appears to smack of "dividend hunting" and it cannot be said to be necessary.

Further, payment of dividend at this rate may tend to imbue the administration with a commercial outlook and make it overlook the fundamental purpose of the bank. Instead of employing avowedly co-operative channels of investment for the funds of the bank, the tendency may be to seek commercial outlets if the latter is more profitable. Because of the need to earn high profits to pay high dividends, there is likely to be subtle and unconscious antipathy to reducing the rate of interest on loans to the Central Banks, etc.

For the foregoing reasons, we consider that the maximum rate of dividend might be reduced to 6 per cent. We suggest that the rule may be amended suitably. It was, however, represented to us, that some way should be found by which the Central Banks are not affected adversely on account of the reduction in the rate of dividend, as they are the major shareholders. It was suggested to us that a rebate on the interest paid by the Central Banks on their borrowings from the State Co-operative Bank might be paid to them out of net profits, with a view to compensate them for the loss of income by way of reduced dividend, and that the quantum of rebate paid to the Central Banks in a year need not normally exceed the amount of dividend payable on the total share capital of the Madras State Co-operative Bank at 3 per cent. We have no objection to this suggestion.

147. *State partnership in the State Co-operative Bank.*—In Chapter 3, we have dealt generally with the question of State participation in the share capital of the Apex Bank, etc. However, we would like to deal with it a little more in detail so far as the State Co-operative Bank is concerned.

It is envisaged that during the period of the Second Five-Year Plan, the loans issued to the agriculturists alone (through the village credit societies and marketing societies) should increase three fold, i.e., to about Rs. 14 crores per annum as against about Rs. 5 crores now (short term and medium term). The loans outstanding against members at the end of the fifth year would be about Rs. 20 crores and at least about Rs. 10 crores out of this outstanding may have to come from the borrowings of the State Co-operative Bank by way of loans and deposits. Apart from this, the State Co-operative Bank will have to borrow for the purpose of financing other kinds of societies which may be estimated at about Rs. 2 crores. In order to be able to borrow Rs. 12 crores, the State Co-operative Bank should have at least a total share capital and reserve fund of Rs. 1 crore. The total of its share capital and reserve fund (as on 30th June 1955) is Rs. 38 lakhs and unless it

acquires additional share capital and reserve fund to the tune of about Rs. 60 lakhs, it will not be possible for it to have the required borrowing power. The bank can be expected to raise half of this amount by way of shares from the Central Banks and Reserve Fund of its own in the course of the next five years. Viewed from this background, it may not be necessary for the State to contribute 51 per cent of the share capital. This question has a vital bearing on the proportion which owned capital will bear to the borrowing power of the bank. It is now twelve times and we consider that it will not be unsafe to fix the proportion at fifteen times. If this is agreed to, the State need not invest any large sum as share capital in the State Co-operative Bank merely for augmenting its borrowing power. A share capital of Rs. 10 lakhs only need be invested by the State for this purpose.

CHAPTER 10.

LAND MORTGAGE BANKS.

148. Agriculturists require not only short-term and medium-term credit but also long-term credit; short-term and medium-term credit are intended to meet their current cultivation expenses and normal capital investment in agriculture, etc., and long-term credit is intended to meet expenditure connected with major land improvement, redemption of mortgages, discharge of prior debts, purchases of lands, etc. The village credit societies which came into existence in the early years of the movement attempted to satisfy the long-term credit needs of the agriculturists also, but it was soon found that this course was both undesirable and inexpedient, as the funds of the Central Banks, which constituted the major source for the loans taken by the societies were raised as short-term and medium-term deposits and should not therefore be locked up in long-term investments. Moreover, the Twenties witnessed vast expansion of village credit co-operatives and the resources of the Central Banks were hardly adequate to meet their growing demands. It was also considered necessary to have separate and fairly large units for dispensing long-term loans as the latter required careful scrutiny of titles to lands, etc. It was thought that separate land mortgage banks would serve to attract long-term moneys, being institutions lending on unencumbered landed properties on a conservative basis. Above all, it was thought inadvisable to allow village credit societies formed on unlimited basis to advance comparatively large amounts to a few of their members, owning considerable landed property. Hence separate credit organizations to cater to the long-term credit needs of the agriculturists were conceived, and in 1925 two land mortgage banks were started. Their number gradually increased to ten in 1927. These banks

floated debentures on Government guarantee for periods of twenty years and issued long-term loans to their members for seventeen years. In 1927-28, the Townsend Committee on Co-operation recommended the formation of a Central Land Mortgage Bank, as the system of floatation of debentures by a number of small organizations was not calculated to ensure the prestige and popularity of the debentures in the money market. Pursuant to this recommendation, a Central Land Mortgage Bank was started for the State in 1929 to raise the funds required by the primary banks by floatation of long-term debentures and to finance them for the purpose of issuing long-term loans to their members. In 1934, a separate enactment known as the Madras Co-operative Land Mortgage Banks Act was passed, empowering the Central Land Mortgage Bank to issue debentures, enabling the Government to guarantee the repayment of the principal and interest to the debenture holders, providing for the appointment of a trustee to look after the interests of the debenture holders and for the summary recovery of arrears due by the members by distraint of produce on the mortgaged land and by sale of mortgaged property without the intervention of the Civil Court, etc.

149. *Primary Land Mortgage Banks.*—There were 119 Land Mortgage Banks in 1940-41 with a membership of 65,138 and share capital of Rs. 17.16 lakhs. In 1952-53 (Composite State) the number of Land Mortgage Banks went up to 130 with a membership of 158,043 and share capital of Rs. 42.93 lakhs. Their outstanding borrowings from the Central Land Mortgage Bank and loans issued by them to their members were Rs. 240.90 lakhs and Rs. 42.17 lakhs in 1940-41, and Rs. 551.04 lakhs and Rs. 104.36 lakhs in 1952-53. In the Residuary State during 1954-55, there were 73 Land Mortgage Banks with a membership of 92,670 and share capital of Rs. 27.50 lakhs. On 30th June 1955, their outstanding borrowings from the Central Land Mortgage Bank, amounted to Rs. 337.46 lakhs. During 1954-55, they issued Rs. 37.55 lakhs as loans. The total profit earned by them was Rs. 1.42 lakhs as against a loss of Rs. 0.40 lakh. As may be seen from the statement in Appendix No. 19 the primary land mortgage banks in the State have been steadily progressing in various directions.

150. *Central Land Mortgage Bank, Limited.*—The Central Land Mortgage Bank had 455 individual members and 119 bank members in 1940-41 with a share capital of Rs. 9.35 lakhs. The number of individual members and bank members rose to 550 and 180 respectively in 1952-53 while the share capital rose to Rs. 24.69 lakhs. In 1954-55, the Central Land Mortgage Bank had 331 individuals and 75 banks as members with a share capital of Rs. 15.75 lakhs. It issued loans to the tune of Rs. 40.78 lakhs in 1940-41, Rs. 105.04 lakhs in 1952-53 and Rs. 37.40 lakhs in 1954-55. On 30th June 1941, 30th June 1953 and 30th June 1955 the debentures outstanding (in circulation) were Rs. 243.26 lakhs,

Rs. 627.10 lakhs and Rs. 429.49 lakhs respectively. It worked at profit throughout, the profits earned ranging from Rs. 1.06 lakhs to Rs. 3.90 lakhs in the Composite State. The profit earned in 1954-55 was Rs. 2.37 lakhs.

A statement showing the progress made by the Central Land Mortgage Bank from 1940-41 to 1954-55 is furnished in Appendix No. 20.

The progressive figures in respect of the primary land mortgage banks and Central Land Mortgage Bank go to show that the Land Mortgage Banking system in the State has made great strides since 1940.

Problems and Recommendations.

151. *Basis of valuation and the limits of loans allowed with reference to the valuation of the hypotheca.*—Representations were made from time to time to the department and the Central Land Mortgage Bank that the valuation of lands offered as security for the loans was low, and that consequently many deserving applicants were denied the assistance of Land Mortgage Banks. The Board of Directors of the Central Land Mortgage Bank appointed a sub-committee in 1950 to examine the basis and methods of valuation of the hypotheca. The recommendations of the sub-committee were subsequently considered at a conference of the representatives of the Land Mortgage Banks held in the same year. In consultation with the Board of Directors of the Central Land Mortgage Bank and the Registrar, Government then approved a revised basis of valuation which is the one now in vogue.

According to the Government Order, the value of the land offered as security is to be ascertained with reference to the recorded statistics of sales to be gathered from the offices of Sub-Registrars for the pre-war years 1936-40. The valuation should be made at not more than 25 per cent above the pre-war price provided the average of the pre-war (1936-40) and the post-war (1944-49) values is not exceeded. In addition, the improvements made to the hypotheca such as well, etc., should also be taken into account. In the case of the Land Mortgage Banks in the West Coast, viz., South Kanara and Malabar districts, the above procedure is applied with the following modification; in the South Kanara district valuation is made with reference to the recorded sales statistics as well as by capitalizing the net income and the lesser of the two values is taken for determining loan eligibility. As regards Malabar, in respect of garden lands, the value of the trees is ascertained with reference to age, yield, etc., and taken into account for purposes of total valuation.

In respect of wet lands having a permanent source of irrigation such as river, tank and canal, garden lands and dry irrigated lands growing crops other than plantation crops, the maximum loan

allowed is 50 per cent of the value of the hypotheca. In respect of rainfed lands loans up to 35 to 45 per cent of the value of the hypotheca are allowed.

It has been suggested to us that the basis of valuation and the loan limits should both be liberalized. One view is that the basis should be pre-war values plus 50 per cent. Another view is that loans should be allowed up to a limit of 75 per cent of the pre-war values or 50 per cent of the present values. In our opinion, it is not advisable now to consider a liberal enhancement of the present basis of valuation, in the context of the several land legislations affecting the existing rights of the landholders, which may have a depressing effect on the land values. But having regard to the fact that land value is generally two to three times more than what it was during the pre-war period, a slight enhancement in the basis of valuation will not in our view endanger the safety of the funds of the Central Land Mortgage Bank. We recommend that the basis of valuation may therefore be pre-war average value plus 40 per cent instead of 25 per cent. Taking for example a piece of wet land whose pre-war average value was Rs. 1,000, the loan admissible according to the existing basis is Rs. 625 (50 per cent of Rs. 1,000 + 250). According to the suggestion made by us, it will be Rs. 700, i.e., Rs. 75 more. It is reasonable to expect that whatever may be the fall in land value, it may not be to such an extent, as to render the loans advanced on this basis insecure. Further, with the lapse of years, the loan outstanding will also be decreasing and thus offset the effect of any decline in the land values (if any) which will only be gradual.

Circumstances in which the normal basis of valuation may be departed from.—While we do not recommend a liberal enhancement in the normal basis of valuation of the hypotheca, we consider that in the following cases, the basis of valuation requires considerable modification :—

- (i) In the case of loans issued for major land improvement such as conversion of dry land into wet land in project areas, and
- (ii) in the case of loans issued for major land improvement such as sinking of wells in other areas.

It has been suggested that in these cases valuation should not be on the usual basis of the pre-war price plus 25 per cent only, but that it should be on the basis of the anticipated value of the land, that is to say, in valuing the land the anticipated enhancement in value consequent on effecting the improvement should also be taken into account for purposes of valuation. On the other hand, it is contended that there were risks in adopting such a procedure. The investment in such improvement may not yield the expected results. For instance, after a well is sunk, it may be that its water capacity is meagre. This is a contingency which cannot be totally

ignored. In view of the risks involved, it has been suggested that Government may give a guarantee to the Land Mortgage Banks to the extent of the difference between the amount that could be sanctioned by the bank under its existing rules and the amount which is actually sanctioned by it on the basis of the anticipated value after improvement. The Rural Credit Survey Committee of the Reserve Bank has also observed that there is need for some form of guarantee to cover the difference between the values before and after improvement, and that this guarantee can only come from Government. The lands will not be normally valuable before the improvements are effected; hence the amount of finance which the land mortgage bank can provide on the basis of the existing value will not be adequate for the purpose in view. Consequently Land Mortgage Banks cannot be useful in helping the agriculturists in effecting land improvements in a large number of cases. We therefore recommend that in respect of loans given for land improvements the value adopted should be the anticipated value of the land and not its existing value, and that the difference between the anticipated value and the existing value should be guaranteed by the Government. It may be stated in this connexion that in respect of loans issued under the Land Improvement Loans Act, 1883, the cost of the improvements contemplated is taken into account in assessing the value of the security.

152. "Delay" in the sanction and disbursement of loans to the members of primary land mortgage banks.—It is often said that considerable time is taken for the sanction and disbursement of loans to the members of primary land mortgage banks. Normally it takes about three to six months for a loan to be sanctioned and disbursed. In some cases the time taken is even a year or more.

The factors which cause delay and the remedies suggested to us for consideration are indicated below :—

(i) There are several stages through which a loan application has to pass. One or more of these stages can be eliminated.

(ii) The scrutiny of the borrower's title extends right up to the resettlement period. It would be enough if the scrutiny is confined to a period of 23 years prior to the date of application.

(iii) The applicants are unable to furnish the necessary particulars and documents. Consolidated instructions and guidance should be given in time to the applicants to enable them to satisfy fully the requirements of Land Mortgage Banks. Also an amendment to the Land Mortgage Banks Act on the lines of section 7 (i) of the Land Improvement Loans Act, 1883, giving priority of title, so to speak to the Land Mortgage Banks in respect of the hypotheca offered as security, will serve to minimize the time taken for the scrutiny of title.

(iv) Loan files of primary Land Mortgage Banks which are sent to their legal advisers for opinion, are not returned by them promptly. The scale of legal fees might be enhanced, if necessary.

(v) The staff of supervisors and Co-operative Sub-Registrars is inadequate and should be strengthened.

We proceed to examine the validity of the various causes and the effectiveness of the remedies suggested :—

(i) An account of the various stages through which a loan application has to pass before disbursement, is given below :—

(a) A preliminary investigation has to be made by the Supervisor of the Primary Land Mortgage Bank.

(b) An encumbrance certificate has to be obtained.

(c) The lands offered as hypotheca have to be inspected by a director of the bank.

(d) The title of the applicant to the land, encumbrances over the land, etc., have to be examined by the bank's legal adviser.

(e) The loan file has to be scrutinized by the Co-operative Sub-Registrar and the hypotheca inspected by him.

(f) The loan application has to be sanctioned by the Board of the Primary Land Mortgage Bank.

(g) The Deputy Registrar for Land Mortgage Banks has to examine the file and has to inspect the lands himself in respect of loan applications for Rs. 10,000 and above.

(h) The loan application has to be considered and sanctioned by the Executive Committee of the Central Land Mortgage Bank after scrutiny by their office and their legal adviser.

(i) The mortgage deed has to be registered by the applicant.

(j) A further encumbrance certificate has to be obtained by the Primary Land Mortgage Bank for the period between the date up to which it was obtained previously and the date of registration of the mortgage deed.

(k) The mortgage deed with encumbrance certificate and with a report showing how the conditions of loan sanction order which can be complied with at that stage have been fulfilled, has to be sent to the Central Land Mortgage Bank.

(l) Thereafter the loan amount is disbursed by the Central Land Mortgage Bank to the Primary Land Mortgage Bank and by the latter to the applicant directly or to his creditors.

The land mortgage banking system in our State is highly centralized. Every loan disbursed by a primary bank should have been sanctioned by the Executive Committee of the Central Land

Mortgage Bank. This centralized control has been necessitated by the fact that all the funds required by the primary banks for issue of loans to their members have to be raised by the Central Land Mortgage Bank by the issue of debentures the repayment of which has been guaranteed by the State Government. In order to safeguard the interests of the State Government and the debenture holders, the entire procedure relating to investigation has to be thorough and on an objective basis.

It has been suggested that applications for loans below a certain limit, say Rs. 2,000 might be passed on by the Co-operative Sub-Registrars directly to the Central Land Mortgage Bank, instead of through the Deputy Registrars for Land Mortgage Banks. We find that this course was already tried in 1938 when a few selected Co-operative Sub-Registrars were authorized, as an experimental measure, to forward directly to the Central Land Mortgage Bank loan applications for amounts not exceeding Rs. 500. The question was also considered by the Madras Committee on Co-operation (1939-40). It recommended that the Co-operative Sub-Registrars might be empowered to send directly to the Central Land Mortgage Bank loan applications for sums not exceeding Rs. 5,000. Government however, did not agree with this recommendation. Indeed it was found that the time saved by this arrangement was not much; it was only about a week. It was also noticed that the Deputy Registrars for Land Mortgage Banks had occasions to return the loan applications to the Co-operative Sub-Registrars for further clarification or rectification of the defects noticed by them. These defects would have remained unrectified or unnoticed in the case of applications sent directly by the Co-operative Sub-Registrars to the Central Land Mortgage Bank. Having regard to these factors, the Registrar suggested to the Central Land Mortgage Bank in 1942 that even the authorization to the Co-operative Sub-Registrars to forward directly loan applications for amounts not exceeding Rs. 500 might be withdrawn. This suggestion was accepted by the Central Land Mortgage Bank and the usual procedure was thereafter restored.

The procedure that is now followed ensures effective checks at various levels. Hardly any loan sanctioned by the Central Land Mortgage Bank has become irrecoverable and this in itself can be said to have justified the soundness of this procedure. Having regard to the fact that the duration of the loans is for twenty years, all possible contingencies arising from fluctuations in the value of the hypotheca and its yield, the repaying capacity of the borrower and disputes with regard to title that might arise when minor claimants attain the age of majority, etc., have to be carefully studied and suitable precautions taken. We do not therefore think it desirable to dispense with any of the existing stages through which a loan application passes before it is finally sanctioned and disbursed.

(ii) It is the practice in the Central Land Mortgage Bank to trace the title of the borrower right back to the resettlement period. In some districts resettlements was done as early as in 1910 or 1911 and therefore the practice adopted necessitates the tracing of title over a period of 40 years and more. It has been urged that it would be enough if the scrutiny of the title is confined to a period of 23 years prior to the date of application; that is, the period for which encumbrance certificate is obtained at the outset. It is stated that the purpose in view would be served if title and possession are proved for this period, in respect of the applicant and his predecessors-in-title (if any). On the other hand it is argued that though normally it might be sufficient to confine scrutiny of title to 23 years, it is possible to envisage cases where non-scrutiny of the title relating to an earlier period might result in overlooking certain hidden claims which might give room for litigation at a later date.

While we agree that it may not be possible for the applicants to furnish in all cases, the necessary particulars or the required documents for the years reaching back to the resettlement period, it is not desirable to lay down as a general rule that the scrutiny of the title should be restricted only to a period of 23 years prior to the date of application and that entries in the Resettlement and Survey Registers can be ignored. Every application has to be judged on its own merits and what the law requires in the circumstances of a particular case cannot be given up especially where continued possession for over twelve years by the applicant or any of his predecessors-in-title is not indisputably established. We do not therefore see our way to recommend a change in the existing practice.

(iii) It is no doubt true that the inability of an applicant to produce the information and documents called for by the primary land mortgage banks accounts for a major part of the delay in the sanction and disbursement of loans. An examination of the position relating to the pendency of loan applications in 12 primary land mortgage banks (at the rate of one for each district) during the second half-year ended 1954, has revealed that out of the 414 applications, as many as 198 were pending on account of the borrower not having fulfilled certain requirements, such as production of documents, discharge of extra debt, etc. Of these 198 cases, those pending for want of required documents alone accounted for 139. The documents relating to sale, mortgage, etc., in village parts are written by scribes not well conversant with the requirements of relevant laws. The terms of the documents are therefore sometimes ambiguous and necessitate a further demand for documentary proof of the applicant's title. The greater reason for such delay on the part of the applicant is that all the relevant documents concerning landed property are not carefully preserved. Hence he is obliged to get certificates of discharges of mortgages, etc., afresh from the previous mortgagees, etc. This takes time, especially

when the mortgagee concerned is dead or his heirs are not willing to furnish the certificates for some reason or other. But the land mortgage bank cannot but insist on the production of such documents found to be legally necessary before sanction of the loan.

It has been suggested that if a provision is introduced in the Land Mortgage Banks Act on the lines of section 7 (i) of the Land Improvement Loans Act, 1883, at least so far as loans issued for land improvement purposes are concerned it would save delay in cases where it is found absolutely difficult to secure any essential documentary proof of title.

Under section 7 (i) of the Land Improvement Loans Act, 1883, all loans granted under this Act with interest, etc., may be recovered out of the "land for the benefit of which the loan has been granted"—as if they were arrears of land revenue due in respect of that land. Under the proviso to section 7 (i) of the Act, all the prior mortgages take a secondary place—so to speak with the exception of certain classes of prior interests like the interests of reversioners in the estate of a Hindu family, the interests of junior members of a joint Hindu family, etc.

It may be contended that the introduction of such a provision might adversely affect the rights of third parties. But as the priority suggested is in respect of loans issued by land mortgage banks for land improvement purposes alone it is but fair that these banks should have preferential claim over the person claiming a prior interest in the land before improvement. The incorporation of such a provision in the Land Mortgage Banks Act will reduce delay to a certain extent. In this connexion we may mention that the Rural Credit Survey Committee of the Reserve Bank has suggested that the State Government should take suitable steps including legislation for obviating delays in the sanction of loans by the Land Mortgage Banks.

We would here refer to another suggestion of the Rural Credit Survey Committee to save delay in the sanction of loans for production purposes. It has suggested that loans for production purposes pending thorough investigation of the title, etc., may be disbursed by the Central Land Mortgage Bank under the guarantee of the primary land mortgage bank given after a preliminary investigation regarding title, etc., that the primary land mortgage bank should constitute a guarantee fund for this purpose and that the State might aid it initially with necessary finance. It is not desirable in our opinion that even production loans should be disbursed without a complete investigation into the title, encumbrances, etc. It is likely to lead to abuses, apart from inducing the applicants to embark upon improvement which is of a doubtful nature. Taking a long range view, a little delay in the disbursement of loan for production purposes—should not really matter. We consider that

if the amendment to the Land Mortgage Bank Act recommended above is adopted, it will to a great extent obviate the need for implementing this suggestion.

(iv) It has been stated that delay sometimes occurs in obtaining legal opinion on the title of the applicant to the hypotheca. The delay is attributed to the fact that the scale of legal fees prescribed under by-law 45 of the by-laws of the primary land mortgage bank is low and unattractive and that there is generally a tendency on the part of the legal advisers to attend first to more remunerative work. The present scale of fees is Re. 1 for every Rs. 1,000 and part thereof subject to a minimum of Rs. 3 and a maximum of Rs. 15. It has been suggested that this scale should be raised to Rs. 5 for Rs. 1,000 or part thereof. We think that the present scale is rather low and may be raised, if necessary, to Rs. 5 for every Rs. 1,000 or part thereof with a minimum of Rs. 5 and a maximum of Rs. 50.

(v) So far as the inspecting staff of the department is concerned, there is now one Co-operative Sub-Registrar for every three land mortgage banks. It has been suggested that there should be one Co-operative Sub-Registrar for every two land mortgage banks. We understand that the Registrar has made provision on these lines in the Second Five-Year Plan. But till the proposed additional staff are appointed, we suggest that every primary land mortgage bank with a heavy pendency of loan applications may take the services of Co-operative Sub-Registrars temporarily for specific periods under Fundamental Rule 127. The cost of the Co-operative Sub-Registrars may perhaps be shared by both the primary land mortgage bank and the Central Land Mortgage Bank on a 50 : 50 basis.

So far as the supervisory staff are concerned, we understand that the Registrar has made provision in the Second Five-Year Plan for fully subsidizing the appointment of 96 Supervisors to the existing primary land mortgage banks as well as to new banks to be started. It is essential that the supervisory staff should be strengthened, as they could substantially contribute to minimize the delays on the part of the applicants by guiding and advising them and by rendering practical help to them in securing the required documents, proofs and title, etc.

We recommend the acceptance of the Registrar's proposals in the matter of strengthening the cadre of supervisors and Co-operative Sub-Registrars.

153. *Issue of loans for productive purposes.*—The objects of a primary land mortgage bank are to issue loans to its members for the discharge of their prior debts and redemption of mortgages, for the improvement of agricultural lands and methods of cultivation, and for the purchase of lands in special cases so as to enable the ryot to round off his holding and work it more economically. Till

about a few years ago, the bulk of the loans issued by the primary land mortgage banks was only for the purpose of discharging prior debts and redemption of mortgages. The reason for this is not far to seek. The first decade of the bank's working coincided with the period of economic depression, and the urgent need of the time was to lighten the burden of debts borne by the agriculturists. In recent years, however, informed co-operative opinion is tending towards the view that loans for productive purposes, such as land improvement, should have precedence over those for discharge of debts.

The following statement shows the amount of loans issued by the land mortgage banks during the last three years for productive and non-productive purposes :—

Year.	Amount of loans issued for	
	Productive purposes.	Non-productive purposes.
	(RUPEES IN LAKHS.)	
<i>Composite State.</i>		
1952-53	10.24	94.29
<i>Residuary State.</i>		
1953-54	7.18	42.08
1954-55	5.39	32.01

It may be seen that the proportion of loans issued for productive purposes is comparatively small.

Issue of loans for the discharge of prior debts or redemption of mortgages is no doubt important in itself. It enables the agriculturists to pay off in instalments the accumulated debts of generations and gives him an opportunity to carry on with hopefulness. However, the assistance given by the land mortgage banks in this respect can be said to be of a negative character only. If the help should be positive, the banks should issue loans for land improvement and other productive purposes in a far greater measure.

There is vast scope for issuing such loans. Several irrigation projects included in the First Five-Year Plan are either completed or nearing completion and others are in progress. In the Lower Bhavani Project which has practically been completed, water has been allowed in the canal to irrigate more than one lakh of acres. The Malampuzha project which is nearing completion is designed to irrigate 40,000 acres. The Mettur Canal Scheme is expected to irrigate 45,000 acres in the Coimbatore and Salem districts. The Araniar Project in Chingleput district is expected to irrigate a new area of 2,580 acres and stabilize supply of water to 2,970 acres. The Amaravathi Reservoir Project, which is in progress is designed to irrigate about 15,000 acres in the Udumalpet and Dharapuram

taluks of the Coimbatore district. The Vaigai Reservoir Project, which is in progress, is intended to afford irrigation facilities to a new area of 20,000 acres. The Sathanoor Reservoir Project inaugurated in 1954 is expected to irrigate 20,000 acres in the North Arcot district. The Krishnagiri Reservoir Project in Salem district is expected to irrigate about 5,000 additional acres. In all these areas, the agriculturists have to reclaim lands and make them fit for irrigation or convert dry lands into wet lands. They require money for this purpose on reasonable terms.

Rural electrification is proceeding apace in our State. The advantages of having electric motors for irrigational purposes as compared with other modes of lift irrigation are well established and realized by the ryots. The land mortgage banks can render notable help to them by advancing loans for purchase of electric motors and pumpsets. The installation of oil engines in places where electricity is not available has much to commend as lift irrigation through bullocks is very costly. In this line also, land mortgage banks can be of immense help to the ryots.

The area under crops such as paddy, sugarcane, banana, etc., which requires perennial water-supply, comprises 46.94 lakhs of acres in our State; but the total area irrigated by rivers, canals, tanks and wells is only 48.84 lakhs of acres. The net area without irrigation facilities under these three crops alone is thus about 3.10 lakhs of acres. Many of the agriculturists owning these lands would like to sink wells to provide irrigation facilities.

In the context of the situation explained above, the land mortgage banks can make themselves immensely useful to the agriculturists in increasing food production. We consider that the following measures will step up the issue of loans for productive purposes :—

(i) When loans are issued for land improvement purposes, the basis of valuation should be the anticipated value of the land and not its existing value. (This has already been recommended by us.)

(ii) The applicant should be enabled to get the loan with the least possible delay. Much of the delay is now due to the search for some missing link in the title of the borrower, which may not be easily forthcoming. Disposal of loan applications can be expedited if the land mortgage banks can sanction loans without the fear of title being impeached by some one at a later stage. To get over this difficulty, we suggest an amendment may be made to the Madras Land Mortgage Banks Act on the lines of section 7 (i) of the Land Improvement Loans Act, 1953. The early implementation of this suggestion will be highly useful.

(iii) It has been said that, in the case of loans issued for land improvement purposes, the first instalment should be made payable only after the improvement has begun to yield a sufficient income

to the borrower. For instance, where a land has been reclaimed, it is stated that it may take four to five years before it begins to yield adequate return to cover the loan instalment. It has been suggested to us that in such cases Government should pay the loan instalments to the bank till that time and that the amount so paid should be returned to them during the later period of the loan when collections are effected from the borrower. Such a procedure—it is claimed—will enable the borrower to repay the instalments from his income and also enable the land mortgage banks to keep up their obligations to the debenture holders and towards the sinking funds.

We think it may not be necessary to postpone the payment of the first instalment to as many as four or five years in all cases. It will be possible for the borrower to commence payment of instalments much earlier in many cases. We consider that the land mortgage banks may be allowed to fix the payment of first instalment of principal from the third year of the loan, in respect of loans issued for land reclamation and sinking of wells. In the latter categories, in many cases, payment may commence even in the second year. The borrower may be required to pay the interest on the loan every year and the principal may be made repayable by him in equated instalments over the remaining period of eighteen years. It may not be necessary to fix the period of repayment in all cases as twenty years. It is possible that, in many cases, the borrowers would be able to repay the loans in a period of ten to twelve years. It is relevant to mention here that a system which compels the ryots to pay their dues when they can, will be in their interests, having regard to the outlook of our peasantry. We think that the above suggestion, while giving the needed relief to the borrowers who take loans for land improvement purposes, will obviate the need for Government to step in and pay the instalments on his behalf for the first few years. This suggestion will require a modification of the trust deed which requires payment annually of a specific sum into the sinking fund. The relevant provision may be modified suitably keeping in view the recommendation.

(iv) It has been suggested that the rate of interest on the loans issued for land improvement purposes should not exceed 8½ per cent. It is considered that a higher rate of interest will not serve to attract the agriculturists to take loans for land improvement purposes.

We understand that in the next Plan period the Registrar has proposed that a total amount of Rs. 880 lakhs should be issued as loans by the land mortgage banks of which 40 per cent, viz., Rs. 152 lakhs should be for land improvement purposes, or for discharge of debts incurred for land improvement. With a view to popularize such loans, it was considered that the Central Land Mortgage Bank should be enabled to get funds for these purposes at 1½ per cent so that loans could be issued to the ultimate borrowers

at 8½ per cent, leaving a margin of 2½ per cent to be shared between the Central and Primary Banks in the proportion of 1½ per cent and 1 per cent respectively. As it would not be possible to secure the required funds at lower than 4½ per cent from the open money market, the Registrar suggested that Government should come forward to subsidize the difference between the usual lending rate to the ultimate borrower and the rate of 8½ per cent proposed to be charged for productive loans (i.e., a subsidy of 3 per cent). We learn that this proposal has not been accepted. We recommend that the Government may reconsider their decision on this proposal and accept it.

(v) It has been suggested that a shorter period for the loans might be fixed with reference to the repaying capacity of the borrowers. (This suggestion is with a view to facilitate floatation of short-term debentures at lower rates of interest, the money raised thereby being made available as loans at reduced rates of interest.) We deal with this aspect later.

(vi) Above all, intensive and purposive propaganda about the functioning of the land mortgage banks and their services, should be made in the village by all departments of Government, particularly, Revenue, Community Projects and National Extension Services Administration, Agriculture and Co-operative departments.

154. *Classification of the loans issued by the Primary Land Mortgage Banks on the basis of their value.*—The following statement shows the classification of the loans issued by the Central Land Mortgage Bank to the Primary Land Mortgage Banks for disbursement to their members during the year 1954-55 :—

Value of the loans.	1954-55.	
	Total number of loans under each head.	Total amount disbursed.
		RS.
Below Rs. 500	64	24,955
Rs. 500 and below Rs. 1,000	289	2,08,930
Rs. 1,000 and below Rs. 2,000	542	7,24,400
Rs. 2,000 and below Rs. 3,000	304	6,77,990
Rs. 3,000 and below Rs. 4,000	170	5,52,950
Rs. 4,000 and below Rs. 5,000	103	4,44,595
Rs. 5,000 and below Rs. 10,000	134	8,31,950
Rs. 10,000 to Rs. 15,000	25	2,74,300
Total	1,631	27,40,000

A statement showing the proportion of the loans issued (a) below Rs. 500, (b) Rs. 500 and below Rs. 1,000 is given below :—

Year	Below Rs. 500.				Rs. 500 and below Rs. 1,000.			
	No.	P.	Amount. (Rs. in LAKHS.)	P.	No.	P.	Amount (Rs. in LAKHS.)	P.
<i>Composite State.</i>								
1941-42 ..	489	16.5	1.62	4.1	895	30.2	5.97	14.8
1942-43 ..	280	16.3	0.93	3.9	546	31.9	3.61	15.3
1943-44 ..	230	17.9	0.77	4.2	394	30.7	2.40	13.1
1944-45 ..	129	9.9	0.45	1.8	339	25.9	2.26	9.1
1945-46 ..	232	10.5	0.82	1.9	568	25.6	3.75	9.0
1946-47 ..	309	12.4	1.15	2.1	620	24.8	4.97	10.4
1947-48 ..	266	8.7	0.93	1.0	704	23.0	4.75	7.7
1948-49 ..	140	5.2	0.51	0.7	467	17.4	3.22	4.2
1949-50 ..	63	2.9	0.23	0.3	237	11.0	1.69	2.3
1950-51 ..	228	6.3	0.82	0.9	731	20.0	5.14	6.3
1951-52 ..	172	5.0	0.63	0.8	643	18.6	4.51	5.4
1952-53 ..	216	4.9	0.78	0.8	792	17.8	5.50	5.3
<i>Residuary State.</i>								
1953-54 ..	78	3.8	0.28	0.6	369	17.9	2.60	5.3
1954-55 ..	64	2.9	0.24	0.7	289	17.7	2.08	5.6

P = Percentage to the total of loans issued.

No = Number of loans.

It may be seen from the statement that the proportion of loans below Rs. 1,000 to the total amount of loans issued has been generally on the decline both in number and amount.

It may be stated, in this connexion that out of 41.3 lakhs of land holdings in the State, about 35.2 lakhs or 85 per cent are estimated to be small holdings, i.e., each not exceeding 10 acres of 'converted dry' or 9-1/3 acres of wet lands. Dr. B. V. Narayanaswamy Naidu, who enquired into the rural indebtedness of the State (Composite) has estimated that the total agricultural debts of Rs. 217.7 crores (1945) are shared between the different classes of people as follows :—

	Amount of debt.	Percentage to the total debt of the State.
	(RUPEES IN CRORES.)	
Those holding—		
25 acres and above	22.5	10.8
5 acres to 25 acres	89.3	41.0
Under 5 acres	84.2	38.7
Tenants	15.2	7.0
Landless labourers	5.5	2.5

It may be seen from this statement that 38.7 per cent of the total agricultural debt of the State is shared by those who own less than 5 acres. Assuming that this class of people requires loan up to Rs. 1,000, the extent to which they have been served as shown by the figures relating to the number and amount of such loans, cannot be said to be considerable.

In this context the need for encouraging loans for smaller amounts hardly requires any emphasis. We suggest that the Central and Primary Land Mortgage Banks in the State should plan their working so as to reach the smaller classes of people in a greater measure than what they have been doing.

155. *Issue of second and subsequent loans to the borrowers.*—The primary objective with which the land mortgage banks were started in our State was the relief of agricultural indebtedness. The loan issued by a land mortgage bank was intended to enable the agriculturist to liquidate completely his prior debts and be free to pay back the loan to the bank in easy instalments from his annual income. He was also expected to lead a frugal life balancing his income and expenditure without running into fresh debts. But actually this expectation does not materialize in all cases. Out of necessity many borrowers had to incur new debts from private sources for fulfilling social obligations, etc. As the loans are issued for 20 years, it will not be possible to foresee all eventualities. If a second loan is refused, the borrower will be compelled to go to private money-lenders to secure the necessary finance generally at exorbitant rates and unreasonable terms. As the bank had taken the bulk of the property of the borrower as security, it should be willing, on occasions at least, to accommodate him further.

In the light of these reasons the matter was taken up with the Government and in their Order Ms. No. 2795, Development, dated 28th June 1944, they permitted the land mortgage banks to issue second loans, but only for land improvement. This restriction was however removed in 1945, and the Government permitted the issue of second loans for all purposes contemplated in the by-laws of the land mortgage banks, subject to the requirements of security and repaying capacity being fulfilled.

In course of time, the need for issue of third loans as well, for more or less identical reasons, had to be recognized. It was represented to Government that agricultural indebtedness by itself was not an evil, provided the borrowers had learnt to utilize their borrowings for productive purposes, and that in any case a second or third attempt to save them from money-lenders, was not unjustified.

In 1951 the whole question with regard to the desirability of issuing second and third loans was reviewed by the Central Land Mortgage Bank. It was considered that as the prices of agricultural

produce were high, a prudent agriculturist should be able to live within his means and pay off his debts. The Central Land Mortgage Bank felt that the provision of credit by the land mortgage banks was being made use of by some borrowers for improper purposes in the name of clearing earlier debts. So, at their meeting held on 3rd November 1951, the Board decided that second and third loans should not be entertained except for land improvement purposes or for discharge of debts incurred for land improvement purposes.

The question of issuing fourth loans was recently raised by some land mortgage banks and we understand that Government have permitted the issue of fourth loans in genuine cases for productive purposes or for clearing off debts incurred for productive purposes, subject to the condition that such debts should not have been contracted prior to the date of application for the loan.

The following statement shows the number of 'second' and 'third' loans issued by the Central Land Mortgage Bank to the land mortgage banks for disbursement to members of the latter during the three years ending 1954-55 :—

Nature of loans issued.	1952-53.		1953-54.		1954-55.	
	No.	Amount.	No.	Amount.	No.	Amount.
			(RUPEES IN LAKHS.)			
Second Loans	135	2.38	119	1.97	113	2.30
Third Loans	22	0.49	18	0.42	25	0.59
Total of loans issued.	4,444	105.04	3,058	43.84	1,631	37.40

If the subsequent loans are only for productive purposes, we do not see any objection to the grant of such loans. However, care should be taken to see that such loans are really utilized for productive purposes.

156. *Borrowing and lending rates of the Central Land Mortgage Bank and the Primary Land Mortgage Banks.*—The present rate at which the Central Land Mortgage Bank floats debentures is $4\frac{1}{2}$ per cent. It lends to the primary land mortgage banks at $5\frac{1}{2}$ per cent and the latter in their turn lend to their members at $6\frac{1}{2}$ per cent. Thus the margin between the borrowing rate of the Central Land Mortgage Bank and the rate charged to the borrower, viz., $2\frac{1}{2}$ per cent is shared by the Central Land Mortgage Bank and the primary land mortgage banks in the proportion of $1\frac{1}{2}$ per cent and 1 per cent respectively. The rate of interest charged to the members of the primary land mortgage banks has been ultimately dependent on the rates at which debentures were floated by the Central Land Mortgage Bank from time to time. Up to 1945-46, the rate charged to the members of the primary land mortgage banks was 6 per cent; from 1946-47 to 1950-51 it was $5\frac{1}{2}$ per cent; in 1951-52 it was 6 per

cent and from 1952-53 onwards the rate has been $6\frac{1}{2}$ per cent. Correspondingly the rates of interest on debentures have been varying from $2\frac{1}{2}$ per cent to $4\frac{1}{2}$ per cent according to the conditions of the money market.

It has been stated in some quarters that the rate of interest charged to the ultimate borrower is rather high and should be reduced. In examining this suggestion, the following issues have to be considered :—

(i) Is the rate of interest charged to the ultimate borrower unduly high? And if so, is there scope for reduction?

(ii) Are the margins retained by the primary land mortgage banks and the Central Land Mortgage Bank reasonable, and do they require any revision?

(iii) Is there scope to reduce the borrowing rate of the Central Land Mortgage Bank by lowering the rate of interest at which debentures are floated?

(i) The most common view expressed the primary land mortgage banks is that the rate of interest charged to their members is rather high and should be reduced to about 5 to $5\frac{1}{2}$ per cent, though it is also admitted that the rate of $6\frac{1}{2}$ per cent now charged cannot be said to be higher than what the agriculturists have to pay normally, if they borrow from private sources. But it is pointed out that the rate charged by the Government for the loans issued under the Land Improvement Loans Act, 1883, is only $5\frac{1}{2}$ per cent and that the maximum rate fixed by the Government under the Agriculturists Debt Relief Act (Act IV of 1938) is only $5\frac{1}{2}$ per cent. Further, it is stated that unless loans for land improvement purposes are given at lower rates of interest, it is not worthwhile for the agriculturists to go in for loans from the primary land mortgage banks. No doubt, reduction of the rate will be desirable if it is possible to do so, without detriment to the economical working of the primary land mortgage banks and the Central Land Mortgage Bank.

(ii) There is no scope for the vast majority of the primary land mortgage banks to reduce their rate of interest under the present conditions, as the margin of one per cent between their borrowing and lending rates is just sufficient to meet their establishment charges and other expenses. Even with the existing margin, 12 out of the 78 primary land mortgage banks had to work at loss during the years 1953-54 and 1954-55.

It has been represented to us that the margin of $1\frac{1}{2}$ per cent is absolutely necessary for the Central Land Mortgage Bank for the following reasons :—

(a) It has to meet not only its own cost of administration, but also the cost of the Deputy Registrars for land mortgage banks and their staff, and half the cost of the Co-operative Sub-Registrars.

As it is proposed to increase the strength of the Co-operative Sub-Registrars for land mortgage banks to expedite the disposal of loan applications, etc., the cost payable by the Central Land Mortgage Bank will proportionately increase.

(b) Under by-law 52 (iii) of its by-laws, the Central Land Mortgage Bank is also allotting to a "subsidy fund" out of its net profit an amount not more than $\frac{1}{2}$ per cent out of $1\frac{1}{2}$ per cent of the margin of interest realized on loans disbursed in the year. This fund is utilized for grant of subsidies to weak primary banks which in the opinion of the Board, deserve help. A cut in the margin will reduce the income of the bank, and consequently the net profit will not be adequate to permit sufficient allotment to the "subsidy fund".

(c) Further, as an institution which is to enter the market every year and raise funds required by all the primary land mortgage banks, the Central Land Mortgage Bank will have to present a strong financial position to ensure the success of its debenture issues. It will have to strengthen its owned funds, particularly its reserves and this cannot be done unless it has an adequate margin of profits.

Regarding item (b) above, we find that the $\frac{1}{2}$ per cent which is taken out of the margin to be credited to the subsidy fund is not on the entire outstanding loans but only from out of the interest realised on loans disbursed in a particular year. The amounts credited to the subsidy fund during the years 1953-54 and 1954-55 were only Rs. 4,791 and Rs. 4,771 respectively. So this cannot be taken as a compelling reason for retaining the margin of $1\frac{1}{2}$ per cent. But the other arguments, covered by items (a) and (c) above particularly the one about the payment of cost of the departmental staff has considerable force. During the years 1953-54 and 1954-55 the cost of the staff paid by the Central Land Mortgage Bank was Rs. 1.18 lakhs and Rs. 1.05 lakhs respectively. It has been suggested that Government need not collect the cost of staff and that, with the saving which would thereby result to the Central Land Mortgage Bank it may reduce its rate of interest to the primary land mortgage banks which in turn can pass on the reduction to the ultimate borrowers.

We consider that this proposal deserves consideration. There is abundant justification for the Government giving up their claim for the cost of the departmental staff employed by them for work connected with the land mortgage banks as such a policy will be of direct help to the agriculturists by bringing about a reduction in the rate of interest charged to them. If the cost of staff is waived, the resultant saving would enable the Central Land Mortgage Bank to reduce its margin by at least $\frac{1}{2}$ per cent on the loans to be issued by it in future. Hence we have to conclude that the present margin

for the Central Land Mortgage Bank cannot be reduced unless the Government are prepared to meet fully by themselves the cost of the departmental staff. If the Government agree to forego their levies in this regard, the Central Land Mortgage Bank can reduce its margin on future loans by about $\frac{1}{2}$ per cent of interest.

(iii) This question is dealt with in paragraph 162 relating to debenture policies. However, having regard to the fact that Government are raising medium dated loans at 4 per cent, it may not be possible to effect any reduction in the rate offered for debenture holders.

In the light of the foregoing, we feel that it will not be possible to reduce the rate of interest to the ultimate borrower, unless our suggestion regarding the waiver of the cost of the departmental staff is accepted by the Government.

157. *Issue of loans by the Government under the Land Improvement Loans Act in areas where land mortgage banks are functioning.*—Under the Land Improvement Loans Act, 1883, Government may grant loans to agriculturists for the purpose of making improvement to land, such as construction of wells and tanks, preparation of lands for irrigation, reclamation of lands, etc. The maximum period of the loan allowed under the Act is 35 years, but the rules framed by the State Government should fix the period with reference to the durability of the work for which the loan is granted, the expediency of the cost of the work being paid by the generation of persons who will immediately be benefited by the work, etc. The rules framed by the State Government have prescribed varying periods from 2 to 30 years, according to the purpose and nature of security. Separate figures are not available for loans issued under Land Improvement Loans Act and Agricultural Loans Acts. The total amount of loans issued under both the Acts during the years 1953-54 and 1954-55 were Rs. 49.02 lakhs and Rs. 80.16 lakhs respectively. It has been suggested to us that in areas served by the land mortgage banks, Government should not grant loans under the Land Improvement Loans Act. The intention behind the suggestion is that such loans carrying a lower rate of interest and being free from the other apparent disabilities such as investment of share capital, etc., by the borrower in land mortgage banks carry a greater appeal to the agriculturists, and that thereby, it discourages them from approaching the land mortgage banks for their long-term credit requirements.

We think that when there is a specialized agency like the Co-operative Land Mortgage Banking System in the State serving the agriculturists in the field of long-term credit under Government control and guidance, and with Government assistance in raising

the required funds by way of guaranteeing the debentures raised by the Central Land Mortgage Bank, there is no need for the State also to continue to issue long-term loans simultaneously. The system of direct financing of agriculturists by Government was devised at a time when even the co-operative idea was not born in our country. Now the movement in our State is more than 50 years old. In the field of long-term credit to the agriculturists, it has rendered valuable service and gained useful experience for the last twenty-five years. Two agencies, both operating under the aegis of Government in the same field independently of each other means unnecessary duplication of work and incurring of avoidable cost of administration. The cost of the staff maintained by Government for the issue of land improvement loans may well be given as subsidy to the Central Land Mortgage Bank to enable it to reduce its lending rate to the extent possible (and pass on the reduction to the ultimate borrowers through the primary land mortgage banks). So far as funds are concerned, the Central Land Mortgage Bank will be normally able to raise the moneys required by floating debentures as hitherto, with Government guarantee, and with the help of the Reserve Bank who have undertaken to purchase the debentures floated, to the extent of 40 per cent in conjunction with the Government of India. Any short fall may be made good by the State Government by advancing long-term loans to the Central Land Mortgage Bank, and this course is not likely to commit them to an expenditure higher than what they now incur by undertaking direct financing. The Rural Credit Survey Committee of the Reserve Bank of India has also pointed out the undesirability of direct financing of agriculturists by the State and has suggested that such financing should be confined only to times of distress, famine, etc. We have expressed the same opinion elsewhere in this report (Chapter 5) and stated that in the sphere of short-term credit also, direct State financing is unnecessary. In this context we recommend that the State Government may withdraw from the field of normal financing of agriculturists (both long term and short term) except in times of distress and for special reasons.

158. *Administrative charges, registration fees, etc., payable by the applicants for loans in the primary land mortgage banks.*—The following concessions under the law of registration are now enjoyed by the members of the primary land mortgage banks:—

(i) Remission of half the registration fees for registration of documents for loans not exceeding Rs. 5,000.

(ii) Full exemption from the payment of fees for encumbrance certificates in respect of loans for amounts not exceeding Rs. 2,000.

(iii) Remission of half fees for encumbrance certificates in the case of loans for amounts exceeding Rs. 2,000 but not exceeding Rs. 5,000.

(iv) Complete exemption to Harijans from the payment of fees for registration of documents and grant of encumbrance certificates.

As regards administrative charges every applicant for a loan has to pay fees not exceeding eight annas for every Rs. 100 of loan applied for subject to a minimum of Rs. 3 and a maximum of Rs. 30 to meet the travelling allowance of the Directors deputed to inspect the lands, etc. Besides, he is also required to pay Re. 1 for every Rs. 1,000 or part thereof of the loan applied for subject to a minimum of Rs. 3 and a maximum of Rs. 15 to meet the cost of obtaining legal opinion.

Representations have been made to us that the concessions now given by the Government should be liberalized further. The suggestions range from enhancement of the present limits up to which fee concessions are shown to complete exemption from the payment of fees in respect of all loans.

The exemptions now given by the Government are intended to help the comparatively small classes of the borrowers. We do not think that any further liberalization is called for, except in the case of loans for amounts not exceeding Rs. 1,000, in which case, full exemption from the payment of registration fee might be given. We may here refer to a representation made to us about the procedure followed by the Registration Department in the collection of fees for encumbrance certificates. So far as loans which do not exceed Rs. 5,000 are concerned, Government have not only remitted half the fees for encumbrance certificates, but have also laid down that only single fee should be charged for each application for encumbrance certificate in respect of properties situated in the same village, irrespective of the number of owners who have dealt with the property, as disclosed by the search. But so far as loans exceeding Rs. 5,000 are concerned, not only full fee is charged for encumbrance certificates but fees also collected with reference to the number of owners who have dealt with the property in the period of the search. While we do not recommend any remission of the fees charged for encumbrance certificates in respect of loans exceeding Rs. 5,000, we would suggest that only one fee may be collected without reference to the number of owners who have dealt with the property, as in the case of loans of Rs. 5,000 and below.

So far as the administrative charges are concerned, we think that the present scale is reasonable. Regarding the legal fees we have elsewhere recommended that the scale of fees to the Legal Adviser should be enhanced so as to make it worthwhile for him to devote prompt attention to the loan applications sent to him for opinion. The present scale of fees may remain subject to this change.

159. *Insurance schemes in land mortgage banks.*—It has been suggested that the land mortgage banks might take measures to protect the borrowers' family against the tragic consequences of undischarged debts, in the event of his premature death and to help to restore the mortgaged property to the borrower's heirs free of encumbrances. This object can be achieved if the mortgage loan is linked to a scheme of insurance which will secure the above benefits. The latest attempt to link land mortgage bank credit with insurance was made in 1952. The attempt was to revive the system adopted some years back by which members of the land mortgage banks who borrowed Rs. 5,000 and above were required to take out life insurance policies and assign them to the primary banks as collateral security. It was proposed that the borrower should be made to pay in advance, premia for two years to minimize the chances of the policy being allowed to lapse. The primary bank should collect the premia along with the loan instalments thereafter and remit the amount to the insurance company. It was suggested that the member might be given the option to pay only interest on the loan and to take out a twenty-year endowment policy for the amount of the loan and assign it to the bank, so that at the end of the twenty-years the Insurance Company would pay the amount of the loan to the bank and clear it.

The Central Land Mortgage Bank was not, however, agreeable to the proposal, that life policies should be accepted from borrowers in lieu of the repayment of principal. It suggested that instead the proposal of taking insurance policies as collateral security might be encouraged.

The progress made in the working of this scheme was negligible. It was reviewed by the Board of Directors of the Central Land Mortgage Bank in August 1953 and they resolved to drop it.

The generality of the views expressed to us is that it is not possible for the ryots to pay the insurance premia in addition to the loan instalments. Though the principle underlying this suggestion that "debts should die with the debtor" is wholesome, we consider that in the present conditions, it will not be possible to link the loans of the land mortgage banks with insurance compulsorily. For one thing agriculturists are not yet insurance minded. Secondly many may not have the requisite resources to take up insurance policies. Any forced implementation of this policy will only lead to early lapse of the policies on a large scale. However, the staff connected with the land mortgage banks may carry on incessant propaganda among the borrowers for the latter taking up policies voluntarily.

160. *Expansion of the activities of the land mortgage banks.*—It has been stated that till the survey and settlement operations are

over in the zamin and inam areas taken over by the Government, it will not be possible for land mortgage banks to expand their activities in these regions, as a proper record of rights will not be available for reference in the scrutiny of title, encumbrances, etc., relating to the lands offered as hypotheca. It has been urged that survey and settlement operations should be expedited so that the land mortgage banks could extend their activities to the ryots of these areas.

We find that considerable progress has been made in the matter of surveying the lands in zamin and inam areas. It is understood that out of 9,458 square miles to be surveyed an extent of 7,199 square miles has been surveyed up to 1st September 1955, leaving a balance of 2,259 square miles only. A large part of the areas to be surveyed is in a few districts, Madurai and Tirunelveli (nearly 700 square miles each), North Arcot, Chingleput and Tiruchirappalli (ranging from 200 to 300 square miles each). The area to be surveyed in the remaining districts is negligible. The land mortgage banks should lose no time in extending their activities to the areas already surveyed and settled. We think it desirable that a separate programme for the issue of loans to ryots in the areas already surveyed and settled should be drawn up by each bank and effectively implemented as these areas have long been denied the benefits of the land mortgage banking system in this State.

It has been brought to our notice that even in surveyed areas large extents, with lands owned by several owners, bear a single survey number. Unless the lands are subdivided and subdivision numbers assigned, it will not be possible for the land mortgage banks to accept as security, the lands of any individual in such blocks. We urge therefore that Government may take steps, by appointing special staff, to effect subdivisions of lands expeditiously. This work may be considered as part of the development work in the interest of the expansion of agricultural credit and immediate attention given to it.

We observe that even among the 16,225 villages included in the area of operations of the land mortgage banks, loans have been issued only in 7,420 villages. There are yet 8,805 villages, of which 6,688 are Government villages and only 2,117 zamin villages. There is thus vast scope for the land mortgage banks to extend their services. They should draw up programmes for reaching such untapped villages and implement them earnestly.

161. *Overdues to Primary Land Mortgage Banks and Central Land Mortgage Bank.*—The following statement shows the position of overdues with regard to the loans due by the members to

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their primary land mortgage banks and by the primary land mortgage banks to the Central Land Mortgage Bank during 1953-54 and 1954-55 :—

DEMAND, COLLECTION AND BALANCE OF LOANS DUE BY PRIMARY LAND MORTGAGE BANKS TO CENTRAL LAND MORTGAGE BANK.

Year.	<i>Principal.</i>		Percentage.
	Demand. (RUPEES IN LAKHS.)	Balance. (RS. IN LAKHS.)	
1953-54	12.20	1,614	0.13
1954-55	14.14	4,197	0.29
<i>Interest.</i>			
1953-54	18.55	1,726	0.09
1954-55	15.90	609	0.04

LOANS DUE BY MEMBERS TO PRIMARY LAND MORTGAGE BANKS.

Year.	<i>Principal.</i>		Percentage.
	Demand. (RUPEES IN LAKHS.)	Balance. Rs.	
1953-54	21.37	2.71	12.73
1954-55	21.99	3.43	15.63
<i>Interest.</i>			
1953-54	18.69	0.90	5.07
1954-55	20.49	1.20	5.86

The overdues in respect of the loans due by the primary land mortgage banks to the Central Land Mortgage Bank are very negligible and the position is satisfactory. But the same thing cannot be said of overdues from members to their primary land mortgage banks. It may be appropriate to note here that in the case of long-term loans due by the members of village credit societies, the percentage of overdues to demand works out to 16.17 per cent. In respect of arrear and current interest, the corresponding percentages in village credit societies work out 50.94 and 25.73 respectively. No doubt the position in the land mortgage banks is far better than the position in the village credit societies. But having regard to the rigid scrutiny of loan applications in the land mortgage banks and the strict appraisal of the repaying capacity of the applicants with reference to all possible contingencies over a long period, and also the availability of a fairly efficient supervisory staff (including the departmental officers) and special provisions in the Land Mortgage Banks' Act to recover the dues speedily and summarily, there should be no overdues at all in the loans due by members. We would caution against a tendency to ignore the overdues by members to the primary land mortgage banks if the dues to the Central Land Mortgage Bank are cleared. Rigorous collection of the instalments in time is quite essential in the interests of the primary land mortgage banks and also the borrowers, except in cases of major failure of crops.

Levy of penal interest.—We may here refer to the policy pursued with regard to the collection of penal interest. In respect of overdue instalments from the members to primary land mortgage banks interest is collected at 9 per cent per annum, i.e., $2\frac{1}{2}$ per cent more than the prevailing lending rate of $6\frac{1}{2}$ per cent. In respect of overdue instalments from primary land mortgage banks to Central Land Mortgage Bank penal interest at the rate of $1\frac{1}{2}$ per cent over and above the ordinary lending rate is charged. In discussing the policy with regard to the collection of penal interest in the Chapter 8 on Central Banks, we have stated that while the imposition of a penalty on an individual will serve to induce him to pay off his dues, without any delay such imposition on a collective body like a society might not have the desired effect. The same principle holds good here also. While we have nothing to say against the collection of penal interest on overdue instalments from members to primary land mortgage banks we do not think there is justification for collecting penal interest on overdue instalments from primary land mortgage banks to Central Land Mortgage Bank.

162. *Debentures issued by the Central Land Mortgage Bank.*—Under section 4 of the Madras Co-operative Land Mortgage Bank Act, 1934, the Central Land Mortgage Bank is empowered to issue debentures with the previous sanction of the trustee on the security of the mortgages and other assets transferred (or deemed to have been transferred) by the primary land mortgage banks and of the other properties of the bank. Under section 5, the Registrar is the trustee for the purpose of securing the fulfilment of the obligations of the Central Land Mortgage Bank to the debenture-holders. All the mortgages and the other assets transferred (or deemed to have been transferred) by the primary banks to the Central Land Mortgage Bank vest in the trustee. Under section 6 the State Government has been authorized to guarantee the principal of, and the interest on, the debentures issued by the Central Land Mortgage Bank up to such maximum amount as may be fixed by the Government from time to time. The maximum amount of guarantee given by the Government now stands at Rs. 700 lakhs. The Bank has till now issued debentures for a total sum of Rs. 9.41 crores, of which debentures for 2.35 crores have been redeemed, and for Rs. 2.80 crores allotted to the share of the Andhra Central Land Mortgage Bank and the Mysore Central Land Mortgage Bank. On 30th June 1955 the value of the debentures in circulation was Rs. 4.26 crores.

Period of the debentures.—Under Section 4 (i) of the Land Mortgage Banks Act the debentures issued by the Central Land Mortgage Bank may contain a term either fixing the period at not exceeding ten years from the date of issue during which they will be irredeemable, or reserving to the Board of Directors of the Bank, the right to redeem the debentures in advance of the date fixed for redemption, after giving three months notice to the debenture-holders. In the

early years the Central Land Mortgage Bank was issuing debentures of the latter category. But this method was found unsatisfactory, from the point of view of the investor and was therefore given up in 1937, in favour of the former method. Since then debentures have been issued for periods of 20 years, with an option to the Bank to redeem them after the expiry of the first ten years' period.

It has been suggested that it would be advantageous to the Bank to float debentures for periods shorter than 20 years. The grounds on which this suggestion is made are, that debentures for short periods—say 10 or 15 years—are likely to make a much more effective appeal to the investment market than those for long periods, and that the rate of interest on short-term debentures need not be as high as the rate payable on twenty-year debentures as the investors in the latter category expect a higher return for their money.

The question of issuing short or medium dated debentures is linked up with the question of the period fixed for the loans issued by the land mortgage banks. The present practice is to fix the period of the loan as twenty years in all cases. This practice might be justified so far as loans which are sanctioned for the redemption of prior debts are concerned. But with regard to loans for land improvement or other productive purposes, there is no reason in our opinion, why a shorter period may not be fixed in cases where the nature of improvement, anticipated increase in the yield on account of the improvement, etc., warrant such a course. If this is done, debentures for correspondingly shorter periods may be floated by the Central Land Mortgage Bank. We cannot, of course think that it would be possible to fix a very much lower rate of interest on such short dated debentures. The Central Land Mortgage Bank had floated long dated debentures at $4\frac{1}{2}$ per cent whereas Government had floated their loans (for 10 to 12 years) in recent years at an interest rate of 4 per cent. At the most it may be possible for the Central Land Mortgage Bank to effect a reduction in the rate of interest by about $\frac{1}{2}$ per cent. Still it is worthwhile to secure this advantage, as, in combination with other methods, such as the waiver of the cost of the departmental staff collected from the Central Land Mortgage Bank (which we have recommended elsewhere), it would be possible to bring about a worthwhile reduction in the rate of interest charged to the ultimate borrowers.

There is a view that even if the present practice of issuing loans for 20 years is continued, there is no harm in floating debentures for shorter periods—say 15 years—as it would be quite possible to float another series of debentures, if necessary, on the eve of the expiry of the period of the original series of debentures. We understand that such a course was contemplated in 1930, but was later given up. Before pronouncing a definite opinion whether it is a good risk to embark upon such a policy, history of loans floated each year, say before 15 years would have to be studied in detail and the

proportion of loans discharged completely within 15 years assessed. However, as the years between 1942 and 1953 are abnormal years from the point of view of land prices, it may not be a safe guide to go by. We therefore feel that it is safe to go by the essential banking principle of co-relating the period of the borrowings with that of the lendings till the Central Land Mortgage Bank builds up reserve funds to a considerably larger extent than at present. We would therefore restrict the scope of our recommendation regarding the issue of short or medium dated debentures only to the extent to which the Central Land Mortgage Bank has secured loan applications for corresponding periods.

163. *Popularity of the debentures in the investment market.*— Judging from the way in which each series of debentures floated by the Central Land Mortgage Bank was over subscribed, it can be said that the debentures have become fairly popular in the money market. We cannot however overlook the fact that a good portion of the subscriptions was from co-operative institutions—particularly for the 51st series. It is not advisable to continue to rely on this source to the same extent to which it has been relied upon hitherto. In the future set up, the funds of the State Co-operative Bank and Central Banks will be more and more required to finance the members of village credit societies, and they are not likely to have large surpluses for investment in the debentures of the Central Land Mortgage Bank. This development is likely to limit the investment potential of the Co-operative sector in the debentures of the Central Land Mortgage Bank. There is, therefore, need for popularizing the debentures in the non-co-operative sector.

Certain features already exist, which are calculated to make the investment in these debentures an attractive proposition, chief among them being the guarantee given by the Government to the repayment of the principal of, and the interest on the debentures. The debentures have also been included among the trustee securities. The State Co-operative Bank and the Central Banks have been permitted to issue loans on the pledge of these debentures both to members and non-members. Local bodies have been permitted by the Government to invest a part of certain funds such as the Provident funds and the Railway Cess Fund in these debentures.

In addition, the following other steps have been suggested to enhance the popularity of the debentures:—

- (i) Debentures should be floated for periods shorter than twenty years.
- (ii) The State Bank of India should be prepared to accept without hesitation debentures as collateral or a par with Government securities for loans and advances.
- (iii) The State Bank of India should also purchase these debentures as part of its investment programme.

(iv) The Central Land Mortgage Bank itself should be empowered to purchase these debentures without any restriction.

(v) "Rural debentures" should be floated to mobilize rural savings into the movement.

(i) We have dealt with this suggestion in the paragraph relating to the period of the debentures.

(ii) & (iii) As the leading nationalized commercial bank of the country, which is expected to be responsive to the credit needs of the rural population as well, of course, without risk to it, it is only proper that the State Bank of India should recognize the debentures (which are Government guaranteed) as good enough security for purposes of loans and advances, and should also purchase the debentures as part of their investments. We recommend that the matter may be taken up by the State Government with the Government of India.

(iv) The Central Land Mortgage Bank has been permitted by the Government to utilize its debenture Redemption (Sinking Fund) for the purchase of its own debentures (besides Government securities, etc.), provided the debentures have completed five years from the date of their issue and the rates do not exceed those ruling for Government securities at the time of purchase. It is said, that the debentures are not easily negotiable in the market, and if the Central Land Mortgage Bank is prepared to purchase the debentures that come up for sale, such a step would infuse confidence in the minds of the investing public and the debentures would become more popular. (It has of course the additional advantage of securing a more profitable utilization of the Sinking Fund, which if invested in Government promissory notes, will yield only a lower return.)

On the other hand, it is claimed by some that the conditions under which the Central Land Mortgage Bank is now permitted to purchase its own debentures serve the object in view without, at the same time, restricting the scope for circulation of debentures, on which its popularity is dependent. If the Central Land Mortgage Bank were to purchase its own debentures, irrespective of the period during which they had been in circulation, then it is likely that debentures floated comparatively recently may also be purchased. It means that debentures which might have possibly passed on to new hands, and drawn the attention of the investing public, would find their way back into the Central Land Mortgage Bank, since the parties would naturally go to the Central Land Mortgage Bank if such facilities are given and it would be rather difficult for the Central Land Mortgage Bank to refuse to oblige them. We are of the view that the present practice may continue subject to the modification that the Central Land Mortgage Bank may be permitted to purchase its debentures after the expiry of 3 years from the date of floatation.

(v) Floatation of "rural debentures" is one of the ideas given by the Rural Credit Survey Committee of the Reserve Bank of India. It has been suggested that "rural debentures" should be issued "for specific projects of development in which the villager is interested in different degrees according as they are of direct benefit to him or of benefit to those with whom he shares a fellowship of interest because of their belonging to his district or region or State". It is suggested also that the debentures should be issued at the time of harvest or sale of crop when money is available with the agricultural classes.

Though we are not sanguine about the success of the suggestion, we recommend that this idea may be tried by the Central Land Mortgage Bank experimentally. The lowest denomination of the debenture now issued by it is Rs. 100. Not many of the rural classes will have surplus enough to invest a minimum of Rs. 100 after meeting their other commitments. If the debentures are to be within the reach of a wider range of the rural population, the lowest denomination of the debentures has to be at least Rs. 50. To reduce clerical and other work, on such small debentures interest may be made payable once in a year instead of once in half-year obtaining in the case of debentures of higher denominations. The primary land mortgage banks and good rural credit societies may also be pressed into service for the successful floatation of "rural debentures". However they should not themselves invest in their debentures to a very great extent as such a course will defeat the purpose in view.

164. *Sinking Fund*.—The debentures floated by the Central Land Mortgage Bank are for a period of twenty years. Interest on the debentures is payable to the debenture holders half-yearly. The principal of the debentures is payable at the end of the period of twenty years. The loans issued by the Central Land Mortgage Bank out of the funds received by the debentures are for a period of twenty years, repayable in annual instalments. With a view therefore to provide funds for the redemption of debentures on the dates of maturity, the Central Land Mortgage Bank has constituted sinking funds, which are built up by paying into it every year out of loan collections, a sum equal to the amount of each series of debentures divided by the number of years for which the series has been issued. The Sinking Funds are valued annually and any deficit noticed is made good by the bank out of its general funds. The amounts to the credit of the sinking funds are kept invested in Government securities, bank's own debentures, etc.

The present method of constitution of sinking funds is in force from 1947 and has been evolved after a trial of different methods earlier. The present method is generally satisfactory and no change is called for.

165. *Maximum borrowing power of the Central Land Mortgage Bank and primary land mortgage banks, etc.*—Under the by-laws of the Central Land Mortgage Bank, its total borrowings by issue of debentures should not exceed 25 times its paid-up share capital plus Reserve Fund. Under the by-laws of a primary land mortgage bank, its borrowings should not exceed twenty times its paid-up share capital plus Reserve Fund. (The borrowings of a member should not exceed twenty times his paid-up share capital.)

Under the regulations framed by the Central Land Mortgage Bank, a primary land mortgage bank should hold shares in the Central Land Mortgage Bank up to a minimum extent of 4 per cent of the loans outstanding (against the primary land mortgage bank).

The borrowing limits in the primary land mortgage bank and Central Land Mortgage Bank do not in our opinion call for any revision. The regulation regarding investment of share capital by the primary land mortgage bank into the Central Land Mortgage Bank is a wholesome one, and may continue. Similarly the proportion between the paid-up share capital of a member and his borrowing power, i.e., 1 : 20, is reasonable and does not call for any change.

166. *Provincialization of the services of the Supervisors and paid Secretaries of the Primary Land Mortgage Banks.*—It has been suggested that it is desirable to constitute the services of supervisors and paid secretaries of the Primary Land Mortgage Banks on a State basis. There are at present 84 supervisors and 21 paid secretaries in the 73 land mortgage banks of our State.

The arguments adduced in favour of "Provincialization" are : (a) that the employee who is to continue in the same place and under the same management more or less for a long period may tend to develop a sense of monotony, (b) that he may not display enthusiasm and evince a lively interest in his work, (c) that he is likely to acquire vested interests which may not be conducive to the well being of a bank, and (d) that irregularities (if any) for which he is responsible may not be easily brought to light—much less in time, etc.

On the other hand "provincialization" is viewed with disfavour for the following reasons :—

(a) It would mean that low-paid officers will be made liable for transfer from one place to another throughout the State. (b) It may lead to the adoption of higher scales of pay, involving additional commitment, which the Central Land Mortgage Bank will have to bear and such a development would be inconsistent with the proposals for reduction of interest to the ultimate borrower. (c) The honorary office-bearers of the primary

land mortgage banks may not, after "provincialization" take much interest in controlling the work of the supervisors. (d) Supervisors who continue in the same bank become men of the locality. They will be able to discharge their duties efficiently and expeditiously particularly in matters relating to the preliminary investigation of loan applications, etc., with their intimate knowledge of the people of the locality, nature of lands, etc. This advantage may be lost if the supervisors are transferred from place to place.

In considering the question of provincialization of the services of the Secretaries and Executive Officers of Central Banks we have recommended, in view of the difficulties involved, only a mild form of centralization even where provincialization is much more desirable. The main principles of the recommendations made by us in that connexion are, that the power of appointment should vest in the Central Banks, that provision for appeal should be made in the case of major punishments to a special committee and that transfers from one bank to another may be arranged by the special committee with the concurrence of the institutions concerned.

We find that in the case of the supervisors and paid secretaries of the primary land mortgage banks, there is already centralization to a substantial degree. Under the by-laws of the primary land mortgage banks, the appointment of paid secretaries (by direct recruitment) and supervisors is subject to the approval of the President of the Central Land Mortgage Bank. Under the special regulations relating to service conditions, a clerk or a supervisor who has put in a specified number of years' service could be appointed as paid secretary, but only subject to the approval of the President of the Central Land Mortgage Bank. Under the special regulations, the Executive Committee of the Central Land Mortgage Bank may give time to the supervisors and clerks to acquire the qualifications prescribed for them or to exempt certain classes of supervisors and clerks, from the prescribed qualifications. In matters of punishment, the subsidiary regulations provide for an appeal to the President of the Central Land Mortgage Bank in the case of suspension and dismissal of the secretary, and in the case of dismissal of supervisors and clerks. Thus so far as disciplinary powers are concerned, the interests of the employees are amply protected. The present rules in force ensure the appointment of only qualified and competent persons as secretaries and supervisors, as their appointments are to be approved by the President of the Central Land Mortgage Bank.

The point that remains for consideration is the need to provide for transfers of the staff in the interests of the banks and their staff. The need for, and the advantage of acquiring an intimate knowledge of local conditions is far greater in respect of land mortgage banks than in the case of any other institution. An employee who has gained adequate experience of men and conditions of the area covered by the primary land mortgage bank, would be better

able to attend to his work than a new comer. The former will be in a position to give more useful advice to the applicants and guide them easily than a new employee. In view of the reasons given above, we do not consider it expedient to introduce a scheme of "provincialization" of the supervisors and paid secretaries of the land mortgage banks—especially because of the existing provisions for appeal by the employees of the primary land mortgage banks to the President of the Central Land Mortgage Bank in major disciplinary matters.

167. *Provision to help the borrowers in land mortgage banks to pay their instalments in times of natural calamities such as famine, floods, etc.*—There is no provision in the by-laws of the primary land mortgage banks or the Central Land Mortgage Bank for the grant of extension of time for the payment of instalments by borrowers in times of distress. This is due to the fact that the debentures are floated for a period of twenty years and loans to applicants are also issued for a period of twenty years; and that any extension of time granted to the borrowers, would ultimately affect the capacity of the Central Land Mortgage Bank to keep its obligations to the debenture holders and towards sinking funds, etc.

The conference of land mortgage banks held in 1950 passed a resolution requesting Government to constitute a "Revolving Fund" to be drawn upon to meet the instalments of borrowers in times of distress, such as famine, flood, etc. In 1951 the Registrar submitted proposals to Government for the constitution of a "Revolving Fund" on the following lines :—

(i) The amounts set apart for common good fund by the Central Land Mortgage Bank and the primary land mortgage banks should be pooled every year to constitute a "Revolving Fund", till the amount to the credit of the fund reaches Rs. 10 lakhs. (It was estimated that the amount so pooled would exceed rupees 20,000 per year.)

(ii) Government should contribute a subsidy equal to the amount pooled as per item (i) subject to a maximum of Rs. 25,000 per annum.

(iii) The fund should be drawn upon to give relief to the borrowers as indicated below when their hypotheca is subjected to natural calamities such as failure of rains, floods, etc.

(iv) The borrowers who require relief will be required to apply to the concerned village co-operative societies for loans which in turn will get the money from the Central Banks just like other loans. The Central Banks will get the funds required for issuing loans from the "Revolving Fund" of the Central Land Mortgage Bank as a loan at the same rate of interest at which it obtains loans from the State Co-operative Bank.

Government, however, did not agree to contribute any sum to the "Revolving Fund" as a subsidy, but they were willing to give an interest-bearing advance for this purpose. Off and on

the subject was considered subsequently also and in June 1954 Government passed orders finally dropping the scheme of Revolving Fund.

As the loans are sanctioned by the land mortgage banks for a long period, the instalment fixed is relatively small and a large number of borrowers should be ordinarily able to pay the dues from other sources even in times of distress, by borrowing, if necessary, medium-term loans from the village credit societies, to clear the dues to the primary land mortgage bank. In times of emergencies the Government are likely to be the only source of finance to the agriculturists normally, and the borrowers of the land mortgage banks may be advanced loans to meet their obligations to the land mortgage banks. If the Government recognize the need for helping the borrowers of the land mortgage banks in this way, it will go a long way to meet the purpose in view.

Further, the idea of having a "Stabilization Fund" for meeting such situations has become popular with the publication of the Rural Credit Survey Committee Report. We suggest that the Central Land Mortgage Bank and the primary land mortgage banks may set apart, say 10 per cent of their net profits towards this fund. The money set apart by the latter may well be pooled in the Central Land Mortgage Bank. We also suggest that help from the proposed State Guarantee and Relief Fund may also be given on such occasions, if the borrowers have lost heavily on account of such calamities.

Distribution of profits.

168. *Payment of dividend.*—Under the by-laws of the Central Land Mortgage Bank, dividend at a rate not exceeding 1 per cent above the rate at which the debentures were last issued may be paid out of the net profits to the members on the value of their paid-up share capital. Government have laid down as one of the conditions for guaranteeing the debentures of the Central Land Mortgage Bank that the maximum rate of interest on debentures should not exceed 5 per cent. The maximum rate of dividend can, therefore, go up to 6 per cent. Rule XII (a) of the rules framed under the Co-operative Societies Act, however, restricts the maximum rate of dividend payable by a financing Bank other than the State Co-operative Bank, to 5 per cent. Government have relaxed this rule in favour of the bank enabling it to pay dividend up to 6 per cent. The rate of interest at which debentures were last floated by the Central Land Mortgage Bank was $4\frac{1}{2}$ per cent and hence it has paid dividend on share capital at $5\frac{1}{2}$ per cent only.

So far as the primary land mortgage banks are concerned, the maximum rate of dividend allowed under the by-laws is 4 per cent, but it has been recently suggested to be reduced to 3 per cent by amending the by-laws.

The rates of dividend in both the cases are reasonable and do not call for any change.

CHAPTER 11.

FARMING SOCIETIES.

169. In our State, Agricultural Co-operation is comparatively well developed in the field of credit and to a lesser extent, in that of marketing, but in the sphere of farming itself—co-operative activities in our State can be said to be only in an experimental stage.

Broadly speaking, four types of societies have been recognized in co-operative farming. The essential features of these four types are indicated below :—

(i) A Co-operative Better Farming Society is designed to introduce improved methods of farming. Its members agree to follow a plan of cultivation laid down by it; but they are independent of each other in other respects. They may, however, agree to joint purchase of seeds and manure, joint sale of produce and other joint efforts and the society may help them in these directions.

(ii) A Co-operative Tenant Farming Society owns land by free hold or lease-hold, but the land is divided into smaller holdings, each of which is leased to an individual cultivator who is a member of the society and settles on the land with his family. He pays to the society rent for his land (if the lands are lease-hold), and revenue and other assessments (if the lands are Government lands alienated to the society). He cultivates the land on his own account and retains the profits thereof to himself. The society assists him in his cultivation by supplying credit, seeds, manure implements, etc., and by marketing his produce, wherever possible. A portion of the surplus if any will be divided between members according to the quantum of rent, etc., contributed by them.

(iii) A Co-operative Joint Farming Society is one by which landholders pool their lands and entrust them for cultivation by the society, though individual ownership is retained. The cultivation of the lands is done by the society on its own account. It is open to the landholders to work in the farm. In that case they will be paid current wages. Other labourers can also be hired. The lands are divided into blocks suited to cultivation purposes—irrespective of boundaries according to ownership. The income from the pooled lands, less expenses, constitutes the profits of the society. Each member is entitled to a share in the profits in proportion to the value of the land contributed by him. Each member will also have to pay for any improvement made on his plot of land.

(iv) A Co-operative Collective Farming Society holds lands by freehold or leasehold. The lands are cultivated on the society's account by its members who are paid wages. The yield belongs to the society. After meeting expenses, the profits are divided as in every other co-operative society, and the members are given a bonus on the wages earned by them.

Types (i) and (ii) are almost similar as far as operatorship is concerned; the difference is that whereas in the former the member owns the lands, he is only a tenant under the society in the latter; farming is done only on individualistic basis.

Similarly types (iii) and (iv) are almost identical as far as operatorship is concerned. The difference is that in the former ownership vests with the individual members while in the latter, it vests with the society.

Societies coming under the first two categories exist in our State, but there are no societies of the third and fourth categories.

170. *Better Farming Societies.*—Agricultural Improvement Societies, Agricultural Demonstration Societies and Irrigation Societies can be said to come in a sense under Better Farming Societies.

The objects of an Agricultural Improvement Society are to propagate and supply pure seeds, to find a sale for the produce of its members through the marketing society, to purchase and maintain agricultural implements for the use of members and to disseminate among the members a knowledge of the latest improvements in agriculture by actual demonstration, caused to be carried out by each individual member on his own land, according to the advice of the Agricultural Department.

The objects of an Agricultural Demonstration Society are more or less the same, but it purchases or takes land on lease and cultivates it under the advice of the Agriculture Department to demonstrate the profitability of new methods.

The objects of an Irrigation Society (Kudimaramath) are to undertake the maintenance of tanks and water-courses and the regulation and supervision of the supply of water to the members' lands, and to purchase or hire modern appliances for the irrigation of its members' lands.

Agricultural Improvement Societies.—There were 49 agricultural improvement societies as on 30th June 1955 with a membership of 8,848 and a paid-up share capital of Rs. 1.48 lakhs. During 1954-55, they disbursed loans to their members to the extent of Rs. 5,614 and supplied improved seeds, manures, agricultural implements and cattle food to the value of Rs. 1.73 lakhs.

Agricultural Demonstration Societies.—There were six such societies as on 30th June 1955. Except the Lalgudi-Sivagnanam Agricultural Co-operative Society in the Tiruchirappalli district (whose activities are more comprehensive than mere demonstration) the others were dormant. This society had on its rolls 1,012 individual members and sixteen societies' members, with a paid-up share capital of Rs. 9,400. During 1954-55 it distributed manures to the value of Rs. 8.86 lakhs, seeds to the value of Rs. 1.448 and implements worth Rs. 475. It issued produce loans to the extent

of Rs. 1.14 lakhs. It has done pioneering work in popularizing chemical manures in its area. In State Trading of the chemical manures, etc., this society deserves to be shown special consideration.

This society has been carrying on demonstration on 22 acres of its own lands (18 acres wet and 4 acres dry). In 1947 Government alienated to it 245 acres of dry land in Neikulam village for demonstration of dry crop cultivation on improved lines. The society has reclaimed out of it about 120 acres of land. Government have given the following financial assistance to the society for running the dry farm at Neikulam :—

- (a) A subsidy of Rs. 15,000 for sinking five wells,
 - (b) a sum of Rs. 15,000 for purchase of oil-engines and pump-sets,
 - (c) a subsidy of Rs. 5,770 for the construction of a godown at Neikulam, and
 - (d) the services of an agricultural demonstrator at half cost.
- In spite of such help the society has been incurring loss in working the dry farm. We visited this farm during our tour. The loss cannot be said to be due to lack of efficiency on the part of the society; corporate farming is not always remunerative and much more so in an area devoid of permanent sources of water-supply.

It seems to us that something must be done in this regard lest this society which had established itself and is popular with the local people should dissipate its other resources in this venture and incur unpopularity. Considering all facts, we suggest that the farm may be taken over by the Government itself and run as a demonstration farm, as the only other alternative is for the Government to reimburse the entire losses arising year after year in working this farm.

Irrigation Societies.—There were 18 irrigation societies as on 30th June 1955 with 1,941 members and a paid-up share capital of Rs. 11,036. The value of irrigation works done during the year amounted to Rs. 14,807. The number of members and the acreage benefited were 2,029 and 7,158 respectively.

Societies for the consolidation of holdings.—Reference may also be made in this connexion to the existence of a few societies for the consolidation of holdings. There were seven such societies on 30th June 1955. The primary object with which they were formed was to effect voluntary consolidation of the scattered and uneconomic holdings of the members and thus help better farming. These societies have been dormant and have not been able to do any work worth mentioning.

The peasant's attachment to his own bit of land for reasons of sentiment, etc., is so great that he will not normally and voluntarily agree to exchange it with any other piece of land. Nor is it desirable

to introduce any compulsion in a matter like this. The evils of fragmentation are due mostly to the laws of inheritance and the way of partitioning the properties, and the societies for consolidation of holdings cannot by themselves solve the problem of fragmentation finally. Only when pressure on land is reduced a good deal by the openings for gainful employment in other ways, the problem will ease. In the meanwhile education as regards the evils of effecting partition by dividing each item of property among all co-sharers should be undertaken through all means of propaganda. We therefore recommend that the existing societies may be liquidated, if they have no chances of realizing the object with which they were formed, to any extent. However, if such societies have prospects of working successfully, Government may liberally aid them by giving the free services of staff and also full concessions in respect of registration charges, etc.

171. Place of Better Farming Societies in Co-operative Farming.—It may be seen from the description of the activities of the Better Farming Societies given earlier in this chapter that most of the activities undertaken by them, such as issue of short-term loans, supply of requirements of the agriculturists, sale of agricultural produce, etc., are those which could as effectively be carried out by the village credit societies and marketing societies. The generality of the views expressed to us is that those functions should as far as possible be undertaken by the village societies themselves. Indeed, many village societies have amended their by-laws to enable them to undertake multi-purpose activities including those for which the better farming societies are intended.

From the history of the agricultural improvement societies it has to be said that they have not functioned as per expectation. We are inclined to think that there is generally no need for such societies. Otherwise they may be amalgamated with the existing marketing societies or liquidated.

Separate irrigation societies (including Kudimaramath societies) may be formed if the local village credit societies cannot be entrusted with this work in the light of local conditions.

Irrigation societies collect contributions from members to meet the cost of repairing and maintaining waterways, tanks, etc. As the benefits arising out of such works undertaken by the societies benefit non-members also, collection of proportionate charges from them through the Revenue Department, under the provisions of the Madras Compulsory Labour Act of 1958 is fully justified. The Revenue Department may effectively help these societies in the enforcement of collections from non-members.

The most important aspect of better farming is the actual demonstration of improved methods of cultivation in the fields of the ryots themselves. Though very good results have been achieved in this line, in the several Agricultural Research Stations—they

have not yet reached our peasants on an extensive scale. The advantages of "Demonstration farms" versus "Demonstration plots" were fully discussed by the Royal Commission on Agriculture (1926-27) and they considered that the latter had greater potentialities in carrying conviction to the ryots. It is needless to say that if our agricultural economy is to be modernized, it is essential to convince our ryots of the utility of improved methods of cultivation and that co-operative societies are the best agencies for this purpose. We feel that village credit societies should be pressed into service in this vital nation building programme. They may take on lease a few acres of members' land and demonstrate the advantages of better farming. In each taluk at least half a dozen societies must be made to undertake this work. The Agricultural Demonstrators may well be asked to devote a good deal of their time and energy in guiding and supervising this work of the societies. The Government may, besides giving technical help through the officers, also give a subsidy ranging from Rs. 50 to Rs. 100 per annum for each such society.

172. *Tenant Farming Societies.*—Land Colonization Societies which have been formed in this State are of the tenant farming type. They have been in existence for more than a decade. Their membership is open (in the order of preference), to (a) local persons belonging to communities which are eligible for help by the Labour Department, and who have an agricultural bias, (b) other landless persons of the locality and (c) members of the communities specified against (a) residing in adjacent villages who are willing to settle near the lands granted by the society.

These societies are designed to improve the economic condition of the landless labourers with an agricultural bias, and to increase food production as well by reclaiming waste lands and bringing them under the plough. Usually Government waste lands in compact blocks are assigned to these societies. They hold the lands on ryotwari tenure and are responsible to Government for paying all the rates and taxes. The land assigned to the society is divided into smaller holdings of about three to five acres and allotted to its members who cultivate them individually. The members have only occupancy rights and have no right to sublet or mortgage.

There are two kinds of land colonization societies; one for civilians and the other for ex-servicemen. We deal with the latter category in the chapter relating to ex-servicemen's societies.

173. *Assistance by Government.*—So far as land colonization societies for civilians are concerned, assistance is given by the Government generally on the following scale:—

(a) *Free grant.*—Rs. 10 per colonist for investment as share capital in the society.

Rs. 5 to Rs. 10 per acre for purchase of manure in the first year only.

Rs. 5 per acre of dry land and Rs. 10 per acre of wet land for purchase of seeds, for the first crop only.

Rs. 125 per colonist for purchase of bulls.

(b) *Interest-free loans.*—Rs. 50 per colonist for purchase of implements, repayable in ten annual instalments.

Rs. 125 per colonist for purchase of bulls, repayable in five annual instalments.

Rs. 25 per acre for reclamation generally (each case to be considered on merits).

(c) *Miscellaneous.*—Free supply of materials for putting up huts.

Free services of Senior Inspectors or Agricultural Demonstrators.

Waiver of land revenue assessment and water cess for the first three years. Financial assistance (on the merits of each case) for starting cottage industries.

On 30th June 1955, there were 24 land colonization societies for civilians with 1,949 members, of whom 1,389 were active colonists. Their paid-up share capital was Rs. 1.33 lakhs of which a sum of Rs. 0.18 lakh was contributed by Government as free grant. They were indebted to Government to the extent of Rs. 0.72 lakh, and to the central banks (from which they obtain short-term loans for agricultural operations) to the extent of Rs. 0.10 lakhs. A sum of Rs. 1.29 lakhs was outstanding against the members of these societies. Out of a total area of 8,244 acres of land assigned to them 6,576 acres had been reclaimed and brought under cultivation.

174. *Reclamation of lands.*—It has been suggested to us that the work of reclamation would be facilitated, if Government themselves arrange for doing this work before assignment of the lands and recover the cost of reclamation in instalments later on, from the colonists through the society.

Financial assistance has till recently been given by the Government by way of interest-free loans towards half the reclamation charges subject to a maximum of Rs. 25 per acre repayable in ten annual instalments. In considering a proposal for the enhancement of the scale of help given to Land Colonization Societies, Government have agreed, in their Order No. 3973, Development, dated 2nd September 1953, to consider each case on merits. It has been suggested that if Government themselves undertake this work, reclamation work on a large scale could be done more economically and expeditiously employing machinery such as bulldozer, if necessary, than if the work is done individually by the colonists. We observe that such a course was recommended by the Land Revenue Reforms Committee (1950), but that Government did not accept

this recommendation, in view of the cost involved. Government have stated that small and scattered areas may be left to rich persons for reclamation and that large tracts may be reclaimed by co-operatives with such small assistance as the Government find it possible to give in each individual case. An essential prerequisite for the success of the colonization scheme is the reclamation of lands proposed to be colonized and this work cannot be effectively carried out by the individual efforts of the colonists or by the society, with the slender resources at their disposal in all cases. We, therefore, recommend that Government may themselves arrange to reclaim the lands before assigning them to the co-operatives.

175. *Irrigation facilities.*—One of the major handicaps in the working of Land Colonization Societies is the lack of irrigation facilities. The lands in most of the societies are dependent on monsoon. When there is continuous failure of rains over a period of years, the members desert the colonies and migrate to urban and industrial areas in search of work. Unless each colonist is assured of water-supply for irrigation for at least a portion of his lands, there will be no incentive for him to continue to remain in the colony.

Financial help for the provision of irrigation facilities had not been included in the scheme of assistance to the land colonization societies till recently. When the Well Subsidy Scheme was in force in the State, land colonization societies were also made eligible for the subsidy loans sanctioned by the Revenue Department and in 1951-52, a total amount of Rs. 69,250 was sanctioned to these societies under this scheme. When the Well Subsidy Scheme was stopped, there was no means of getting financial assistance for this purpose by the land colonization societies. The matter was taken up with the Government by the Registrar and in their Order No. 3978, Development, dated 2nd September 1953, Government agreed to consider on merits, applications from these societies for purposes such as sinking of wells, extension of existing irrigation channels, excavation of derelict tanks, etc. Thereafter Government have also sanctioned interest-bearing loans in some cases for the sinking of wells.

As the class of people who become members of land colonization societies require grants even for purchase of seeds and manure, it is hardly possible for them to find the money required for sinking wells. We recommend that in every scheme of co-operative colonization in which cultivation is dependent on monsoon, financial assistance by way of long-term loans may be made available to the colonists, the amount required being fixed according to the individual circumstances of the case.

176. *Tenure of the members in a land colonization society.*—Under the existing rules a member of a land colonization society

will have only occupancy right in his holding so long as he cultivates it, pays his dues and carries out the instructions of the society in the cultivation of his holding. If he fails to abide by these conditions and is consequently expelled from the society or if he relinquishes his holding, the share capital contributed by the Government and the lands in enjoyment of the member may be transferred to a fresh member. The member has no right to sublet or mortgage or otherwise encumber his holdings. The holding will also be impartible and will, on the member's death, pass on undivided along with the member's interest in the society to his nominee, or failing a nominee to his seniormost male heir. If there is no such heir, the land will revert to the society.

The question may be considered whether it will not be desirable to confer full ownership on a tenant who has fulfilled all the conditions to the satisfaction of the society, after the expiry of, say, twenty years. While it may be said that such a concession will serve as an inducement to the member to take a keen interest in the reclamation and cultivation of the land and to do everything possible to make himself the owner, once ownership is conferred there is the possibility of the land being sold away after the prescribed period. But this possibility has to be ignored. Elsewhere in this chapter we have suggested that the future pattern of land-holding should normally be in the direction of peasant proprietorship for a variety of reasons. The pride and joy of ownership need not be denied to these colonists for ever. Hence, we suggest that the colonists may be given full rights of ownership after a period of twenty years.

177. *Scope for forming Joint Farming Societies in our State.*—The basic requirement of a Joint Farming Society is that owners of lands in a compact area should agree to pool their plots for joint cultivation and to participate in the net yield from lands, in proportion to the value of the land, contributed by each to the pool or in any other predetermined basis. It may be said, that this type of farming is eminently suited to areas in which the holdings of the ryots are so small and scattered, as to render individual cultivation an uneconomic proposition. It might look as though joint farming in such areas would increase production through intensive cultivation and by the investment of more capital, besides reducing costs of cultivation and the disadvantages of fragmented holdings, etc. But there are certain inherent difficulties in the introduction of this type of farming under the present conditions.

An ordinary cultivator has a passionate attachment to his land. His outlook is such as to preclude the prospect of merging his holdings with the holdings of others in a system of joint cultivation. He would prefer to remain an independent farmer and be satisfied with the income he may get from his lands to being a worker for wages. The small landholders—while willing to do manual labour on their

own farms—are averse to work in joint farming societies as workers for wages. “Habits centuries old are not changed in a day, and habits rooted in the soil are with difficulty changed at all.” With the present outlook of the peasant it is too much to hope that, generally speaking, he will agree to place his land at the disposal of the society and work as a joint farmer. Each farmer will have his own estimate of the yielding capacity of his land and it will be difficult to secure a measure of unanimity among the farmers on the fixation of a basis for the division of the net income or net yield. Unless the prospect of his getting an increased yield is fairly certain, a farmer will not agree to joint farming and, having entered the pool, if he finds that the increase in his share of the produce is not considerable, he is sure to back out.

It cannot also be said that the inducement held out by way of a substantial increase in return to each cultivator in the scheme of joint farming will be justified by actual results, particularly when lands, already under cultivation for a long time, are pooled together. While there may be a slight increase in output from these lands (which have been already exploited to their maximum capacity), it will be more than offset by the following disadvantages:—

(i) In individual farming, each cultivator and his family work on the fields and contribute their labour in numerous ways. When they work on the joint farm, their labour will have to be paid for in cash which means extra expenditure for the society. (ii) When the farmer and his family work on the joint farm for wages, the quality and output of their labour will be much less than what it would be, when they work on their own farms, as in the latter case they work with an interest, born of a sense of ownership. This factor would also increase the expenditure on cultivation in the joint farm. (iii) When lands are cultivated individually supervision could be done more effectively and at no cost, but in a joint farm, supervision has to be paid for and at the same time, it cannot be as effective as in the former case, as it will be done by paid or honorary management who cannot be expected to have as much interest in the work as owners of lands.

We are, therefore, of the view that joint farming on a co-operative basis is not likely to be popular and capable of implementation on any extensive scale, generally speaking.

178. It may be considered whether in any case which holds out prospects of success, an element of compulsion should be introduced in the formation of joint farming societies; for example, when about 75 per cent of the farmers in an area, owning not less than two-thirds of the lands, agree to joint cultivation, can the remaining farmers be compelled to join the scheme by suitable legislation? In view of the doubtful advantages of joint farming, it is not advisable in our opinion to introduce any compulsion in this matter. It would not also be conducive to the smooth working of the

scheme, if some of the participants are in it by compulsion and not by conviction. Further, when a large number of farmers voluntarily agree to try the scheme it should be normally possible to work it out by themselves on their own lands without forcing unwilling persons into it. When the benefits of the scheme are actually demonstrated, the rest will fall in line in due course. Compulsion in co-operation is a contradiction in terms and is generally inexpedient. It is much more so in a farming scheme, which requires the willing and wholehearted co-operation of all the participants, if it has to succeed. We do not, therefore, favour compulsion of any sort in the formulation of joint farming schemes. It may be stated in this connexion that the Land Revenue Reforms Committee (1950) was also against the introduction of compulsion in co-operative joint farming schemes. We have to recommend a cautious approach to this question for another reason also. Joint farming can be expected to yield full results when methods of rationalization are introduced. It will mean that large number of people now dependent on land (though they may be making a precarious livelihood through under-employment now) will be thrown out of employment and we cannot conceive of any practical ways of gainfully absorbing them all in other avocations.

179. In this context the future pattern of farming has also to be considered in all its aspects and a decision taken. Though collective farming as in Russia, etc., is advocated by some publicists, we feel that the future pattern should be in the direction of evolving peasant proprietorship. This alone will be in harmony with the genius of our people. Such a system has, besides, many other social advantages which will be conducive to the establishment of the avowedly national goal of a democratic society. It is pertinent to point out in this context the following facts. Western Europe has amply demonstrated that small-scale farming on a family basis can be as efficient as large-scale farming from the point of view of production when the peasants take to co-operative methods in spheres other than farming, for example, joint purchase of their agricultural requirements, joint sale of their produce, etc. At the same time small-scale farming provides employment to a larger number of people.

Co-operative farming is not considered a necessary facet of agricultural co-operation in the West. All the advantages of large-scale economy can be secured by the peasants co-operating in carrying on their profession—except actual farming. Farming even to-day is essentially on a family basis in most of the countries except those under Communism. Indeed in Yugoslavia the present trend is said to be towards peasant proprietorship as a result of sad experiences gained in establishing collective farming on doctrinaire considerations at the outset of the revolution there. However, wherever people come forward to carry on joint farming on a co-operative basis, all necessary help may be given by Government.

180. *Scope for collective farming societies on a co-operative basis.*—Unlike a joint farming society where owners of land join together and pool their lands for joint cultivation, in a collective farming type, landless persons form themselves into a society which takes on lease or otherwise a block of land, cultivates it through members who are paid wages and apportions the net yield among them in proportion to the labour contributed by each. Such societies have succeeded in Italy which is known as the birth place of co-operative farming, in regions where rack renting and unemployment of agricultural labour were prevalent. It is stated that in Lombardy, landlords owning large estates found it convenient to deal with single lessees and therefore leased their estates to contractors who made themselves responsible for finding tenants and paying rent. The result was exploitation, the one object of the contractor being to get as much as he could out of his tenants. Emilia—it is stated—was a region of large estates where there was not enough work for all the agricultural labourers. Labour was often out of job and was therefore easily exploited. Collective farming societies were formed in the former region with a view to combat the evils of rack renting and in the latter region with a view to increase both work and production.

The experience of Italy where farming societies have been in existence for about fifty years, point to the fact that such societies can succeed only in regions where there are large estates with middlemen who take the lands on lease and then sub-lease them to their tenants.

A large number of holdings in our State are of small or moderate size, which do not admit of lease, much less sub-lease. There are however some big holdings where there is the possibility of rack renting. Out of some 41 and odd lakhs of landholdings in the State, 1,616 holdings comprise more than 300 acres of 'converted dry', or 100 acres of wet land. Some of these holdings belong to religious institutions. The Commissioner for Hindu Religious and Charitable Endowments who was consulted in this matter has stated as follows :—

So far as Tanjore and South Arcot districts are concerned where the Tanjore Tenants and Pannayals Protection Act is applicable, most of the lands have been leased out to lessees who serve only as middlemen or collection agents for the religious institutions. The cultivating tenants have the right to continue in enjoyment of the tenancy for a period of five years from 1952-53 as laid down in section 6 of the Act. The question of leasing the lands to societies cannot, therefore, be considered. Even with regard to other districts, there is no scope for securing lands as lease for such societies. In view of the need for sufficient income to the temples, they have to auction the lease and give it to the highest bidder. If the society happens to be the highest bidder in auction and is willing to abide by the conditions of auction, it can, of course, take the lands on

lease, just like any other lessee. But the terms of auction are such (for instance, prepayment of a good portion of the annual rental) that the societies can scarcely fulfil them and get the lease.

So far as large estates owned by individuals also are concerned, there is, for the present the difficulty created by section 6 of the Tenants and Pannayals Act and the recent legislation under which the existing cultivating tenants cannot be disturbed.

Our observations relating to "joint farming" will apply to a great extent to "collective farming" also. Before this type of society can work successfully, the prospective members will have to be indoctrinated a good deal and assimilate the spirit of co-operation to a very high degree. Even in a country like Russia where the full authority of the State has been harnessed to ensure the success of the collective co-operatives—the farmers are said to devote more attention to their own homesteads than to collective farms. It is certainly unlikely that having regard to the psychology of our peasants, such societies can be formed on a voluntary basis on a large scale. However, we have no objection to the formation of such societies wherever people come forward to work on such lines. Government may give all the assistance that is required for the successful working of such societies such as the free services of administrative and technical staff—subsidy and loans for the purchase of agricultural implements, bulls, etc. Such experiments may in the first instance be tried when large blocks of Government lands are assigned to co-operatives for colonization.

CHAPTER 12.

CO-OPERATIVE MARKETING SOCIETIES.

181. Co-operative Marketing of agricultural produce means, marketing activities by producers acting together, instead of by them individually. The main object of a marketing society is to sell the produce of its members in a manner most advantageous to them.

The number of marketing societies which was 205 in 1940-41 increased to 286 in 1952-53 (composite State). The number of members in these societies was 0.46 lakhs in 1940-41 and 2.51 lakhs in 1952-53 while the share capital was Rs. 8.84 lakhs and 58.89 lakhs in those years. As on 30th June 1955 (residuary State) there were 114 marketing societies with a membership of 1.30 lakhs and a share capital of Rs. 19.73 lakhs.

In the residuary State, the loans issued by the marketing societies was Rs. 44.7 lakhs in 1953-54 and Rs. 79.55 lakhs in 1954-55. The value of produce marketed by them in these two years was Rs. 205.12 lakhs and Rs. 218.45 lakhs respectively.

Taken by themselves, the figures relating to the amount of loans issued and the value of produce sold are by no means small. Examined, however, in relation to the total value of the agricultural produce marketed in our State, through all the agencies, the contribution made by these societies is admittedly meagre. The total agricultural output of the year 1952-53 is valued at Rs. 496.52 crores. About 75 per cent, viz., Rs. 372 crores may be taken as the marketable surplus. The value of the produce sold by the marketing societies of the State in 1952-53 was Rs. 3.64 crores and this represents a contribution of about one per cent only.

Taking the value of the marketable surplus of only six commodities, viz., paddy, groundnut, cotton, potatoes, coconuts and arecanuts (which are chiefly the produce dealt with by the marketing societies) the contribution of these societies for the year 1952-53 represents 1.74 per cent (undivided State) and 1.8 per cent for 1953-54 (residuary State).

182. *Various marketing functions.*—Marketing covers a number of functions, viz., financing, storing, transporting, processing and selling. The part played by the marketing societies of our State in the various aspects of marketing is discussed below :—

Financing.

183. *Scheme of controlled credit.*—The need for the effective linking of production with marketing was recognized long ago and a system of what is known as controlled credit was introduced. Under this system village credit societies issue loans to their members for cultivation expenses, based on the kind of crops and the extent of land on which the crops are proposed to be raised. To enable the credit societies to disburse these loans without delay, the Central Banks sanction cash credit accommodation to them, which are operated by means of cheques. The member receiving a loan, undertakes to sell his produce through the marketing society to which the society is affiliated. After the completion of harvest, the office-bearers of village credit societies, particularly marketing panchayatdars (referred to later) and the supervisors of Central Banks should make arrangements to ensure that the produce for the cultivation of which loans were given, are taken to the marketing societies. The marketing societies sell the produce and before the sale-proceeds are paid to the members, deduct the amounts due by the members to the societies, remit the moneys to the Central Banks with advice to the societies and the unions. If the member wants to holdover the produce for a better market, and, in the meanwhile, he wants an advance, the marketing society gives an advance on the pledge of produce after deducting the amount already due by him to the village society.

Briefly stated—the objects of the scheme are to ensure the grant of timely and adequate finance to the agriculturists for cultivation

purposes, eliminate the scope for misappropriation of loans, link credit with marketing, thereby enabling them to reap the benefits of organized marketing and also to recover the loan amounts, from out of sale-proceeds of the produce, thus obviating the possibility of overdues.

A statement showing the progress in the working of the controlled credit scheme from 1940-41 onwards is given in Appendix No. 22. In 1954-55, the controlled credit scheme was worked through 342 credit societies. The area brought under the scheme was 22,300 acres. Loans to the extent of Rs. 20.36 lakhs were issued for cultivation expenses and the value of produce delivered to the marketing societies was Rs. 17.76 lakhs. As may be seen from the statement, the scheme was worked only on a small scale and that too not wholly successfully. The real test of success is the value of produce marketed by the marketing societies. In some years the value of the produce brought to the marketing societies has been lower than even the loans issued or has been only slightly higher than the loans disbursed. Of course, the responsibility for this state of affairs cannot be attributed to the marketing societies to any great extent. The village credit societies and the unions concerned and the supervisory staff of the Central Banks must assume the major responsibility.

184. *System of marketing panchayatdars.*—With a view to work the controlled credit system effectively, a system of what is known as the appointment of marketing panchayatdars was introduced during the year 1946-47. Under the system, one of the panchayatdars of the rural credit society is selected and admitted as a member of the marketing society. His function is to act as an agent of the marketing society, for the collection of the produce from the members of the credit society, of which he is a panchayatdar. The marketing panchayatdar is entrusted with stock receipt books, seals, measures, etc., by the marketing society. He should collect the produce from the members, after measuring or weighing and then arrange for carting the produce in convenient loads to the marketing society. The marketing panchayatdar is remunerated for his services, so that he may take a lively interest in his work. The remuneration is paid from two sources. Firstly 50 per cent of the commission earned by the marketing society on the produce brought for sale by the marketing panchayatdar is given to him as his commission. Secondly, as the credit society is enabled to recover its loans without difficulty, on account of the services rendered by the marketing panchayatdar, he is paid out of net profits as honorarium, on a sliding scale, with reference to the amount of collection effected through the sale of produce arranged by him.

In 1953-54 there were 176 marketing panchayatdars and they arranged for sale of produce valued at Rs. 5.75 lakhs. The system of working the controlled credit scheme through the marketing panchayatdars requires to be geared up.

185. *Storing*.—In 1949, the Government liberalized the assistance to the marketing societies and rural credit societies for construction of godowns. Under this scheme, 50 per cent of the estimated cost of the godown subject to a maximum of Rs. 5,000 in the case of rural credit societies and Rs. 7,500 in the case of marketing societies is granted as subsidy. The other half is to be met by the societies either from own funds or donations or by obtaining a loan from the Government. Seventy-six village credit societies and 36 marketing societies have availed themselves of this assistance and constructed 129 godowns.

186. *Assembling*.—Except a few marketing societies which own lorries, others do not help their members in the transport of their produce to the market centres. Those which own lorries such as Salem and South Kanara marketing societies are of great help to their members in this direction. At times these lorries are also used to carry the agricultural implements manure, etc. (which are stocked by the marketing societies) to the villages.

187. *Processing activities*.—Marketing societies in the State have been undertaking processing activities but not on a very large scale. As on 30th June 1954, eight marketing societies, owned twenty-four processing plants (sixteen for cotton, two for groundnut, two for paddy and one each for coffee, oil seeds, arecanut and copra). An indication of the extent to which processing activities have been undertaken by marketing societies is given below :—

Year.	Number of societies which undertook processing.	Value of produce processed.
(RUPEES IN LAKHS.)		
<i>Figures relating to the Composite State.</i>		
1944-45		37.37
1945-46	 47	21.44
1946-47	 19	20.83
1947-48	 5	6.02
1948-49	 6	8.30
1949-50	 8	10.25
1950-51	 11	11.38
1951-52	 9	28.41
1952-53	 13	22.97
<i>Figures relating to Residuary State.</i>		
1953-54	 7	8.64
1954-55	 8	22.96

During 1954-55 these societies earned a sum of Rs. 77,899 as processing charges.

188. *Selling*.—There are several methods of handling and paying for the agricultural produce, namely :—

- (i) Outright purchase and sale.
- (ii) Sale as agent.
- (iii) Payment on the basis of pool price.

The first method has the advantages of (a) conformity to the usual market custom, (b) satisfaction of the member's need for immediate cash, (c) elimination of the factor of uncertainty for the producers, (d) counteracting the competition of private traders who offer a powerful appeal by spot cash, and (e) reduction in the volume of book-keeping. On the other hand, the disadvantages are (a) the need for a large working capital, (b) the possibility of weakening the bond between the member and the society as soon as the price is paid, and (c) the risk of price fluctuations for the society (especially large, when the prices are declining).

The second method has the advantages of entailing no risk to the societies, and of enabling the societies to work with a small capital. The disadvantages are (a) increase in the labour of book-keeping, and (b) the adoption of a practice which is not attractive to the producers—particularly small producers.

The third method has the advantages of spreading marketing risks among the producers and facilitating the adoption of a well-considered programme of orderly marketing, etc. In highly developed countries like United States of America and Canada the practice of pooling and deferred payment is popular.

Marketing societies in our State have usually been selling produce only as agents of the members. As this was considered to be one of the causes for their slow progress, the All-India Co-operative Planning Committee recommended that they might make outright purchases up to five times their paid-up share capital and Reserve Fund. The marketing societies in the State have, however, been permitted to make outright purchase up to the extent of their paid-up share capital and Reserve Fund, subject to certain conditions, viz :—

- (i) The purchase should be only from the members.
- (ii) It should be in respect of a produce for which there is a ready market.
- (iii) Produce should be sold only for cash.
- (iv) Separate accounts should be maintained for business done under outright purchase system.
- (v) Fifty per cent of the profits earned by the societies in this business should be set apart for a business loss reserve before declaration of net profits.

(vi) Outright purchase should not be entrusted to an individual, but should be done by a Committee elected by the Board for the purpose; and

(vii) Appropriate regulations should be framed to regulate the system of outright purchase and sale.

Generally, marketing societies having share capital of rupees 20,000 and more are permitted to make outright purchase, on the conditions mentioned above.

The following figures indicate the extent of marketing done by the marketing societies on the system of outright purchase :—

(i) Year.	(ii) Total sales.	(iii) Value of outright purchase included in column (ii)	(iv) Percentage of column (iii) to column (ii)
<i>Figures relating to Composite State.</i>			
1947-48	152.85	67.82	45
1948-49	260.25	127.38	49
1949-50	394.58	236.38	60
1950-51	376.68	162.98	43
1951-52	411.47	233.58	56
1952-53	364.47	172.42	47
<i>Figures relating to Residuary State.</i>			
1953-54	205.12	72.15	35
1954-55	213.45	26.42	12

It may be seen that a good portion of the business done by the marketing societies represents the value of the produce purchased by them outright.

Marketing societies usually adopt the method of sales by auction or by secret tenders according to local market practices. When the lots are arranged, the merchants inspect the produce and deposit their tenders in a box kept for the purpose. The box is opened at a specified hour every day and the produce sold to the highest bidder for each lot, subject of course to the consent of the owner. At times sale is effected through negotiation.

Problems and recommendations.

189. *Loan policies of co-operative marketing societies.*—Marketing societies issue loans to their members on the pledge of produce on the following chief conditions :—

(i) In the case of a loan on the pledge of foodgrains, the amount should not exceed 75 per cent of the market value of the produce. (ii) In the case of commercial produce, the loan should not exceed 60 per cent of its market value except in the case of

cotton, groundnut and supari, in which case loans may be allowed up to 70 per cent. (iii) The maximum amount of loan admissible to a member is ordinarily Rs. 2,000. But in special cases it may go up to Rs. 10,000 with the sanction of the Central Bank. Subject to this limit, a member may be given a loan not exceeding 100 times his paid-up share capital. (iv) The produce pledged should be secured either in the society's own godowns or in other suitable godowns approved by the Central Bank. In the case of a godown rented from a borrower, a letter is taken from him declaring that he has no lien on the produce stored in such godown. (v) If the produce is stored in improvised godowns such as puries, pits, etc., the member should furnish collateral security of two sureties or of immovable property. No loan exceeding Rs. 3,000 is granted on the pledge of produce stored in improvised godowns. (vi) The loan is generally for a period of six months subject, however, to extension up to one year if the commodity can keep for a long time in good condition. Regarding insurance of produce in the joint names of the Central Bank and the society and also the effective custody of produce by the Central Bank (vide chapter on the Central Banks 8).

The conditions governing the grant of produce loans contain adequate safeguards and do not in our view, require any change. One point has, however, to be considered, viz., whether the basis of 100 times the paid-up share capital for the borrowing of a member may not be modified. This nominal relationship between share capital and borrowing was fixed in the early stages when it was thought that a higher proportion of share capital to borrowing might deter persons from borrowing from the marketing societies. In the future set up, when marketing societies are expected to play a vital role in the scheme of integrated credit, they should possess adequate storage and transport facilities by way of godowns, lorries, etc., and for this purpose, they should command adequate funds of their own. There is, therefore, need for increasing the share capital of the marketing societies and with the present co-relation between a member's share capital and his borrowing, it will not be possible to fulfil this need. No doubt, fixing the borrowing limit on the basis of, say, ten times the paid-up share capital of a member as in the case of village credit societies, would be a hardship on the borrowers. Hence, we suggest that the limit of hundred times may be reduced now to at least fifty times the paid-up share capital of a member.

190. *Desirability or otherwise of co-operative marketing societies issuing cultivation loans, etc., to their members directly.*—The present policy is that loans for cultivation expenses and loans on the security of standing crops should be issued by the village credit societies and that marketing societies should confine themselves to issuing loans on the pledge of produce. Co-ordination between the activities of the village credit societies and the marketing societies is established through the scheme of integrated (controlled) credit under which the marketing societies deduct the

loan amounts due to the village credit societies from the sale proceeds of the produce brought by the members concerned and remit the money to the Central Bank on behalf of the societies.

It has been suggested to us that the marketing societies also should be permitted to issue cultivation loans and loans on the security of standing crops to their individual members. The grounds on which this suggestion has been made are (a) that in some places the village credit societies do not exist; (b) that where they exist, the working of some is unsatisfactory with the result that some villagers prefer to seek the help of the marketing societies directly; (c) that for fear of unlimited liability some villagers are reluctant to become members of village credit societies; and (d) that the maximum credit limit in some places is not sufficiently high to meet their entire requirements.

The first ground does not present a serious difficulty as societies could be organized in places where they do not exist; or the villages concerned may be brought within the area of operations of existing societies in the neighbourhood. The remedy for the second difficulty is for the Central Banks to take effective steps to tune up the working of societies by reconstituting the panchayats, if necessary. Regarding the third reason, it cannot be said that unlimited liability has acted as a great deterrent. There are thousands of village societies with well-to-do persons as members. The last argument also is not wholly tenable. The individual maximum credit limit ranges from about Rs. 1,000 to Rs. 3,000 for village societies situated in deltaic areas and from Rs. 500 to Rs. 1,500 in societies situated in non-deltaic areas. Only in the case of new societies, the maximum limit is fixed at a lower level for the first few years. Normally, these limits should be enough for most of the agriculturists. Further, loans issued by village credit societies on the pledge of standing crops are excluded from the individual maximum credit limit fixed in the by-laws.

The area of operations of a marketing society normally extends over a whole taluk. In such a wide area, it would be impossible for it to ensure the proper and productive application of credit. The essence of co-operative credit is that it is controlled and supervised and these two considerations cannot be expected to be satisfactorily fulfilled by marketing societies. The directors of a marketing society cannot have as much personal knowledge of the credit-worthiness and character of the borrowers as is possessed by the Panchayatdars of village credit societies. Another consequence of the marketing societies taking up this business would be that the transactions of several village co-operative societies which are already well below the economic level would go down still further and possibly take away desirable personnel from them. In view of the reasons given above, we do not consider it desirable for the marketing societies to issue cultivation loans or loans on the standing crops.

191. *Linking of credit, production and marketing—Controlled Credit Scheme.*—The integration of the activities relating to credit, production and marketing is a very important factor, in the promotion of the economic well-being of the agriculturists. Rural credit, if it is to subserve the purpose in view, should be a means for augmenting and improving production. If the full benefits of increased and improved production are to be reaped by the ryots, they should be helped to market their produce in an advantageous manner. Better marketing facilities, it is needless to say, will have beneficial reactions on production. All these ideas are summed up in the twin sayings "better farming" and "better marketing" referred to in the preamble to the Madras Co-operative Societies Act. It is in recognition of these facts, that the village credit societies are encouraged to give loans to their members for cultivation purposes on the conditions that they agree to sell through the marketing societies in the area, the whole or any portion of their produce or at least as much of it as would be sufficient to cover the loans given, and authorize the marketing societies to deduct from the sale-proceeds the loans given by the credit societies. It is this principle of linking these various activities that underlies the scheme of controlled credit, the working of which has been explained earlier.

Though the idea behind the controlled credit scheme is sound, it has not been possible to implement it extensively or successfully in all cases. The reasons adduced for this state of affairs are as follows :—

(i) The Central Banks do not evince adequate interest in the effective implementation of the scheme, with the result that their supervisors do not work wholeheartedly to make the scheme a success. The supervisors are in close and continuous touch with the members of the village societies and the degree of interest taken by them makes all the difference between success and failure of the scheme.

(ii) In some districts, the number of societies in the charge of each supervisor is twenty and more. A supervisor can be reasonably expected to attend to the implementation of the controlled credit scheme, besides his routine work, only if he is put in charge of about twelve to fifteen societies.

(iii) Loans are not disbursed by societies in time, and when disbursed, the loan amounts sometimes fall short of the requirements of the members. The result is that they borrow also from traders. This in turn, leads to diversion of their produce to the latter.

(iv) In some places the working of the scheme has been hampered for want of transport or storage facilities.

(v) Suitable men are not selected as Marketing Panchayatdars.

(vi) There is a general lack of a sense of responsibility on the part of the borrowers of the rural credit societies who do not take seriously the agreement executed by them to sell the produce through the marketing society. Enforcement of the agreement is possible when only a few members violate their undertaking but when evasion is wholesale, enforcement is not practicable.

(vii) The panchayatdars of rural credit societies are in some cases apathetic and uninterested in the working of the scheme.

(viii) There should be willing and purposive collaboration between the rural credit society, marketing society, supervising union and the Central Bank if the scheme is to be a success and such collaboration is not always forthcoming.

We make the following suggestions to ensure the proper working of the scheme :—

(i) The Central Banks should display keen interest in the working of the scheme. At least in areas where the scheme is working they should see to it that the number of societies placed in the charge of each supervisor is not more than 15.

(ii) It is desirable that a separate officer is appointed—an Assistant Executive Officer for instance—solely charged with the responsibility of working the scheme and of closely supervising the work of the supervisors. He should be held responsible to ensure the timely disbursement of adequate cash credit loans. He should keep himself in close touch with the members and see that they carry out their agreements to take their produce to the marketing societies. He will be a sort of a liaison officer between the credit societies on the one hand and the marketing societies on the other, resolving differences if any, between them. As one charged only with the duty of implementing the scheme he is bound to show better results.

(iii) The marketing societies should equip themselves with their own godowns and other marketing aids and thereby render greater help to the producers in marketing their produce. Mere propaganda or appeal to the members to take their produce to the marketing societies would be of very little value and it would of course be impossible to convince the members of the utility and usefulness of co-operative marketing.

(iv) The village credit societies would do well to issue cultivation loans as far as possible in kind, such as manure. This would establish a close link between them and their members and would infuse a sense of moral responsibility in the latter to take their produce to the marketing societies.

(v) It is understood that the Salem Co-operative Central Bank has, with a view to encourage the scheme, been giving a rebate of $\frac{1}{2}$ per cent of interest on loans issued under the controlled credit system, provided the produce was brought by the members to the marketing society. This example is commended for adoption by the other central banks also, their financial resources permitting.

(vi) It may be laid down as a policy that agriculturist members of village credit societies should also become members of the local marketing societies or in their absence the District Marketing Federations or their branches and agree to sell their surplus produce through them before loans are advanced to them by the former.

The scheme of controlled credit, if worked successfully, will prevent misapplication of loans and growth of overdues, two unwholesome features of the working of our village credit societies. It is also calculated to provide timely finance to the agriculturists and this will obviate the standing reproach that co-operative credit is often delayed credit. It will also promote better farming and better marketing. For all these reasons, it is necessary and highly desirable that the scheme is worked more earnestly by co-operators.

192. Regional marketing societies or produce-wise marketing societies.—The question has been raised, whether it is more advantageous, to have separate marketing societies for each kind of farm produce, as in certain districts of Bombay, etc., or regional societies dealing with a variety of farm produce. The marketing societies of our State usually deal in a variety of commodities which are grown in their area of operations. But there are a few societies which deal in produce principally raised in their areas for instance, the Tanjore Co-operative Marketing Federation deals in paddy and the Tiruppur Co-operative Marketing Society deals mainly in cotton. A few marketing societies to deal in single commodities such as cotton, arecanut and coconut have also been started. It is said that a separate society for a single commodity will be more efficient and can ensure all the advantages of specialisation but the difficulty is that, generally, such societies may not command adequate volume of business to make them economic units. The agriculturists in this State are growing a variety of crops and have small surpluses of all commodities for sale. If single commodity societies are organized, they will have to seek the assistance of a number of societies in the same place for the marketing of their different commodities. The present system of having a general marketing society, to deal with all commodities grown in its area of operations, can continue. Practically however, such societies will deal in the marketing of one or two principal agricultural commodities of the area and thus secure all the advantages of specialization, without the drawbacks inherent in them.

However, there must be no objection to the formation of a separate society at the regional level, i.e., for areas exceeding district limits for particular crops, say for pepper in the West Coast, for undertaking wider marketing especially inter-State and foreign trade.

193. *Method of marketing—Outright purchase or agency basis.*—The comparative advantages and drawbacks of the various systems of marketing and paying for the farm produce have been explained earlier. Out of a total value of the produce marketed during 1953-54, viz., Rs. 205.12 lakhs, the value of the produce purchased outright and sold represented Rs. 72.15 lakhs. Thus a considerable portion of the produce brought to the marketing societies was purchased outright by them.

The generality of the views expressed to us is in favour of the agency system while a few have advocated the adoption of the system of outright purchase and sale. Any one system of paying for the farm produce cannot be advocated for adoption by all the marketing societies or by any marketing society at all times. All the different methods of handling and paying for the produce should exist side by side. The method of outright purchase and sale has undoubtedly a greater appeal, but there is inherent risk to the marketing societies, and has therefore to be undertaken with care and circumspection. The analogy of big private concerns doing such business on a large scale is scarcely applicable, since the marketing societies are intended to secure better marketing facilities for the members and not make profits for themselves. Any severe set back arising from speculative purchases will produce serious consequences, not only on the particular society but also on the movement as a whole in the locality. The volume of business being what it is, the marketing societies are not in a position to influence to any great extent, much less to regulate the prevailing prices and hence we consider, that outright purchase on a large scale should be discouraged.

Nor can the societies command adequate resources to do outright purchase on an extensive scale. Above all, it is not necessary for them to make such purchase on a large scale—having due regard to their primary objective of enabling the ryots to secure a better price, especially as they grant produce loans to enable them to hold on for a better market. Outright purchase is necessary only in respect of persons who have only small quantities to sell, since it is not worthwhile for them to wait and since they are not willing to take produce loans and defer sale. Hence in our opinion, the present policy of allowing such transactions only to a limited extent is sound and may be continued.

194. *Grading and standardization of produce.*—Marketing societies in this State have undertaken most of the marketing functions

such as assembling, storing, financing, insuring, transporting, selling and in some cases processing also. But with regard to grading and standardization, no attempt has been made so far. Grading could be undertaken only with the consent of the members. The societies should have competent technical staff. The volume of produce handled by them should be substantial. The societies should also undertake processing on a large scale, as an essential preliminary to grading and standardization. As stated earlier the value of the produce now handled by the marketing societies is about one per cent of the marketable surplus of the produce raised in a year. The value of the produce processed during 1953-54 was only about Rs. 9 lakhs out of the total value of the produce marketed which was Rs. 205 lakhs. During the period of the Second Five-Year Plan, it is proposed to increase the share of co-operatives in the field of marketing to 10 per cent. It is also proposed to set up twenty groundnut decorticators, twenty cotton ginning factories and fifteen hand-pounding units for paddy. The question of grading marketing societies have begun to handle atleast the target volume marketing societies have begun to handle at least the target volume of produce in the Second Five-Year Plan. For the present, there appears to be no scope for it, generally speaking. There is however no objection wherever conditions are favourable for the societies grading the produce before sale, as for instance in the case of potatoes. We had occasion to visit the Mettupalayam branch of the Nilgiris Potatoe Marketing Society and to observe the grading done there. As grading will serve to establish a wider market and lead to sale by samples, benefiting the primary producers, the societies should keep this objective in view and introduce this wholesome practice whenever conditions warrant.

195. *Payment of bonus to members in marketing societies.*—The by-laws of marketing societies do not provide for the payment of bonus to their members out of net profits.

The profits of a marketing society are derived mainly from (a) its business relating to the outright purchase and sale of its members' produce, (b) sale of the members' requirements such as manure, agricultural implements, etc., (c) commission earned in its agency business, and (d) margin of interest between its borrowing and lending rates in respect of the produce loans issued by it. The nature of profits earned by item (b) is analogous to the profits earned in a consumers' stores, where bonus on purchases is paid out of net profits to the members. These profits could be said to represent an overcharge to the members for the services rendered to them. It could be reasonably argued that the profits earned in items (c) and (d) represent a similar overcharge for the services rendered. As regards (a), it may be said in a sense that the members have been underpaid.

However in practice—it is rather difficult to apportion the overcharge or underpayment in respect of each of these items. Further,

the following facts have to be borne in mind in applying the principle of distributive justice. As regards (a) the sellers will be usually paid the market price and they cannot legitimately claim a share in profits, especially as such outright purchase from them may lead to losses also.

As regards (b) it has to be said that this business is not the major item in the working of a marketing society. The members cannot be said to have been charged a higher price than the prevailing prices as the marketing societies have to sell at current prices for obvious reasons.

As regards (d) also, no bonus need be given since in credit societies in our State no rebate of interest or bonus on the basis of interest paid is allowed. The idea has all along been to cheapen the cost of credit by reducing straightaway the rate of interest, rather than allow rebate on interest, out of net profits.

After all, the prime objective of marketing societies is to market the produce of their members and it is therefore necessary in our opinion to provide incentives to them to sell the produce through the marketing societies. Normally, the societies will have to function purely on commission basis. Considering these major aspects, we consider that bonus may be declared on the basis of the value of produce sold through the society. There is no legal impediment in rule XII (C) for payment of such bonus.

196. Need for District Marketing Federations.—The primary marketing societies in our State operate within a limited area, usually a taluk. Handling only a small volume of produce, they are unable to secure the most advantageous prices for their members. It has therefore been advocated that District Marketing Federations should be formed, with a view to secure the advantages of wider marketing for the agriculturists by undertaking inter-State and export trade in particular. However, instead of starting new marketing federations, it has been proposed by the department to reorganize the existing District Wholesale Stores into what are called District Supply and Marketing Federations.

The reasons for adopting such a course are the following :—

The District Wholesale Stores have already been doing some business and have, therefore, some business experience. They have built up considerable financial resources during the period of controls. Their business has however declined after the lifting of control in 1952. Their total sales in 1954-55 amounted only to Rs. 234 lakhs, being less than one-third of their total sales in 1952-53. They are unable to serve the purpose for which they were started, viz., catering to the needs of their affiliated consumer stores. Some of them have begun to work at a loss and at this rate, the resources built up by them will be frittered away in the course

of years. The best way of preventing the wholesale stores from drifting into such a state and of making them useful agencies is to arrange for taking upon themselves the functions of a District Marketing Organization, in addition to services which they could still render for the consumers' organizations.

It has been proposed that the membership of the District Supply and Marketing Federation might consist of agricultural credit societies, marketing societies, stores societies, other societies interested in the development of marketing, and individual agriculturists. (Except marketing societies, the other categories of membership referred to are already there). The Board of management of the Federation is to consist of directors elected separately by the marketing societies, stores societies, other societies and individuals. In addition to catering to the needs of the primary stores, it has been proposed that it will arrange for the sale of the agricultural produce of its members and affiliated societies, and supply the agricultural requirements of its members.

No doubt, an objection can be raised that one institution cannot serve the interests of both the producers and the consumers. In our view, this objection is rather academic and has no practical validity. In the economy of our country, the dominant need is to serve the interests of the primary producers in as great a measure as possible. The recommendations of the Rural Credit Survey Committee also envisage the creation of District Marketing Federations for this purpose. We therefore support in principle the reorganization of the District Wholesale Stores into District Supply and Marketing Federations. We would, however, make the following recommendations regarding the lines on which they should work :—

(i) The District Supply and Marketing Federations should specialise in inter-State and export trade. In respect of commodities for which export licences are necessary, export trade may well be entrusted to it. It should, of course, procure the produce for export only from the producers' societies.

(ii) In the State trading Schemes such as distribution of ammonium sulphate, etc., earmarked for co-operatives, district agency might be given to this institution.

(iii) It should purchase the agricultural requirements of its members (as well as the members of its affiliated marketing societies) and supply them at reasonable rates.

In short it should not work merely as another primary marketing society, but should render services of a different and superior nature in the field of agricultural marketing, etc.

(iv) The District Federation may open branches in places where primary marketing societies do not exist. Where the existing

primary marketing societies are weak and do not function effectively, they may well be liquidated and in their places the District Marketing Federations may open branches.

(v) So far as its affiliated primary stores are concerned, it need not purchase outright and sell the commodities that might be required by them. Experience has shown that wholesale stores have not been able to cater to the needs of their primary stores to the latter's satisfaction. The reorganized federation may, therefore, confine its services to the primary stores, preferably to supplying on indent system such commodities as may be required by the latter.

In conclusion, we would like to state that the proposed reorganization should be undertaken only in places where the central stores are unable to function effectively in the interests of the affiliated primary stores. In a few cases (for example in Coimbatore), it may be possible for them to work as consumers' federations and serve the needs of their affiliated primary stores. In such cases, they need not be transformed into District Supply and Marketing Federations. Instead, new district federations may be formed.

197. *Export quotas for the marketing societies.*—The arrangements now in force for the allotment of export quotas to co-operative societies in this State are as follows :—

The Deputy Chief Controller of Exports allots a fixed quota of various agricultural produce for export by co-operative societies recommended by the Registrar through the State Government. The quantity allotted to co-operative societies is usually about 20 per cent of the total allotment permitted for the State. The allotment is made every half-year and export permits are issued to societies through the Deputy Registrars concerned.

Permits for export are ordinarily granted only to societies composed of producers, but some Central Stores have also been allotted quotas for export on condition that the produce is procured only from producers, through rural credit societies, or other societies composed of producers and that the bulk of the profits earned in the export is passed on to the producers or the producers' societies retaining for themselves only a small margin for the services rendered.

During the year 1954-55, twelve societies exported 739 tons of onions and twenty-one societies exported 405 tons of chillies against permits for 2,775 tons and 420 tons respectively, granted to them.

It was found that the present system suffered from the following drawbacks :—

(i) As a number of primary societies applies for export permits and as the quantity allotted is very limited, the share that each

one of them gets is very small. In view of the heavy cost involved and the small quota allotted, the primary societies cannot send their representatives, if necessary, to foreign countries to establish direct contact with the importers. Often they have to make use of middle-men agents in this business. Consequently they are unable to reap the full benefits of the export business. (ii) Not being fully conversant with the trend of prices in the foreign markets, the societies are not in a position to sell the produce for the maximum ruling price. (iii) The Deputy Chief Controller of Exports usually allots a fixed quota of agricultural produce for export by co-operative societies. The Registrar (after calling for proposals from the Deputy Registrars) recommends the names of societies through the Government. This procedure naturally causes some delay and by the time the societies get their permits, the merchants who have already secured permits, export the quotas allotted to them with the result that prices in the importing markets register a fall. The societies are placed at a disadvantage as they have to export at a time of falling prices.

With a view to overcome these difficulties a revised method has been suggested to Government by the Registrar in consultation with the representatives of the wholesale stores and select marketing societies on the following lines :—

(i) Each wholesale stores (i.e., District Supply and Marketing Society) will be allotted a share of the total quota of a particular commodity with reference to the production in the district. (ii) The wholesale stores will in turn make allotments to the primary marketing societies in the district. This allotment will be made by a committee constituted for the purpose. (iii) The entire quantity required for export should be invariably procured from the primary marketing societies and not from individuals, etc. (iv) In exporting the commodities, the Central Stores will act only as agents of the marketing societies and will be entitled for a reasonable commission only. The entire sale-proceeds less incidental charges and commission should be passed on to the marketing societies which supply the produce and they in turn should pass on the profit to the producers after retaining a portion for themselves. It has been recently agreed at a conference of the wholesale stores and select marketing societies that 50 per cent of the profits should be passed on to the primary producers concerned, about 20 to 30 per cent carried to a Business Reserve and the balance divided equally between the wholesale stores and the primary marketing societies which procured and supplied the produce.

The new system has the following advantages :—

(i) The Central Stores, with their large resources and business experience will be in a better position than the primary marketing societies to negotiate for the maximum possible price in

foreign countries and also to arrange for export with minimum incidental charges. (ii) The possibility of any misuse of the permits will be prevented since the export will be done by a responsible central organization. (iii) The proposal will save delay in the issue of permits to co-operatives and ensure that the societies get their permits almost simultaneously with the merchants. As soon as the quota is released, applications will be called for from the central stores with the recommendations of the local Deputy Registrars and the distribution of the quota will be recommended by the Registrar directly to the Deputy Chief Controller of Exports if the proposal of the Registrar in this regard is approved by the State Government.

We would like to make the following suggestions in this regard :—

(i) The co-operatives will be able to secure the maximum possible advantage in the matter of prices, etc., only if they have continuous and constant contact with importing wholesalers in the foreign markets. It will not be possible for them to develop business relationship off and on when they get export permits. They should have their own agents at the foreign markets to study the trend of demand, prices, etc., and report to them in time, and to be in contact with the merchants at the importing centres. The District Supply and Marketing Societies (Co-operative Wholesale Stores) may do well to appoint conjointly a representative or representatives to discharge this function. They may usefully form an ad hoc committee to look after matters connected with the export business, give instructions to foreign representatives, receive reports from them and communicate marketing information to the District Supply and Marketing Societies participating in the foreign trade, till a State Marketing Society comes into being.

(ii) The aim of the whole scheme of integrated credit under which financial aid on a large scale is proposed to be made available by the State, is to augment the income of the agriculturists by the promotion of co-operative marketing and it is but meet that this aim is furthered by other ways of assistance by the Government, such as giving increased allotments of quotas to the co-operatives for export. We therefore suggest that the allotment to co-operatives may be increased from 20 to 50 per cent of the export quota available for the State in respect of staple agricultural produce entering the foreign markets.

198. *Co-operative marketing societies vis-a-vis regulated markets.*—A view has been expressed that in places where regulated markets have been established, co-operative marketing societies are unable to function effectively and develop their transactions. It is therefore necessary for us to examine the position of marketing societies vis-a-vis regulated markets.

Regulated markets have been established under the Madras Commercial Crops Markets Act, 1938. The chief provisions of the Act are—

(i) The State Government may declare by notification the area to which the provisions of the Act would apply.

(ii) A market committee will be established in every notified area to enforce the provisions of the Act.

(iii) The growers of commercial crops in the notified area and the licensed traders will be represented on the Market Committee. The District Agricultural Officer of the district will be an ex-officio member of this Committee.

(iv) Under section 5 (1) of this Act, no person shall within a notified area set up, establish or use any place for the purchase or sale of a notified commercial crop except under and in accordance with a licence granted to him by the Collector. After the establishment of a market in a notified area, no licence for the purchase or sale of the notified commercial crop shall be granted or renewed in respect of any place situated within such distance of the market as may, from time to time, be fixed by the State Government. Persons selling a commercial crop grown by them or co-operative societies selling the commercial crop grown by their members, are exempt from the provisions of this sub-section. But it is open to Government to withdraw this exemption at any time.

(v) Under section 5 (3) no person shall within a notified area, set up, establish or use any place for the storage, weighing, pressing or processing of any notified commercial crop, except under and in accordance with the conditions of a licence granted to him by the Collector. This sub-section does not apply to a person in respect of any notified commercial crop grown by him. (Co-operative societies are not exempt from this sub-section.)

(vi) The Market Committee is competent to levy fees on the commercial crops purchased or sold in the notified area subject to such rules as may be made by the Government.

(vii) No trade allowance other than the allowance prescribed by rules made under this Act or the by-laws framed by the Market Committee, shall be made or received in a notified area by any person in any transaction relating to the notified commercial crop.

Under the rules framed under this Act, Government have conferred powers on the Market Committee to establish regulated markets each in charge of a Superintendent, to employ auctioneers, to obtain reports of carts and lands brought into the licensed premises to require licensed brokers to keep proper accounts and to control weighing and to arrange for the inspection and testing

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of scales and weights. Every Market Committee is required to provide in their by-laws, among other things, regulations relating to the duties of brokers, commission agents, buyers, sellers and weighmen.

Regulated markets have been established in this State in respect of six crops, viz., cotton, tobacco, groundnut, gingelly, coconut and arecanuts. There are seven market committees in the seven districts of South Arcot, North Arcot, Coimbatore, Ramnathapuram, Tirunelveli, Malabar and South Kanara. Some of the regulated markets especially those in the South Arcot district and the one at Tiruppur have been able to attract to their marketing yards a large portion of the notified produce grown in their areas.

Have regulated markets adversely affected the working of marketing societies.—The question whether the establishment of regulated markets have had an adverse effect on the working of the Marketing Societies, does not admit of a categorical answer. The position varies from district to district. In the South Arcot district till the introduction of the Commercial Crop Markets Act in 1939, the South Arcot District Groundnut Co-operative Sale Society, with its four branches at Vriddachalam, Tirukoilur, Cuddalore and Villupuram was doing good business. During the year 1938-39 these four branches accounted for sales to the value of Rs. 1.41 lakhs, Rs. 0.76 lakhs, Rs. 0.67 lakh and Rs. 1.15 lakhs respectively. In terms of present market prices the value of these sales could be easily taken as five-fold. With the establishment of regulated markets in the district, the District Sale Society became defunct. In the Salem district, where the Commercial Crops Market Act has not been applied, marketing societies are functioning quite successfully. In the North Arcot district, neither the regulated markets nor the marketing societies have made any headway. In Gobichettipalayam (Coimbatore district) the working of the marketing society has not been hampered at all, even though, a regulated market has been established in the same place. The total sales of this marketing society during the year 1954 amounted to Rs. 2.27 lakhs in its yard, whereas the sale was very insignificant (about 68 pothies of cotton only) in the yard of the regulated market. In South Kanara, the District Agriculturists' Co-operative Marketing Society, which is a long established and powerful agency of the producers has been functioning, unaffected by the introduction of the Commercial Crops Markets Act in the district.

The absence of a regulated market cannot by itself lead to the prosperity of a co-operative marketing society. If that were so, marketing societies should have been flourishing in all the districts of the State where the Commercial Crops Markets Act has not been applied. But that is not the position. After all, co-operatives are only a means to an end—the end being “fair deal” to the ryot in selling his produce. There is, therefore, no ground to

suggest that as a general rule, regulated markets should not be established at all places where co-operative marketing societies are in existence.

Where, however, marketing societies have already demonstrated their ability to bring the producers and merchants together in their marketing yards and have ensured fair dealings between the two, as in the case of Salem and South Kanara, the establishment of a regulated market is unnecessary. In such cases the provision of the Commercial Crops Market Act need not be applied. Anyhow, in these areas and also elsewhere co-operatives may be exempted from the provisions of the Commercial Crops Marketing Act prohibiting the sale in notified crops. In other words, they may be allowed to function unhampered.

Should the management of regulated markets be entrusted to marketing societies.—It has been suggested, that, with a view to make the working of marketing societies more effective, they should themselves be entrusted with the management of regulated markets by a suitable amendment to the Commercial Crops Markets Act. The suggestion is evidently based on the assumption that by virtue of the powers and privileges conferred on the Market Committee, an indirect compulsion could be exercised to make the produce come into their market yards. Apart from the fact that this course by itself would not bring about the desired result (as demonstrated by some of the existing regulated markets which are having only insignificant business), there are other valid objections to it. The market committee has to regulate dealings between the two participants to the trade, buyer and seller. It has therefore to maintain certain “poise and balance” between these two sections. The marketing society being an organization of sellers, its actions would easily be viewed with suspicion by the other party. By no stretch of argument, can it be made out that it is the legitimate business of co-operatives to take over the management of regulated markets, as their business is and should be primarily concerned with the sale of their members' produce.

However, marketing societies should have adequate representation on the Market Committees constituted under the Commercial Crops Markets Act and we recommend that at least one-third of the representatives of the Regulated Market Committees should be nominated from among marketing societies in consultation with the Registrar after suitably amending the Commercial Crops Markets Act. This would ensure better co-ordination between the two.

Regulated markets and marketing societies discharge complementary functions.—We would like to state that the marketing societies and the Market Committees should function as complementary institutions so as to confer greater benefits on the agricultural producers. They should work in unison. Though both of

them discharge a few common functions such as the ensuring of correct weights and measures, reasonable trade charges, etc., there are certain other functions which a regulated market cannot discharge and which the Co-operative Marketing Society can discharge in the interest of the producers such as the following :—

(i) The village credit societies could provide cultivation finance to their agriculturist members and arrange to transport the produce to the marketing society through the marketing panchayatdar.

(ii) The marketing society could provide facilities for drying the produce in its yards and to stock them in its godowns without any time-limit, as in the case of the Marketing Committee.

(iii) The marketing society could grant loans on the security of the produce lodged in its godowns to help the agriculturists to wait for a better price.

(iv) By establishing processing plants, the marketing societies could eliminate the middlemen at this stage and divert his profits to the producers.

(v) The marketing society can supply the agricultural requirements of its members or the members of its affiliated societies, such as seeds, manures, agricultural implements, etc.

The implementation of the following suggestions will, in our opinion, minimize friction and develop co-ordination between the marketing societies and regulated markets :—

(i) Under section 5 (i) of the Commercial Crops Market Act, licences for the purchase and sale of a notified commercial crop could be refused in respect of any place situated within a specified distance of three to five miles around the regulated market. Though co-operative societies selling the commercial crops grown by their members are exempt from the provision of this sub-section, it is open to Government to withdraw it at any time. It is understood that the restriction contemplated in this sub-section was applied in the Tiruppur market for cotton, where purchase and sale of cotton within a radius of three miles around the yard was prohibited. It is desirable that all marketing societies are allowed to market even the notified crops from their own godowns (wherever they have godown facilities).

(ii) There are marketing societies which have either no godowns of their own or have inadequate godown accommodation. In such cases the Market Committees may allow the co-operatives to occupy their godowns within the regulated markets and permit them to issue loans on the pledge of produce (whether they are notified crops or others) to help the producers to wait for a favourable market. The marketing society should be free to market without the intervention of the Market Committee, the crops other than the notified crops stored in the godown of the Market Committee. Such an arrangement is reported to have been agreed to between the South Arcot Market Committee and the marketing

societies at Tindivanam, Villupuram and Vriddhachalam. We commend the adoption of this method elsewhere also, if practicable. Similarly co-operative societies if they have premises to spare may place them at the disposal of the Market Committees for running regulated markets on mutually agreed lines.

199. *Recommendations of the Rural Credit Survey Committee.*—The recommendations of the Rural Credit Survey Committee envisage the creation of several bodies at all-India and State levels such as the National Co-operative Development and Warehousing Board, All-India Warehousing Corporation and the State Warehousing Corporation and the institution of two funds, viz., the National Co-operative Development Fund and the National Warehousing Development Fund for developing the processing and marketing of agricultural produce. It is not necessary for us to describe herein the constitution and functions of these bodies. We feel that such central bodies constitute an unwelcome interference in the sphere of the State's authority. Their constitution and character are undemocratic. There is not adequate representation also in them for the co-operatives. In this context, we have recommended in Chapter 3 that a State Co-operative Development Board should be constituted, that the funds falling to the share of this State, should be placed at the disposal of this body, and that the sole responsibility of administering these funds should be only with it.

We deal below with the other recommendations of the Rural Credit Survey Committee with regard to the co-operative marketing structure :—

(i) The Co-operative Marketing Structure should consist of three tiers, primary, district and apex, the last one to come into existence after the other two organizations are well developed and are effectively functioning.

We agree with this view.

(ii) District marketing federations may be formed on a territorial or commodity basis with individuals and primary marketing societies as their members.

We agree with this view subject to the modification that agricultural credit societies also should be eligible to become members of the federations.

(iii) There should be State participation in the share capital of the co-operative marketing structure from the apex to the primary level at not less than 51 per cent.

Though State participation is generally welcome, it must be flexible with reference to the needs of the individual institutions. What we have stated in Chapter 3 relating to State participation with regard to credit institutions, applies here also.

(iv) Co-operative societies should build their godowns at places lower than subdivisional levels; at higher levels the All-India and the State Warehousing Corporations will build their warehouses.

The co-operatives must be allowed to construct godowns not only at village and taluk levels, but also at other centres including district centres where there is need for such godowns. The godowns to be built by the All-India or State Corporations must be in such a manner as will not impede the development of co-operative marketing. In other words where co-operatives are functioning well, no State-sponsored or State-aided agency be generally allowed to start licensed warehouses which may tend to wean away the agriculturists from the co-operatives.

(v) The State Warehousing Corporation proposed by the Rural Credit Survey Committee may take shares in the marketing societies.

The purpose of the State Warehousing Corporation taking shares in the co-operative marketing societies is not apparent to us. Having regard to the fact that the former has a wider clientele comprising non-agriculturists, as compared with co-operatives which deal only with agriculturists, we feel that it is not desirable for the State Warehousing Corporation to take shares in the marketing societies.

(vi) There should be compulsory contribution towards share capital from the members of the primary and district marketing societies either on the basis of produce loans issued or on the value of the produce marketed.

We agree with this suggestion.

(vii) Co-operatives should be given representation on the committees of the regulated markets and on the proposed Advisory Committees when the regulated markets are taken over by the proposed State Corporations.

We agree with this suggestion also. We have earlier recommended that at least one-third of the members of the present Marketing Committees or the future Advisory Committees should be co-operators nominated in consultation with the Registrar. We also suggest that the Deputy Registrar may be an ex-officio member of the Committee just as the District Agricultural Officer.

Government assistance to the marketing societies.

200. *Godowns.*—Under the rules governing the grant of financial assistance to co-operatives for the construction of godowns, Government sanction 50 per cent of the cost of the godown (subject to a maximum of Rs. 7,500 in the case of the marketing societies and Rs. 5,000 in the case of rural credit societies, whichever is less) as subsidy. The other half is to be met by the societies either from

their own funds or by obtaining a loan from the Government. The societies have not availed themselves of this assistance to an appreciable extent. The number of rented godowns is more than the owned godowns, the number being 58 and 295 respectively in the case of marketing societies. The number of godowns owned by the village credit societies is 71.

It has been represented to us that the present ceiling as regards the amount of subsidy admissible is rather restrictive and it is stated to be one of the reasons why there has not been greater response to the assistance offered.

We learn that in the Second Five-Year Plan the following provision had been made for the construction of godowns by marketing societies and village credit societies :—

	Rs.
Primary Marketing Societies—75 godowns at Rs. 30,000 each	22,50,000
District Marketing Societies—15 societies each one godown at Rs. 50,000	7,50,000
Sta Co-operative Marketing Society—1 godown cum office	2,00,000
Total	32,00,000
Rural Credit Societies—100 godowns at Rs. 10,000 each	10,00,000
Large-sized Primary Credit Societies and Rural Banks—200 godowns at Rs. 15,000 each	30,00,000
Total	40,00,000

It has been proposed that 50 per cent of the cost should be given as subsidy and the remaining 50 per cent as interest-free loan, repayable in twenty years, repayment commencing after the first five years.

The provision made for construction of godowns in the Second Five-Year Plan is in our opinion quite appropriate in the context of the proposed scheme of integrated credit which cannot be implemented successfully without a net work of godowns, of adequate capacity. According to an estimate made in the Civil Supplies Department of the Board of Revenue, the estimated cost of a godown with a storage capacity of 2,200 tons, is Rs. 75,000. Based on this estimate, the storage capacity of the godowns proposed for the primary, District and State Marketing Societies would be about 880, 1,460 and 4,400 tons which is not too large, considering the area of operations normally covered by each unit, viz., taluk, district and State. Similarly, the storage capacity of the godowns proposed for the ordinary and large-sized credit societies would be about 300 and 450 tons respectively. It is quite necessary that 50 per cent of the

cost of the godown should be continued to be given as subsidy if satisfactory progress in this State is to be maintained. It is needless to stress the utility of such godowns in evening out the prices between the harvesting periods and normal periods of scarcity and also in implementing a policy of price support when necessary. If the object of marketing co-operatives is to be realized, godowns are a desideratum. Any restriction in the quantum of subsidy will have deleterious consequences on the programme of construction of godowns indispensable for securing a fair deal to the agricultural producers. In view of the fact that only a minimum storage capacity has been provided for, at all levels of the Co-operative Marketing Structure, the present restriction on the maximum amount of subsidy admissible may be waived by Government. Nor is it desirable to curtail the programme relating to the construction of godowns in the Second Five-Year Plan—particularly in villages.

Another point to be considered is that till the godowns are constructed, marketing societies may have to use rented buildings as godowns. Some times even societies that own godowns may have to adopt this course during production seasons if their godown space is inadequate. We would suggest that in such cases also, 50 per cent of the rent paid may be given as subsidy subject to the rent being economic and reasonable.

Processing activities.—The importance of processing in reducing middlemen's profits needs no elaboration. Agriculture in advanced countries in the wake of agrarian revolution has acquired the following four characteristics: Specialization, Commercialization, Mechanization and Industrialization. The last feature refers to nothing but the processing of agricultural produce. It means that the produce is taken one or more stages nearer consumption by the agriculturists themselves. This is generally possible only if the agriculturists combine, for obvious reasons. Great strides have been made in this direction in all the advanced countries through the medium of co-operatives. The processing activities now undertaken by the marketing societies are very meagre in our State—indeed in our country. During the year 1953-54, out of the total value of the produce sold by the marketing societies, i.e., Rs. 205 lakhs, the value of processed produce was only 8.34 lakhs. This was accounted for by 9 out of 120 marketing societies which either owned or hired processing plants, for cotton, groundnuts, coffee, oil-seeds, etc.

We learn that the following provision has been made for the establishment of processing plants and the starting of processing societies during the period of Second Five-Year Plan :—

	Rs.
(a) Twenty cotton ginning factories at Rs. 31,000 each	6,20,000
(b) Twenty ground-nut decorticators at Rs. 24,000 each	4,80,000
(c) Fifteen hand pounding units with 20 chakkies at Rs. 50 per chakky	15,000

It has been proposed that 50 per cent of the cost of processing plants should be given by the Government as subsidy and the remaining 50 per cent as interest-free loans.

It is proposed to organize separate processing societies composed of growers in respect of produce, the processing of which cannot be undertaken by the marketing societies themselves. These are sugar factories, sago manufacturing factories and cotton gins (to be owned by agriculturists).

Three sugar factories composed of cane growers have been registered with Headquarters at Ambur, Madurantakam and Udumalpet. The capital required is proposed to be raised by way of contribution to share capital from the growers and Government and by way of loans from the Industrial Finance Corporation. It is expected that Rs. 20 lakhs will be invested by the Government as share capital in each of the factories. The working capital required for the factory will be provided by the State Co-operative Bank on Government guarantee.

In view of the large capital outlay required for running these factories, enormous benefits which are sure to accrue to the agriculturists of the localities concerned and the need for establishing such factories in our State which is only sparsely industrialized to make the occupations of the people more balanced, we recommend the grant of liberal financial assistance in the manner proposed by the Registrar.

It is proposed to establish five sago manufacturing societies in the Salem district to help the growers of tapioca in securing a better price for their produce. The cost of each factory with a daily productive capacity of about 10 to 15 bags of 205 pounds each is estimated at Rs. 30,000 and the total cost for the five factories will be Rs. 1,50,000. It has been proposed that 50 per cent of the cost should be given by the Government as subsidy and the balance as an interest-free loan.

A Co-operative Cotton Spinning Mill is proposed to be established in a predominantly cotton growing area composed of cotton growers and co-operative marketing organizations, with a capacity of 12,000 spindles at an estimated cost of about Rs. 36 lakhs. The amount is to be raised partly by contributions to share capital by members and State Government and partly as loan from the Industrial Finance Corporation. The idea of the State taking shares in such enterprises calculated to benefit the agriculturist and the grant of other assistance are commended on principle for the reasons already given.

Managerial staff for societies.—In the initial stages of their working, marketing societies will be unable to support the large staff required to carry on their business. They require in particular the services of competent managerial staff to direct their activities. If the marketing societies have not generally progressed as per

expectations, one of the main causes is their inability to employ efficient managerial staff endowed with business acumen and imbued with the right spirit. Therefore, if co-operative marketing is to be a success it is necessary to set right this drawback. In the Second Five Year Plan the following provision has been made for State assistance.

Primary Marketing Societies.—Out of the 150 marketing societies in the State (including about 30 new societies to be organized) fifty among the big societies are proposed to be provided each with a Co-operative Sub-Registrar while the remaining 100 will each be provided with a senior inspector to work as Secretary, Manager. It is proposed that the full cost of the staff should be borne by Government for the first two years, half the cost for the third and fourth years and one-fourth of the cost in the fifth year. The total cost under this item will be Rs. 11,81,603 for the plan period.

District Marketing Societies.—Similarly, staff has been proposed by the Registrar for the District Marketing Societies and the State Marketing Societies (when it comes into being). Without going into the several details of the proposals, we support them in principle, as marketing societies have to make a lot of the leeway. We would, however, suggest that the departmental staff proposed to be deputed to the marketing societies should be given reorientation training including practical training in good working marketing societies, private firms doing processing and also successful regulated markets for a couple of months. The officers to be deputed should have a rural bias and be men with a flair for the kind of work they are expected to do.

CHAPTER 13.

MILK-SUPPLY CO-OPERATIVES.

201. Milk has been recognized as the most perfect food known to mankind, being both nutritive and protective. It has been estimated that the minimum daily nutritional requirement is 8 oz. of milk per head. But the per capita consumption of milk and milk products in India stands only at 5.8 oz. In the Madras State it is only 4.18 oz. which is lower than that of the all-India average. The per capita consumption of milk and milk products in some foreign countries is given below :—

Countries.	Daily per capita consumption.
	oz.
New Zealand	56
Australia	45
Denmark	40
United Kingdom	39
United States of America	33

It may be seen, that the per capita consumption of milk in India is very low, when compared with the foreign countries and is less than the minimum nutritional requirement.

The reasons for this poor off-take of milk are not far to seek. In the first place, the production of milk is not adequate. This is not because of poverty of cattle wealth (in fact India possesses one-third of the world's cattle population), but because of the low yield of the milch animals. The average yield of the Indian cow is only 413 lb. per annum whereas it ranges from 3,200 to 7,600 lb. in some of the foreign countries. This low yield is due to the fact that the animals are ill-fed and undernourished. In India 95 per cent of the cattle are in villages and as the owners are mostly men of limited means, they are not able to maintain the animals properly. Further they are not also favourably placed to take to dairying as a profession by itself. Living at a long distance from the consuming centres, it is not possible for them to transport the milk in good condition and they are, therefore, ready to part with the milk even for a low price if only the milk could be sold at their doors. This situation has given rise to the emergence of middlemen who exploit the producers in all ways and deny them a fair price for their milk. As there is no price attraction, there is a tendency on the part of the ryots to neglect their milch animals.

From the point of view of the consumers also, the position cannot be said to be satisfactory. The middlemen traders who are intent only on making profits, freely adulterate the milk before selling it to the consumers. The price also cannot be said to be reasonable with reference to the quality of the milk.

The facts above indicate that to increase the per capita consumption of milk, various measures are necessary :—

(i) The producers should be properly organized so that dairying may be a remunerative proposition to them. (ii) The milk yield of the animals should be increased through better cattle management such as scientific feeding and scientific breeding, etc. (iii) The quality of the milk at the consumers' end should be ensured. (iv) The intermediary agencies should be eliminated and milk should be available to the consumers at a fair price.

It has been found that the co-operative form of organization is the most suitable type of agency to achieve the objects enumerated above. By bringing together producers in suitable groups, it enables them to adopt improved methods of milk production, reduces the number of intermediaries in the trade and ensures a fair return to them, while at the same time, it supplies good milk to the consumers at lesser cost.

1902. The co-operative method has been successfully applied in foreign countries and co-operative dairying is in an advanced stage in many countries such as Denmark, Holland, Ireland, New Zealand, etc., where the bulk of the total production of butter and other milk products is done through the agency of co-operatives. In our country, however, the progress of milk co-operatives is not on such a vast scale, though of late, there has been some distinct improvement in our State. So far as the Madras State is concerned, dairying has registered noteworthy progress mainly because of Government help to them in a generous measure. Government sanctioned the employment of a Dairy Development Officer in 1946 who conducted a survey for the development of the Industry. Later in 1948, Government sanctioned a three-year plan for organizing milk-supply co-operatives and developing the existing milk-supply co-operatives by sanctioning special supervisory staff. The scheme was implemented with good results and it was extended for a further period of three years. The Second Three-Year Plan worked satisfactorily and this is being extended from year to year. When the plan was first implemented, there were in the Composite State 335 milk-supply societies and 26 unions with a total production of 12,000 Madras measures a day. At the close of the scheme period of three years, there were 680 milk supply societies and 38 unions with a daily production of about 29,000 Madras measures. By the end of September 1953, i.e., after a period of five years from the inception of the scheme, there were in all 41 unions and 725 societies in the Composite State of Madras.

203. The progress made by the Milk-Supply Co-operatives in this State from the year 1948 is given below :—

Milk Supply Unions.

Composite State.

Year.	Number.	Members.		Share capital.	Value of milk sold.
		Societies.	Individuals.		
(RS. IN LAKHS.)					
1948-49	30	299	2,570	2.25	57.16
1949-50	36	403	3,126	2.77	66.19
1950-51	38	407	3,587	3.2	71.76
1951-52	41	441	4,074	3.59	76.54
1952-53	41	485	3,801	3.5	79.48
Residuary State.					
1953-54	20	345	2,760	3.19	71.67
1954-55	19	249	2,828	3.36	75.09

Milk Supply Societies.

Composite State.

Year.	Number (includes societies affiliated to Unions).	Members.	Share capital.	Value of milk sold by societies working independently
(RS. IN LAKHS.)				
1948-49	448	39,102	5.41	..
1949-50	535	49,952	7.27	..
1950-51	620	57,426	8.73	56.24
1951-52	722	69,203	9.95	64.89
1952-53	740	73,218	10.77	64.28

Residuary State.

1953-54	560	65,101	9.73	69.34
1954-55	562	66,870	14.40	71.92

As on 30th June 1955 there were 19 Milk-Supply Unions and 562 Milk-Supply Societies. The unions had, on their rolls 3,077 members with a paid-up share capital of Rs. 3.36 lakhs. The Milk-Supply Societies had a membership of 66,870 and a share capital of Rs. 14.40 lakhs. The unions and societies handled milk and milk products to the value of Rs. 75.09 lakhs and 71.92 lakhs respectively. There are milk co-operatives in most of the major panchayats and municipalities. The development of dairying through the co-operative system has helped the agriculturists to take to mixed farming and the consumers to get pure milk at reasonable rates.

We now proceed to consider the important problems relating to the milk co-operatives.

204. Government loans to the Co-operative Milk-Supply Societies and Unions—Government have been sanctioning loans to the co-operative milk-supply societies and unions from 1945-46 for the following purposes :—

(i) To grant loans to members for the purchase of milch animals, and (ii) to purchase motor vehicles to facilitate transport of milk.

(i) Till 1951-52 the loans sanctioned by the Government for the purchase of milch animals were interest free. Thereafter a rate of 3 per cent was charged up to 1953-54; from 1954-55 the rate charged is 4 per cent.

The primary security for such loans sanctioned by the society is the milch animal purchased by the members. In addition, personal sureties or mortgage of immovable properties are also taken as security. The period of the loan is fixed as one year. In case, any

milch animal taken as security for the loan dies of contagious disease, Government may grant the waiver of such portion of the balance outstanding against a member as they think reasonable if they are satisfied that the member took adequate precautionary measures to protect the animal.

(ii) Loans for the purchase of motor vehicles are sanctioned on the security of the vehicles and are repayable in five years. The vehicles purchased should be insured. The loans bear interest at current rates declared by Government for each year.

During the years 1952-54 and 1954-55, Rs. 9 lakhs and Rs. 8 lakhs were allotted for sanction of loans for the purchase of milch animals and the amounts availed of by the societies amounted to Rs. 7.19 lakhs and Rs. 7.61 lakhs respectively. No loans were drawn for the purchase of motor vehicles during these two years.

So far as loans for the purchase of milch animals are concerned, Government imposed a condition in 1952-53 that such of the societies as had taken interest-free loans for three consecutive years should not be given fresh loans. In 1955-56, a further restriction was imposed that no society which has been given either interest-free or interest-bearing loans for three successive years will be eligible for the loans. It has been suggested that this restriction should be removed as it causes hardship to societies coming within its scope, especially those which have admitted new members or have old members who have not availed themselves of the Government loans. Suggestions have also been made that assistance by way of sanctioning interest-free loans should be revived.

We recommend that the restriction on the grant of loans to the societies which have already availed themselves of the concession for three consecutive years may be removed. If need be, persons who have obtained Government loans consecutively thrice may be made ineligible for Government loans. We consider that the present rate of interest is high and suggest it may be reduced to at least 5 per cent.

205. *Hygienic handling of milk.*—The importance of supplying pure milk by the milk co-operatives from the point of view of maintaining and improving the standard of health among milk consumers cannot be over emphasised. Purity of milk could be ensured only by preventing adulteration both in the process of production and distribution.

At the production point, milking is required to be done in a common milking yard in the presence of the office-bearers of societies. There should be protection from sun, wind, rains, etc., to the animals during milking hours in the common milking yards. The need for construction of sanitary cattle-sheds for the purpose of assembling animals for milking has been recognized by the Government and they have commended to the local bodies for

adoption, as far as practicable, the suggestion of the Registrar that municipal lands may be made available to milk co-operatives for this purpose on easy terms and that pucca sheds might be constructed and made available to the societies on lease. The Board of Revenue has agreed to alienate in favour of milk supply societies town sites at less than their market values and village sites for use as milking centres. Government have also constructed cattle-sheds in select villages for the Chingleput district to serve as milking sheds in the feeder societies of the Madras Co-operative Milk Supply Union free of cost.

Most of the milk-supply societies have very poor resources and cannot afford to undertake construction of milking sheds themselves. We, therefore, suggest that Government may, in deserving cases, give financial assistance for the construction of sheds by the milk supply co-operatives by way of loans and subsidies in the proportion of 50 : 50.

So far as the distribution side is concerned, the present system of supplying milk in sealed cans provided with taps is stated to have led to abuse and adulteration of milk. The Expert Committee appointed by the Government in 1953 under the Chairmanship of Dr. A. Lakshmanaswamy Mudaliar has observed that in view of the scope for tampering with the improperly sealed cans, no taps should be provided for cans but that the distribution should be made in smaller, properly sealed containers of different sizes and in capped and sealed bottles. This would involve the provision of financial assistance by Government for the purchase of bottle washing and filling machines. The cost of such a machine proposed to be installed at the Madras Milk Supply Union under the Second Five-Year Plan has been estimated at Rs. 45,000. We consider it desirable that liberal financial assistance is given to big milk supply unions such as Coimbatore, Madurai, etc., if they choose to instal the required machinery for this purpose.

With a view to check adulteration on the distribution side, greater precautions have to be taken by the co-operatives and the department. In Madras, there is one Dairy Assistant to take samples of milk at the distribution ends regularly. These samples are tested in the laboratory maintained by the Dairy Officer and the results are communicated to the Madras Milk Supply Union. We wish that deterrent action against the vendors concerned is taken without compunction in all cases of adulteration. In the mufassal also, the Dairy Assistants may usefully engage themselves in such work to a greater extent. The unions also should arrange for effective check at the distribution ends by their own supervisory staff.

206. *State help to increase the handling capacity of Milk Supply Societies and Unions.*—Milk supply unions situated in urban areas have necessarily to depend to great extent on the feeder societies

organized in rural areas around their headquarters. It will not be difficult to increase the production of milk in the feeder societies by means of issuing loans for the purchase of milch animals and by other aids; but this cannot be done without improving the handling capacity of the unions.

It is estimated that a Milk Supply Union can safely handle about 4,000 lb. a day without the aid of a pasteurization plant. When the production exceeds this level it is necessary to equip the union with a pasteurizer and cold storage so that with the help of these devices, the keeping quality of the milk could be increased and the society may be in a position to keep over the milk for longer hours and market it conveniently without facing the problem of surplus.

Apart from eliminating the risks of bacteriological contamination, installation of a pasteurization plant is desirable from another point of view also. With a view to ensure that milk from feeder societies is received at the premises of the union in time for distribution to the consumers, the animals of the members have to be milked at the rural milking centres at odd hours. This practice causes inconvenience both to the members and their animals. If there is a pasteurization plant there will be no harm in receiving milk a little later than the usual hours and consequently milking could be done at convenient hours at the feeder societies.

By thus paving the way for increased production of milk through the methods suggested above, the income of the producers who are mostly agriculturists residing in rural areas will be augmented. At the same time, consumers in urban areas will be helped in getting clean, wholesome milk. In view of the benefits accruing to both the agriculturist producers and the urban consumers, Government will be justified in extending financial assistance to the co-operative milk supply unions for purchasing machinery required for the pasteurization of milk, etc. We suggest that Government may sanction 50 per cent of the cost of machinery and equipment as loan and 50 per cent as subsidy to the milk supply unions. The maximum period of the loan may be fixed as ten years. The same concession may be extended to the milk supply societies also if their present level of production and potentialities for increased production warrant the installation of a pasteurization plant. Cost of technical staff needed for working the pasteurization plant, etc., may be met fully by the Government for a period of two years.

207. *Problem of surplus milk.*—The problem of surplus milk is not peculiar to this State. It is a world-wide phenomenon. In summer the milk yield is less while in winter the yield is more with the result that there is short supply in summer and surplus in winter. The milk supply co-operatives in our State convert the surplus milk into by-products such as gova, curd, butter, etc. Such conversion is less remunerative than sale of milk as milk. Besides, the societies lose custom during the summer season.

The following suggestions have been made to us to counter the problem of surplus milk :—

(i) The members of milk supply societies should be educated to adopt a programme of spaced calving. (ii) Loans should be issued to members for the purchase of milch animals in summer. The issue of loans in the surplus season should be restricted. (iii) Milk co-operatives should adopt a flexible price policy, lowering the usual prices during the surplus season. This will have the effect of increasing the off-take of milk to some extent. (iv) Steps should be taken for the manufacture of milk-powder out of surplus milk.

The first suggestion is, in our view, not capable of implementation in village conditions. It may be possible in urban areas where milch animals do not go out for grazing and mix with bulls as in villages. The milk supply co-operatives may educate their members to adopt an all the year round programme of calving, as far as practicable. The second and third suggestions can be adopted without much difficulty and are commended for implementation. The last suggestion requires an expert examination of the problem with regard to the total surplus milk available in a season that could be pooled from the co-operatives, demand for milk-powder, economics of manufacturing milk-powder, etc. We suggest that an expert body may be asked to examine fully the economics of such conversion.

208. *Facilities for better breeding in Milk Supply Societies—Maintenance of stud-bulls.*—One of the objects of a milk supply society is to buy and maintain breeding animals for use of the members. With a view to enable the milk supply societies to fulfil this object, Government have sanctioned in a few cases 50 per cent of the cost of stud-bulls as subsidy on condition that the other half is met by the societies themselves. The bulls so purchased are either maintained by the societies or entrusted to particular members for maintenance. The bulls are brought under the premium scheme of the Veterinary Department, under which a premium of about Rs. 200 per annum is sanctioned for the maintenance of the bull. Apart from this, the society or the member maintaining the stud-bull may charge a service fee of about Rs. 2 per service. About 80 services are rendered in a year by a bull and the income by way of service fees would be about Rs. 160. The total amount received for the maintenance of the stud-bull is thus about Rs. 360 per annum.

During the last three years, only six societies were sanctioned Government subsidy towards the cost of bulls, the total being Rs. 2,675. Many witnesses have suggested that the full cost of the stud-bull should be given as subsidy by the Government. The reasons are that stud-bulls are very costly and that their maintenance costs much more than the income realized by way of premium and

service fees. Judging from the fact that only a small number of societies considered it worthwhile to avail themselves of this assistance, this suggestion deserves to be considered sympathetically. We recommend that 75 per cent of the cost of the bull may be subsidized by the Government in all places where Government are not maintaining stud-bulls in their dispensaries.

Opinion is also almost unanimous that every big milk supply union should be provided with a pedigree bull and equipment for artificial insemination. We suggest, however, that artificial insemination may be resorted to only with the approval of the Animal Husbandry Department as the purpose of selective breeding varies according to the tracts concerned. If any milk supply union comes forward to work such a scheme, the free services of a Veterinary Assistant Surgeon may be given by the Government to the concerned milk supply union, as it cannot be done without expert guidance.

209. *Veterinary assistance to the milch animals in milk co-operatives.*—Veterinary officers have been directed by Government to inspect periodically the milch cattle, belonging to the Milk-Supply Organizations, free of charge. However in an emergency the owner of the animal in interior parts is not in a position to get prompt veterinary aid. In case of attack by contagious disease, it is very often the case that before the villager arranges for veterinary aid, the animal falls a prey to the disease. The present arrangement is not therefore adequate. In the case of the Madras Milk Supply Union and its affiliated societies Government have sanctioned a mobile veterinary unit and six first-aid veterinary posts to look after the animals of the members. The first-aid posts are situated in convenient centres so as to be within the reach of the members of societies. The mobile veterinary unit is to make rounds in the area of the union and affiliated societies and attend to emergency calls. By rendering such prompt and timely aid, they have been protecting the animals from cattle diseases and mortality among the cattle is reported to have been reduced considerably. We suggest that similar facilities may be provided to members of other big Milk Supply Unions also in the State.

210. *Salvage of dry animals.*—At present there are three salvage farms in our State. One is run by a co-operative society formed solely for this purpose, namely, the Madras Co-operative Society for the salvage of dry cows. The other two are run by the co-operative milk supply unions as adjuncts to their activities, one by the Madras Co-operative Milk Supply Union at Vattambedu and the other by the Calicut Co-operative Milk Supply Union at Chathamangalam. It is proposed to establish five more salvage farms during the period of the Second Five-Year Plan by securing Government poramboke lands in five districts, viz., South Kanara Ramanathapuram, Tirunelveli, Tiruchirappalli and Coimbatore.

It is estimated that each farm will involve a capital cost of Rs. 40,000 towards the cost of pump-sets, bulls, residential quarters for staff, cattle-sheds, etc., and a recurring annual expenditure of about Rs. 6,000 towards the cost of technical and supervisory staff. We learn that it has been proposed that the capital cost is to be met by the Government on the basis of 25 per cent grant and 75 per cent loan.

There has been heavy loss of cattle wealth, due to lack of facilities for salvaging milch animals when they become dry. Dry animals in cities and towns are a burden to the owners as their maintenance in the cities is prohibitively costly. Good animals, when they go dry, are sold away and they eventually find their way to the slaughter-houses. This has resulted in depletion of the country's cattlewealth. Facilities for salvaging dry animals cheaply are therefore necessary. This can be ensured only by starting salvage farms on a co-operative basis. We, therefore, commend the implementation of the schemes proposed by the Registrar for adoption in the Second Five-Year Plan.

211. *Exemption from sales-tax.*—Milk supply co-operatives were exempted from the payment of sales-tax during a period of three years from 1946. Thereafter, Government exempted such of the milk co-operatives as were formed after 1st July 1946 from payment of sales-tax, for a period of three years from the date of their starting. In 1953 Government directed that in the case of sale of milk by co-operative milk supply societies and unions, sales-tax should be levied only at a single-point, namely, at the stage of sale to the actual consumer of milk. Representations have been made from time to time thereafter, to exempt the co-operatives even from this single point sales-tax, on the ground, that milk is a perishable article like fish, eggs, flowers, etc., which have been exempted by Government from the payment of sales-tax. In their order, dated 25th June 1955, Government, however, stated that there was no justification to waive sales-tax as surplus milk could be converted into gova, curd, etc., and then sold.

Though unsold milk could be converted into by-products such as gova, curd, etc., these by-products are also perishable. Further by this conversion, it is not possible to realise even the cost price. If unsold milk could be converted into by-products, unsold fish also which is exempted from sales-tax, can be preserved by drying or salting and then sold. Other perishable food articles like potatoes, onions and fruits are exempted from sales-tax though their period of preservation ranges from about a week to two months. It is, therefore, proper in our opinion to exempt the milk supply co-operatives from the payment of sales-tax, especially as the members would not have had to pay sales-tax if they had sold the milk individually. Milkmen who do not join the milk supply societies and sell milk privately do not pay sales-tax, generally. Hence, the

co-operatives are placed at a disadvantage. We need not stress the need for developing milk co-operatives with a view to ensure the supply of milk of good quality at a reasonable price—in the interests of national health, etc.

212. *Supply of milk by the milk co-operatives to Government medical institutions.*—At the instance of the Imperial Council of Agricultural Research, Government ordered in 1943, that the milk supplied by the co-operative societies and unions to Government institutions may be paid for, at rates, exceeding the market rate up to 5 per cent and that this excess in rate might be increased in individual cases recommended by the Registrar. The market rate was later defined by the Government as the wholesale rate to be worked out on the basis of the highest retail rate in the area. As no definite standard or rate could be adopted in determining the cost of distribution, transport, etc., for working out the market rate from the highest retail rate, some societies were unable to get the contract. The difficulties experienced by the societies were taken up with the Government by the Registrar and in their Order No. 668, Public Health, Education and Local Administration, dated 19th March 1954, Government directed that whenever tenders were received from milk-supply unions and societies for the supply of milk to Government medical institutions, their rates should be accepted, though they were slightly higher than the rates quoted by the other tenderers, provided the rates quoted by the societies did not exceed their own retail rates. In G.O. No. 590, dated 14th February 1955, Government again issued fresh instructions in this regard. According to the revised instructions, the contract may be given to the milk supply co-operatives if their tendered rate was within a margin of 5 per cent over the market rate or the lowest tendered rate whichever was less. The imposition of the latter condition gives scope for the private contractors to quote deliberately uneconomic rates—with a view to drive out the societies from the field.

Many witnesses have represented that milk should be purchased only from the co-operatives by the Government institutions, without calling for tenders. With regard to the rate, it has been suggested that it should not exceed the retail selling rate of the co-operatives. The original order issued by Government in 1943 allowing payment of preferential price to the co-operatives was at the instance of the Imperial Council of Agricultural Research which recommended that the "Provincial" Governments should instruct their institutions to obtain their milk requirements from those who produce milk under hygienic conditions. The Government have themselves conceded in their order issued in 1943, that the milk supply co-operatives worked under supervision, that the quality of their milk was generally better than that of private contractors and that, in order to encourage co-operatives, higher prices might be paid to them. In

places where co-operatives work efficiently and can fulfil the contract satisfactorily, we see no reason why tenders should be called for at all. If local societies undertake to supply the milk needed and if their offer is recommended by the local Deputy Registrars, subject to a ceiling rate which may well be the retail selling rate of the society, Government may give the contract in respect of their institutions to the milk co-operatives without calling for tenders. Government may instruct the local bodies also to adopt the same system.

213. *The manufacture of toned milk and its effects on the working of Co-operative Milk Supply Unions and Societies.*—Toned milk is manufactured only in the City of Madras at the Government Milk Factory, Teynampet. It was originally manufacturing what was known as "reconstituted" milk, with vegetable fat, vitamins, etc. The Expert Committee (1953) appointed by the Government of Madras under the Chairmanship of Dr. A. Lakshmanaswami Mudaliar expressed the view that, as shown by a biological assay of the nutritive value of the reconstituted milk, it was unsatisfactory and should therefore be discontinued. The committee recommended the production of 'toned' milk with buffalo's milk with an equal quantity of water and a proper proportion of skim milk powder, etc. The factory is now producing about 4,000 pounds (1,000 Madras measures per day) of toned milk. As the price of the toned milk is annas 14 per measure as against Re. 1-4-0 for fresh milk, it has been stated that the working of the Madras Milk Supply Union is being adversely affected. It has been suggested that the production of toned milk should therefore be banned.

It is said that the Madras Milk Supply Union is now handling only about one-fifth of the total quantity of milk required for the City. There is thus a vast gap between demand and supply. Further the toned milk, being lower in cost, is calculated to enable the people with comparatively lower income to have the benefit of milk diet. We do not, therefore, think that we will be justified in recommending a total ban on the production of toned milk.

214. *Supervision over milk supply societies.*—As on 30th June 1955 there were nineteen milk supply unions and 562 milk supply societies (including the Madras Milk Supply Union and its 157 affiliated feeder societies). The staff for supervision of the milk co-operatives in the State (except the Madras Union and its feeder societies) consist of fourteen Dairy Assistants, fourteen Senior Inspectors and fourteen Junior Inspectors at the rate of one Dairy Assistant, one Senior Inspector and one Junior Inspector for each district. So far as the Madras Milk Supply Union and its feeder societies are concerned, the supervisory staff are two Dairy Assistants, one Co-operative Sub-Registrar, four Senior Inspectors and four Junior Inspectors.

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The Dairy Assistants are in charge of the hygienic production, handling and distribution of milk while the Senior Inspectors and Junior Inspectors look after the administrative side of the working of societies.

The Registrar has stated that considering the large number of institutions and the various items of work that devolve on the supervisory staff such as increasing the production of milk, improving the quality and distribution of milk, proper maintenance of accounts, scrutiny of loan applications, collection of loan instalments, etc., the present strength of the supervisory staff is inadequate. He has suggested that there should be at least one Senior Inspector for every Milk Supply Union and one Senior Inspector for every 16 milk supply societies and that the number of Dairy Assistants should be doubled. A few milk supply unions have also expressed the view that the staff for supervision is inadequate.

The present sanction was made at the rate of one Dairy Assistant, one Senior Inspector and one Junior Inspector for each district. It will be more rational to take the number of unions and societies into account in fixing the strength of the staff, especially as the number of milk co-operatives and their turnover have vastly increased since the staff was originally sanctioned. We, therefore, endorse the suggestion of the Registrar.

215. Cattle Breeding Societies.—The importance of livestock to the economy of an agricultural country like India can hardly be exaggerated. The cattle in our country are generally poor in health and inferior in breed. The milk yield of the cows is poor and the efficiency of the bullocks (which supply practically all the motive power for ploughing, lift irrigation, etc.) is low. There is, therefore, an imperative need to improve the quality of the livestock in the interests of the nation's health and wealth. The improvement of cattle can be effected chiefly by the following methods:—

(a) Selection of high-class bulls and their utilization for upgrading the pedigree of the animals, (b) provision of adequate and balanced feed and (c) control of cattle diseases.

Steps taken by the Government for the improvement of livestock.—Government, through their Animal Husbandry Department, maintain livestock farms in a few places in the State, chief of which is Hosur. The farms raise good stud bulls and also serve as demonstration units for better breeding, cattle management, etc. Various schemes, such as the premium scheme, key village centre scheme, etc., are also implemented by the Animal Husbandry Department, with a view to upgrade the indigenous stock.

Cattle breeding through co-operatives.—The problem of cattle breeding, etc., is so vast in our country that it cannot be solved through the agency of the Government alone. Hence, cattle owners in our State have organized themselves in some places, into

co-operative societies, for the main purpose of maintaining stud bulls for serving their animals and thereby promoting their economic interests.

On 30th June 1955, there were 13 cattle breeding societies with a membership of 2,450 and a paid-up share capital of Rs. 24,613. They maintained 39 bulls, three rams and three buffaloes. The stud bulls and buffaloes performed nearly 1,500 services.

Purchase of stud bulls is made by the societies out of Government grants, supplemented by their own share capital. In a majority of the cases, the full cost of the stud bulls has been sanctioned by the Government as subsidy and in a few cases, part of the subsidy, usually 50 per cent.

The bulls are usually entrusted to select members who could be trusted to take proper care of the animals. The bulls are admitted into the premium scheme of the Animal Husbandry Department, and the annual subsidy received by the society (ranging from Rs. 180 to Rs. 240) is passed on to the custodians of the animals fully or partly. The service fees collected from the owners of animals served by the bulls, are also passed on to the custodians. They become the owners of the stud bulls after a period of three years or after 180 services have been rendered by the bulls, whichever is later. Members of the societies are charged service fees, usually at concessional rates, and non-members charged full rates. Under the by-laws, members are required not to allow their animals to be covered by bulls other than those maintained by the society. They are also expected to have all their young male stock castrated (except the stock selected for breeding purposes).

216. Problem of keeping up a continuous programme of breeding.—The most important problem in cattle breeding societies is the replacement of the stud bulls going out of service periodically. The stud bulls become the property of the individual custodians after about three years and the society is left with no funds for the purchase of new bulls, as its resources have been utilized in the purchase of the bulls in the first instance. There is no doubt a provision in the by-laws of those societies to meet such a contingency. Under this provision, 35 per cent of the society's net profits should be set apart for a fund for the repurchase of cattle, after appropriating 25 per cent to the Reserve Fund. But this provision is of no practical utility, as a cattle breeding society has no means of earning any profit worth the name. The society cannot collect share capital for a second time, for the replacement of the stud bulls; nor is it desirable with a view to conserve the resources of the society—to change the rule by which the custodian becomes the owner of the stud bull after three years, as this is the only incentive for him to accept and maintain the stud bulls properly. As the premium paid is not adequate to meet the cost of maintenance of the animal, no one will be forthcoming to maintain the stud bull without the prospect of his becoming the owner ultimately. The society is thus

forced to seek outside help again for funds for the purchase of stud bulls. It is necessary to devise a means by which the society can continue its breeding programme with its own resources as far as possible. As far as we can see, there is no short cut to the solution of this problem. If the full advantages of the scientific breeding programme are to be reaped, the scheme should continue in the same place for a period of about ten years at least. Hence we suggest that a cattle breeding society should be enabled to carry on by the Government subsidising, if need be,—fully—the replenishment of the studs periodically.

217. *Veterinary assistance.*—If the full benefits of the cattle breeding societies are to accrue to the members—their animals should be protected from the ravages of epidemics, etc., and prompt treatment given in cases of ailment. We recommend that for the benefit of such societies veterinary first aid posts with the necessary outfit and technical personnel may be attached to them.

218. *Better feeding.*—Scientific feeding is as important as scientific breeding in the upgrading of cattle. Hence there must be a programme for better feeding to ensure that the animals are maintained in proper health and nourishment. The society should arrange to educate the members on the necessity and utility of balanced dieting and also indicate the several composition of such feeds.

The cattle breeding societies may well undertake the raising of fodder for the animals of their members wherever facilities therefor are available. As an encouragement to them to take up this work, we recommend that the Government may subsidize fully the loss in raising fodder crops by the cattle breeding societies for a period of three years by which time these societies can be reasonably expected to undertake fodder cultivation without outside help.

219. *Schemes under the Second Five-Year Plan of the Co-operative Department.*—We understand that under the Second Five-Year Plan, the Registrar has provided for the establishment of twelve new cattle breeding societies in eleven districts. According to the scheme, each cattle breeding society will be provided with three stud bulls of approved breed, the entire cost of the bulls being met by Government as grant. The bulls will be included in the premium scheme of the Animal Husbandry Department. Each society will also be given the free services of a Senior Inspector and an annual recurring expenditure of Rs. 300 towards contingencies including first aid medicines, etc. The estimated cost of the scheme is Rs. 36,000 for the entire Plan period (capital expenditure) and Rs. 66,500 per annum (recurring expenditure). We feel that the implementation of the above scheme will help to improve the strain of cattle in the State and we, therefore, commend the scheme for acceptance.

CHAPTER 14.

STORES SOCIETIES.

220. A co-operative stores is an organization of consumers. Its object is to secure for its members goods and services to their greatest advantage by reducing trading costs. Unlike the producers' co-operatives which generally concern themselves with particular classes of people in particular regions, the stores carry an appeal to all persons, as all are consumers in one way or other. In this sense, it is open to the entire community to join these societies.

The stores societies in our State have been organized generally on the principles enunciated by the Rochdale Pioneers of England from whom the consumers' movement all over the world has derived inspiration. Some consumers' societies were started even as early as 1905; but these combined both distribution and credit in their functions. There were only eleven stores societies till 1915. The abnormal increase in prices in the wake of the First World War stimulated the organization of new stores to some extent and the number went up to 103 in 1921. But the slump in prices thereafter had an adverse effect on the development of the stores, with the result that the number went down to 58 in 1936-37. Subsequently, however, the number of stores began to increase slowly and it was 85 in 1938-39. The Second World War again created a climate favourable to the growth of the consumers' movement and the stimulus it gave to the development of the stores was far greater than the one given by the First World War. The two great difficulties which hindered their progress in the past, namely, lack of purchasing power among the people and the competition of private traders, were removed virtually during the War years. With the rise in the prices of primary produce and full employment, people had abundant money in their hands and supply of consumers' goods was not equal to demand. As control and rationing were enforced by the Government in the wake of rising prices, there was practically no competition for the co-operatives as the sphere of every wholesaler and retailer, whether private or co-operative, was clearly defined. Doing business became as easy as shooting a fish in a barrel, as aptly remarked by a co-operator. The number of stores societies rose almost immediately and on 30th June 1940 the number was 236 against only 85 on 30th June 1939. The Second World War brought about increasing scarcity of foodgrains and other necessities of life and progressive control by the Government over the import, procurement, movement and distribution of scarce commodities. Both people and Government found in the co-operative stores an efficient and reliable agency for the equitable distribution of controlled commodities. The policies adopted by the Government such as recognizing the stores societies as sole or major importers, or distributors, in their area of operations fostered the growth of the co-operative stores. The number of primary

stores which was 236 in 1939-40, increased to 1,764 in 1948-49; their membership increased from 34,400 in 1939-40 to 5.83 lakhs in 1948-49; their annual sales correspondingly increased from Rs. 35.62 lakhs to Rs. 2,307 lakhs. There was, however, a gradual decline thereafter when the abnormal conditions created by the Second World War began to show signs of return to the normal and with the abolition of controls in 1951-52, both the number and turnover of the stores registered a steep decline as may be seen from the statement given in Appendix No. 23 (a) and 23 (b). In the residuary State, the number of stores declined from 896 on 30th June 1953 to 786 on 30th June 1955. Though their membership decreased only slightly from 3.97 lakhs to 3.64 lakhs, the value of their annual sales went down considerably, i.e., from Rs. 1,372 lakhs in 1952-53 to Rs. 683 lakhs in 1954-55. During the years 1953-54 and 1954-55, 603 stores and 559 stores worked at net loss, out of 829 and 786 stores respectively.

The large increase in the number of primary stores in the wake of the conditions created by the Second World War, created the need for central organizations for the bulk purchase or import, and sale of such commodities to their affiliated primary stores. So, for each district, a co-operative wholesale stores was formed. There are now thirteen co-operative wholesale stores, one for each district except Madras. The trends of increase and decline in the turnover of the primary stores are reflected in the working of the wholesale stores also. Though their membership (both societies and individuals) decreased from 7,368 to 6,252 only between 1952-53 and 1954-55, their annual sales went down from Rs. 796 lakhs to Rs. 235 lakhs in this period. In 1954-55, six out of the thirteen wholesale stores worked at a net loss.

The working of the stores societies particularly during the post-control period has given rise to many problems and we deal below with the most important ones thereof.

221. *Sales to non-members by the co-operative stores.*--Under rule XIX of the rules framed under Co-operative Societies Act, no distributive society (stores) can sell goods to persons other than members without the previous sanction of the Registrar. In 1942, when the State was faced with a shortage of foodgrains and other necessities of life, stores societies were permitted to sell goods to non-members also, with a view to ensure equitable distribution of controlled commodities among the people. This general permission was thereafter being renewed from time to time, for the duration of the controls. Control over foodgrains was abolished in 1952 and the stores were thereafter asked to confine their business to members only. In view of the decline in the business of the stores, the matter was again reviewed and as a result it was decided that sale to non-members might be permitted again for a further period. In a circular issued in March 1955, the Registrar suggested the adoption by the stores societies of a transitory provision to their

by-laws, permitting sale to non-members for a period of two years from the date of registration of the amendment. The stores societies have been adopting this suggestion and selling to non-members also.

During the period of controls, a major portion of the business of the primary stores was mostly with the non-members. Sales to non-members ranged from 52 per cent to 65 per cent of their total sales during the years from 1945-46 to 1951-52. During the year 1952-53, 1953-54 and 1954-55 sales to non-members formed 59 per cent, 46 per cent and 33 per cent respectively in the residuary State. Similarly, during the period 1945-46 to 1951-52, the value of the sales made by the wholesale stores to individuals and institutions other than the primary stores (i.e., to non-members mostly) ranged from 62 to 70 per cent. During the subsequent three years such sales formed 56 per cent, 35 per cent and 59 per cent respectively in the residuary State.

The following issues call for our consideration :—

(i) Whether the stores (primary and wholesale) should be allowed to sell to non-members and if so, whether the relaxation should be a temporary or permanent measure;

(ii) if allowed temporarily or permanently, should bonus on purchases be allowed to the non-members also.

(i) In support of the principle of sale to members, it may be stated that a co-operative society is intended to promote the economic interests of its members only; it exists for the sake of its members, who have contributed to its capital and undertaken the risks of business. By selling to non-members, the co-operatives may come to be unconsciously imbued with the outlook of a commercial concern and may tend to function as mere traders, ignoring co-operative ideals. Further, if a non-member could purchase from a co-operative stores, there will be no inducement to him to become a member and for the society to enrol him as its member.

As the share capital is generally low, there is no reason why the non-members cannot enrol themselves as members especially when there are prospects of their getting bonus on purchases if the stores earn sufficient profits. The co-operatives enjoy certain privileges like exemption from income-tax on profits earned, etc., on the ground that their business is confined only to their members, and there will be no moral justification for such exemption if they sell to non-members as a matter of course.

(ii) Under the existing rules, in the event of sales to non-members, there is no means of paying back to them by way of bonus, over charge if any, and it means that the basic aim of the co-operatives to promote distributive justice will not be realized. In this context, the profits earned will acquire a commercial complexion to an extent and it will not be conducive to the inculcation of co-operative virtues among members and office-bearers.

The arguments usually advanced in favour of sales to non-members are the following :—

(a) No business can afford to refuse any custom that comes of its own accord. (b) If sales to non-members are allowed, there is the distinct possibility of enrolling them as members in due course and thereby increasing membership and business. (c) By sales to non-members, turnover will increase, overhead charges will become less and thereby members can be benefitted to a greater extent. (d) Sales to non-members will widen the vision of the management and members and help to eschew the spirit of selfishness which is the very anti-thesis of co-operation. (e) The co-operatives can serve a wider public thereby, without in any way prejudicing the interests of the members. (f) There is necessity to effect sales to non-members in respect of unsaleable goods, etc. When this is to be done, there is no reason why the stores should not be permitted to sell to non-members, if necessary.

Though there is some force in these arguments, they cannot wholly justify a departure from the accepted principle of a co-operative that it exists primarily for the benefit of the members. Sales to non-members are calculated to obscure this basic feature of a co-operative store and cannot therefore be recommended as a permanent measure.

The principle of restricting sale to members had to be relaxed during the period of controls in the larger interests of the people, as it was not right that some persons should be shown preference in the distribution of controlled commodities, because they happened to be members of co-operative societies. The co-operative stores were considered reliable agencies through whom equitable distribution of controlled commodities could be ensured for both members and non-members, and were therefore entrusted, as an exceptional measure, with the responsibility of selling to non-members also.

In a period of transition from abnormal to normal times, the application of the principle of sale to members has to be modified. During the period of controls, the stores were so much pre-occupied with their immediate responsibilities connected with procurement and distribution, that they had hardly time to build up their normal business in respect of non-controlled commodities. They had to function mostly as mere agencies of Government, receiving and distributing commodities as per directions of the officials concerned. The stores societies had an assured market with the result that they did not study the demands of the consumers and adjust their purchase policy in accordance with such demands. With the lifting of controls, their business naturally dwindled. The stores, therefore, require time to adjust their pattern of business to the conditions arising out of the sudden stoppage of business, connected with the controlled commodities which formed the major part of their sales. They have to foster and ensure loyalty on the part of their members and enlist more members. If the

stores societies have continued dealings with non-members also, for a few more years, it is likely to be helpful to them in converting non-members to members.

The view expressed to us is mostly in favour of allowing sale to non-members. In the light of this view and also for the foregoing reasons, we consider that as a temporary measure, the stores may be permitted to sell to non-members also. The question is for what period, such temporary relaxation should be given. In our opinion, a period of five years from now seems to be necessary to enable the stores to stabilize their business, and we recommend that relaxation may therefore be given for this period.

(i) The rules permit the payment of bonus to members out of net profit in proportion to the extent of business done by them with the stores. Such payment should not exceed 25 per cent of the net profit. The by-laws of the stores—wholesale and primary—provide for payment of bonus to members in proportion to the amount of purchases made by the latter. The payment of bonus on purchases is practically a refund of the excess charge made on the members' purchase by the adoption of the principle of sale at current and not at cost price plus overhead charges absolutely necessary. Bonus can also be considered as a reward for the loyalty of the members. This feature distinguishes a stores from a capitalistic concern where there is only payment of dividend on share capital, but not bonus on purchases normally.

As it has been proposed that sale to non-members may be allowed, the question arises whether bonus should not be paid to them in proportion to their purchases from the stores. It may be said that they need not be paid bonus since they are not liable for losses, if any, in the working of the stores. But it seems advisable to pay bonus to non-members also. In Great Britain non-members are granted bonus at half the rate allowed to the members. We commend the adoption of the same principle by the stores in our State also. However, bonus to non-members need not be paid in cash, but credited to their accounts till the total accumulates to the value of a share. Such a practice will serve to eliminate most of the objection against sales to non-members from a practical and also philosophical point of view. It may be incidentally mentioned, that the Bombay Co-operative Societies Act and the rules framed thereunder permit the payment of bonus to non-members also in proportion to the amount of goods purchased by them.

However, payment of such bonus need be given only in primaries and not in wholesale stores as their primary purpose must be for supplying the requirements of their affiliated primaries only.

222. *Credit sales in co-operative stores.*—Cash sales or sales against trade deposits is the general rule in co-operative stores (A trade deposit is a deposit made by a member with the society in order to avoid paying cash every time he makes a purchase. When purchases are made, the cost of the articles purchased is debited against his trade deposit account.)

In the case of primary stores societies (other than employees' stores and rural stores), credit sales are allowed subject to the following chief conditions :—

(i) No credit should be given to any person on a daily wage. In the case of monthly or weekly wage earners credit should not generally exceed 50 per cent of their wages. Where members are able to pay substantial share capital, credit should not exceed 80 per cent of their paid-up share capital.

(ii) If the amount due is not paid before the specified date, interest should be charged from the date of default.

(iii) Persons to whom credit sales could be made, should be recommended by a Director who should certify that he will hold himself responsible for the loss, if any, caused on account of this transaction.

(iv) Stores societies allowing credit sales should set apart 10 per cent of their net profits as a reserve to meet unforeseen loss, if any, arising out of such transaction.

(v) The transactions under credit sales should be brought to the notice of the Board every month.

In the case of stores for industrial workers, articles are supplied on credit to the employees, on the undertaking of the employers to recover the dues from the wages of the members. To facilitate the issue of goods on credit, the management of the concern issues slips to the employees indicating the maximum amount up to which credit may be given.

So far as wholesale stores are concerned, credit sales to their primaries are generally discouraged. When given, it is on the following main conditions :—

(i) The period of credit should be limited to a month.

(ii) Interest is to be charged on daily balances after a certain period—usually thirty days.

(iii) If the amount due is not paid within the period allowed, further credit should be stopped and action taken to recover the dues.

(iv) Credit sales should ordinarily be limited to twice the amount of paid-up share capital.

We have to consider, (i) whether credit sales should be allowed, and if so, (ii) whether the safeguards now adopted are adequate.

(i) There are weighty reasons against the practice of credit sales in a primary stores. Credit sales involve the maintenance of additional accounts and may lead to losses. The stores will have to lock a considerable part of their capital in credit sales. They

will be obliged to make their purchases also on credit at unfavourable prices. Further, from the point of view of the members, it will possibly stimulate unnecessary purchases and encourage them to spend beyond their means which is to be strongly deprecated.

It has, however, been stated that credit sales should be allowed in co-operative stores, as this facility is available to the customers of private traders and that in the absence of this facility, it will not be possible to compete with private merchants and develop the transactions of the stores. Salaried people, it is said, are accustomed to purchase on credit from private merchants and it will be difficult for them to adopt the method of "cash and carry". Want of credit facility is stated to be one of the reasons for the disloyalty of the members, as they resort to private merchants, when they have no money in their hands.

The grant of liberal facilities may give raise to the evils adverted to already. Though the ideal practice in a co-operative stores should be "cash and carry", a system of allowing credit with suitable safeguards, eliminating the scope for bad debts and ensuring fairly quick realization of the dues cannot be totally ruled out in our country, having regard to the habits of our people and the facilities allowed by private trade. As a credit limit is fixed with reference to the pay or wages of a member, it cannot be said that the facility for credit purchase will tempt the member to make unnecessary purchases and indulge in wasteful expenditure. However, credit sales should be introduced with circumspection and care. The provisions governing the same should be strictly enforced.

Regarding the business of the wholesale stores with the primaries, it appears desirable to insist only on cash sales. The primary stores could borrow from the Central Bank and the facility for credit purchase from the wholesale stores amounts to allowing another source of borrowing. No doubt, the primary stores are required to declare to the Central Banks their dues to the wholesale stores, whenever they operate on their cash credit accounts, to enable the Central Banks to ensure that the maximum credit limit is not exceeded; but the need for this procedure will be non-existent, if the primaries are required to make only cash purchases from the wholesale stores and pay for their purchases by means of cheques on the Central Banks. Further, the Central Banks are in a better position to judge the working of the primary stores and to appraise their credit worthiness than the wholesale stores. Therefore, we feel that, as far as purchases from the wholesale stores by the primary stores are concerned, no credit need be allowed.

(ii) We feel that the safeguards prescribed for credit sales are adequate and need no modification. However, insistence on the personal undertaking by a Director to make good the loss if any, arising out of his recommendation does not seem to be quite practicable and may therefore be modified.

In this connexion we suggest that there must be a difference in the rate of bonus declared on credit and cash purchases in stores.

Credit sales are less advantageous to the stores than cash sales. There is, therefore, sufficient justification if the rate of bonus on credit purchases is fixed at 75 per cent of the rate of bonus on cash purchases. This will also serve as an incentive to the members to switch on to cash purchases in course of time.

223. *Future of rural stores.*—Out of the 786 primary stores in the State on 30th June 1955, as many as 397 were situated in rural areas. The future of these rural stores has been engaging the attention of the department and the co-operators after the removal of controls. Most of the rural stores came into existence when rationing of foodgrains was introduced on a Statewide scale and when controls were imposed over the movement, prices and distribution of scarce commodities such as sugar and kerosene. Due to the high prices of agricultural and other commodities there was also no difficulty in collecting the required share capital for these stores. After the lifting of controls, the rural stores have been suffering a gradual set back in their business. During the days of control, most of the business of rural stores related to foodgrains which were rationed; with derationing, it was no more necessary for the rural purchasers of foodgrains to look to the rural stores. During normal times, agricultural labourers and other landless people usually purchase their requirements of foodgrains directly from producers. It is usually the custom for villagers of some means to purchase and stock their food and other requirements annually, immediately after harvest, with the result that much turnover cannot be expected in the rural stores in this direction also. Consequently, they are unable to function as economic units.

It has to be considered whether the rural stores generally have any future under the changed conditions.

The generality of opinion is that there is no future at all for the rural stores. In addition to the external factors contributing to their decline, as outlined above, the members of rural stores have not grasped the significance of the co-operative stores movement. The member-society relationship is almost non-existent and this woeful lack of the sense of ownership on the part of the member is patently manifest in most of them.

It may be appropriate, to refer in this connexion to the proposal, to form large sized village credit societies which, when started, will undertake—besides credit—the joint purchase and distribution of the requirements of agriculturists (who form the vast majority of the rural population) such as seeds, manure, agricultural implements, etc., on a much larger scale than the present small societies. To this extent, the adverse climate for the working of the rural stores will be further aggravated.

Generally speaking therefore, we feel that there is no future for the rural stores. Instead of allowing them to carry on a lingering existence, their working may be examined and such of those

as have definitely no prospects of revival and development may be forthwith liquidated. This policy is being pursued now by the Registrar. The large-sized societies which are to be formed may be encouraged to take up supply of essential domestic and agricultural requirements of their members. The interests of the members as consumers can be better served in this manner than, by having rural stores in a state of suspended animation.

224. *Should the transactions of the stores be exempted from sales tax?*—One of the reasons adduced for the decline of the Co-operative Stores under conditions of free trade is that they have to pay sales tax. No doubt it is true that private traders also are subject to this imposition but the co-operatives argue that not all the private merchants transact all purchases and sales of goods in their accounts. They are stated to be able, to sell their goods at a lesser price, due to the advantages of not paying sales tax on their purchases and of not collecting sales tax on their sales. As co-operatives cannot and do not resort to such tax evasion, they are at a disadvantage in competing with the private merchants.

While the above contention of the stores may be true to some extent, it cannot fully justify the claim that all their transactions should be exempted from the payment of sales tax. The fact that some are able to evade the taxes cannot serve as a reason for not collecting tax from the others.

But there are other reasons such as the following which could be considered in this connexion:—

(a) These institutions are not profit seeking bodies. As consumer organizations, they only help their members to obtain their requirements at reasonable prices, etc. They are generally intended for self-supply and there is no justification for subjecting their sales also to sales tax.

(b) This concession will help to develop consumers' co-operation and the co-operative method which the Government aim at promoting. Apart from their utility in times of emergencies to ensure equitable distribution as quasi Government agency, the value of co-operatives as pace setters in regulating private trade cannot be over estimated. Viewed in this light, it may be said that they are helping not only the members but also the general public and thus rendering a public service.

Hence it is but proper that some relief is given to the stores in the matter of sales tax. We are glad to note that Government have since passed orders exempting from sales tax with effect from 1st April 1956 the sales made by co-operative wholesale stores in the State to primary co-operative stores which are members of the former. To this extent the primaries will be benefited and we hope that this concession will enable them to meet to some extent the competition of private traders.

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225. *Co-ordination of activities of the wholesale stores and the primary stores.*—The co-ordination of the activities of the wholesale stores and their affiliated primaries, has been a vexed question ever since the wholesale stores were started. The main object with which the wholesale stores were established, was to serve the needs of their affiliated primaries, by purchasing and stocking goods at favourable seasons from sources of supply and by supplying them at competitive rates, if not favourable rates. This primary object was fulfilled only to a small extent right from the beginning, as may be evident from the fact, that, out of the total purchases made by the primary stores, their purchases from the wholesale stores ranged only from 27 to 43 per cent during the period 1945-46 to 1951-52. Similarly out of the total sales made by the wholesale stores during this period, the sales made to primaries ranged only from 30 to 38 per cent. And this was the position during the period of controls when purchases and sales by both these types of institutions were not wholly optional.

During the years 1952-53 to 1954-55 the position was as follows :—

Year.	Total purchases of primaries.	Purchases from co-operative wholesale stores.	Percentage
	(Rs. in lakhs.)		
1952-53	1273.80	350.15	27
1953-54	907.49	202.84	22
1954-55	595.82	97.12	16.3
	Total sales of wholesale stores.	Sales to Primaries,	percentage
	(Rs. in lakhs.)		
1952-53	7.96	3.50	44
1953-54	3.10	2.02	65
1954-55	2.35	0.97	41

(NOTE.—In these years, because the wholesale stores were the sole stockists of ammonium sulphate, the percentages cannot be said to reflect the normal relationship between the two organizations.)

In successive administration reports, Registrars have been pointing out this weak link in the relationship between the wholesale and the primaries. The former were repeatedly advised to reorganize and strengthen their purchasing departments so as to establish business contacts with centres of production and sources of supply, and make seasonal bulk purchases so as to enable them to supply the requirements of the primaries at reasonable prices. They were also advised to undertake processing activities so as to be able to supply the needs of the primaries at competitive rates. Attempts in this direction were made now and then by the wholesale stores but the business of the primaries with the wholesale stores has not shown improvement, as will be seen from the figures furnished above.

The wholesale stores generally allege that the primaries are not loyal to them and make purchases elsewhere, on grounds not always convincing. On the other hand the primaries allege that the wholesale stores do not supply articles of quality at competitive rates. The primary stores, being responsible to their consumers, have necessarily to go in for purchases elsewhere if they can thereby get articles at a cheaper price. Loyalty cannot be penalized but should be evoked by the wholesale stores by palpably superior service in the matter of price, quality, etc. The Central Stores exist for the primaries and not *vice versa*. This is the line of argument of the primaries.

It is not necessary to examine these allegations and it may be said that there is some basis for the version of both. We suggest the following measures for improving the business of the co-operative wholesale stores with their primaries :—

(i) The wholesale stores should depute one of its responsible employees to go round the primaries and canvass orders. The person so deputed should attend the board meetings of the primary stores, book orders for the supply of the articles required by them, and make arrangements for the prompt supply of the agreed quantities at the very doors of the primaries.

(ii) The wholesale stores should stock quality goods at competitive rates by purchasing in bulk from production centres when conditions are most favourable.

(iii) The processing activities undertaken by the wholesale stores have been negligible on the whole. During the period of controls they undertook processing activities but this was more as part of their procurement and import operations; for instance, the paddy procured by them at the instance of the Civil Supply Officers, had to be hulled into rice or the grams imported by them had to be converted into dhall or flour. The wholesale stores should again take up this activity, with due regard to the requirements of the primary stores.

As already adverted to, the wholesale stores can secure the enduring custom of the primaries only by making it worthwhile for the latter to effect purchases from them. In Great Britain, though there is no compulsion for the primaries to purchase from the wholesale stores, they do purchase the bulk of their requirements only from the wholesale stores. This is due to the superior services rendered by the latter. The history of the wholesale stores in Great Britain points the way for the growth of the wholesale stores. In the beginning, they effected only wholesale purchases and thereby effected economies in purchases. Later, they took up processing and manufacture of goods on demand by the primaries and this saved for the consumers' movement the manufacturers' margin. Thereafter they acquired plantations and corn fields and began to produce themselves even the raw materials required for

manufacture, etc. Indeed, co-operation is regarded there as vertical integration in essence because of these developments. Only because of such activities on the part of the co-operative wholesale stores there, they have been able to secure the lasting and willing custom of the primaries. We feel, that, in our country also, unless the co-operative wholesale stores render similarly superior services, it will not be possible for them to draw the primaries closer to them.

(iv) It is said that the paid staff and directors in certain primaries may be inclined to purchase from private merchants, irrespective of the price factor, etc. In all such cases, the supervisory staff should be vigilant. They should probe into the matter and persuade them to purchase from co-operative wholesale stores, by educating the members and seeking the intervention of the departmental officers, if need be.

(v) To enlist the loyalty of the primaries to the wholesale stores, it may be provided in the by-laws that no primary stores shall be eligible to be represented on the Board of Management of the wholesale stores, unless the former purchased from the latter during the preceding year goods to the value of say at least Rs. 5,000.

(vi) Frequent conferences of primaries should be held by the wholesale stores in different areas of the district so that their mutual problems and difficulties may be discussed and solved and a closer contact established.

226. *Opening of branches by co-operative wholesale stores.*—The consumers' co-operatives in our State have been organized on a federal basis, the primary stores as the base being affiliated to a wholesale stores for the district. The fall in the business of the primary stores, consequent on decontrol and derationing, inefficient management, etc., has given rise to a suggestion that the wholesale stores may open retail branches in places where primary stores do not function. In fact, some wholesale stores (for e.g.), Salem and Tiruchirappalli have opened retail branches in a few places in their districts. In Salem, local panchayats have also been constituted to supervise the working of the branches. The functions of these panchayats are to forward applications for membership to the Board of Directors of the wholesale stores, to investigate complaints and grievances of local members and to make representations to the Board, to inspect the branches periodically and report results to the Board of Directors. The by-laws provide for the admission of "B" class members in these branches with a nominal share capital of Re. 1.

It may be considered whether it is necessary and desirable for the wholesale stores to open retail branches.

It may be said, that if a wholesale stores runs retail branches, it can keep itself in close touch with the trend of demand and prices in the retail market, and thereby understand and appreciate, the

difficulties of their affiliated primaries. But it is not necessary to run a retail branch for this purpose. There are other ways of achieving this objective, for e.g., deputing one of its responsible employees to visit primaries periodically, contact their managements and members and ascertain their needs and difficulties.

Ordinarily, it is neither necessary nor desirable for a wholesale organization to take up retail trade. It has to concentrate its attention on bulk purchase and sale of goods, which is its primary objective. It has now become all the more necessary for the wholesale stores not to dissipate its efforts in retail trade as it is proposed to entrust it with the additional responsibility of functioning as the District Supply and Marketing Society and helping in the sale of produce of the agriculturists and undertaking export business, etc.

One of the essential requisites in a co-operative concern is member management. In the case of central stores opening branches for retail sale, this principle is given the go-by. Nor will it be possible to work out easily a system of bonus on purchase made by B class members in such branches. It is not also calculated to evoke local initiative and develop local leadership which are some of the welcome features of a co-operative organization. It will lead to an intensification of the apathy of the local members in the affairs of the society which is to be deprecated strongly from the co-operators' point of view.

Therefore, we recommend that co-operative wholesale stores should undertake the opening of retail branches, only in areas where there is absolutely no immediate prospect for the successful functioning of the primary stores or where the existing stores is not able to work usefully for some special reasons, and should endeavour to replace the branch by a primary stores, as soon as conditions become favourable. The running of branches for retail sale by the wholesale stores should be only a temporary expedient.

We wish to state that the foregoing paragraphs should not give the impression that we are favouring the continuance of the wholesale stores in their present form. We invite attention to our recommendations relating to the reorganization of the wholesale stores into District Supply and Marketing Federations. Our suggestions in this chapter (Chapter 14) should be read in conjunction with the structural changes, etc., recommended by us in Chapter 12.

227. *Supervision of stores societies.*—The supervision of stores societies is now done by the departmental staff, consisting of Co-operative Sub-Registrars and Senior Inspectors each generally being placed in charge of 25 to 30 societies. The duties of the departmental staff for supervision are chiefly as follows:—

They should undertake an inspection of the stores at least once in a quarter. They should make a careful study of the

consumers movement in the district, spot out weak points and devise means for improvement. They should act as liaison officers between the wholesale stores and the primaries, study the reasons for the primaries not patronizing the wholesale stores and try to remove the obstacles in the way of better trade relationship between the two organizations. They should also give practical guidance in account keeping to the employees in stores societies and put them in the way.

Apart from departmental supervision, the Central Banks have also appointed supervisors primarily for checking the sales chits and also purchase invoices.

So far as departmental staff is concerned, supervision was free up to 1947-48. But from 1948-49 onwards, Government ordered the collection of supervision fees from both wholesale and primary stores, earning a net profit of Rs. 10,000 or more per annum, at a rate of 5 per cent of their net profits, subject to a maximum of Rs. 3,000.

So far as the supervisory staff of the Central Banks is concerned, the primary stores pay a fee at the rate of 4 annas for every Rs. 100 of their sales or part thereof subject to a maximum of Rs. 150 per annum. But stores societies which have taken auditors under Fundamental Rule 127 need pay only a nominal supervision fee to the Central Bank. With a view to augment the fund for supervision of stores in the Central Banks, some wholesale stores contribute to this fund at a rate of Rs. 100 per annum if the total of their annual sales is Rs. 3 lakhs and below, at Rs. 200 per annum if their annual sales exceed Rs. 3 lakhs but do not exceed Rs. 5 lakhs and at Rs. 300 per annum if their annual sales exceeds Rs. 5 lakhs.

The points for our consideration are—

- (i) Whether the supervision exercised is adequate and efficient and whether the present arrangements require any revision, and
- (ii) whether the collection of supervision fee is reasonable.

(i) It has been stated in some quarters that the supervision exercised is generally confined to checking of accounts and other routine matters and that the real purpose of supervision, viz., helping the institutions to improve their business and operational efficiency has not been served. The duties prescribed for the supervisory staff are designed to achieve this object and if they carry out their functions as prescribed supervision would be efficient and effective. It is also necessary that Inspectors posted for supervision should be given practical training for about a month in primary and wholesale stores run on sound and successful lines within or outside the State, before they are posted to this work.

Some have suggested that the work of supervision may be entrusted to the wholesale stores. The wholesale stores functioning (hereafter) as both supply and marketing organizations for the districts will have to devote all their efforts to the development of their own business and cannot afford to divert their attention to the administrative work connected with supervision over the primary stores. It may be also noted in this connection, that the supervision fees collected fall far short of the expenditure on the supervisory staff maintained by the Government, the fees payable during 1953-54 and the cost of staff maintained being Rs. 70,696 and Rs. 1,58,435, respectively. It may be difficult for the wholesale stores under these conditions to maintain the required staff for the supervision of stores. If at all this work is to be transferred from the department, the Central Bank with its large field staff, is the appropriate body which can take over the supervisory functions from the department and not the wholesale stores.

(ii) Regarding supervision fees it may be stated that it was imposed at a time when the business of the stores was in a flourishing condition. Now their business has dwindled enormously. A few stores have also questioned the legality of the levy in the absence of a provision for it in the rules. On the recommendation of the Registrar, Government have also suspended the collection of supervision fees from stores societies during 1954-55, mainly with a view to lend a helping hand in stabilizing their position. As the consumers' side of the co-operative movement has yet to take root and as the resources of the stores have to be conserved for strengthening their position, we suggest that supervision may be done by the Government, free of cost. It can be legitimately said that supervision of non-credit co-operatives including stores, free of cost, is the responsibility of the department in the conditions prevailing now.

So far as the supervisory staff of the Central Bank is concerned, the fees collected cannot said to be unreasonable and it may be continued.

228. *State aid to consumers' co-operative stores.*—With a view to promote the consumers' co-operative movement it has been suggested that State aid may be given in the following directions:—

(i) Co-operative stores may be entrusted with the sale of popular products of State-owned industries on outright or consignment basis.

(ii) Long-term loans may be given to stores for construction of godowns subject to their financial standing and the possibilities for future development.

We commend these two suggestions to the Government.

R.C.C.—15

So far as Government patronage in the matter of purchasing the requirements of their departments is concerned, the position is as follows :—

During the year 1953-54, 96 primary stores supplied articles worth Rs. 47.41 lakhs to the jails certified schools, mutts, educational institutions and Government and local board hospitals. Eleven Co-operative Wholesale Stores also supplied articles worth Rs. 9.04 lakhs to these institutions.

In the matter of purchase of articles (except milk which is governed by separate orders) required by jail institutions including borstal schools, Government prescribed in November 1954, the following among other conditions :—

(a) That co-operative societies/stores in the locality recommended by the local Deputy Registrar, should be allowed to make supplies of only articles other than (i) edible groundnut, (ii) potatoes and (iii) such other articles, if any, as are not commonly sold by the societies concerned to the public.

(b) That the society/stores should supply articles at a maximum profit of 5 per cent over the cost price, including the margin for transport and handling charges, cover for delayed payments and all other incidental charges.

(c) The society/stores should repay the excess, if any over the 5 per cent margin permissible if the total paid on this basis by the Jail Department exceeds the total paid on the basis of the rates charged to members, as an annual rebate on purchase and the jail will not be entitled to the bonus admissible to members.

There has been no representation to us suggesting liberalization of these conditions. Hence they can generally be considered satisfactory from the point of view of the stores.

Government directed in August 1955, that in the matter of acceptance of tenders for the supply of diet articles to medical institutions, preference should be given to co-operative societies if their tendered rate is within the margin of 5 per cent over the lowest valid tender rate offered by private individuals. The practice in vogue in respect of jails may be adopted as regards medical institutions also.

In the matter of exempting the co-operative societies from the payment of earnest money deposit and security deposits for the contracts entered into by them with jails, etc., the Inspector-General of Prisons, at present considers individual cases on their merits on the recommendation of the Registrar. Since the Deputy Registrars who recommend the application of the stores take into account their financial standing, we consider that the payment of earnest money and security deposit may be dispensed with as a rule though it may be open to the Inspector-General of Prisons to call on any stores to pay security deposit, etc., for special reasons.

229. *School and College Students Stores.*—A useful line of development, in the progress of the consumers' co-operative movement in our State, has been the increase in the number of High School and College Students Stores. The objects of such stores are to purchase and sell books, stationery and other articles required by members and associates (students below 18 years of age). While the number of such stores was only 94 on 30th June 1939, for the Composite State, their number for the Residuary State on 30th June 1955 was 355 with a paid-up share capital of Rs. 82,869. Their membership consisted of 28,044 students, 5,564 teachers and 29,744 associates. They purchased and sold books, stationery, etc., to the value of Rs. 17.33 lakhs and Rs. 18.04 lakhs respectively.

Apart from conferring economic benefits on their members and associates, these stores are best calculated to inculcate among the students virtues of self-help and mutual-help, familiarise them with the working of co-operative societies—and impart training in democratic management, in the most formative period of their lives. If the movement is to forge ahead in the future—leading eventually to the cherished goal of a co-operative commonwealth—the youth of the country should be made to take a lively interest in the co-operative movement even during their scholastic days. We cannot think of a better means of realizing this objective, than by forming students co-operative stores and working them on proper lines. The societies should be run as genuine democratic organizations in which the students should play an active role. The teachers should see that the students are not over-awed from playing their legitimate part. As far as possible, the students should be made to carry on the administration of the societies.

Incidentally, we may remark here that one of the drawbacks of the movement, i.e., inadequate participation of women in the movement in this country as compared with the several advanced countries, can be hoped to be remedied in due course, if students stores are organized in the High Schools and Colleges for girls and worked on the above lines.

CHAPTER 15.

CO-OPERATIVE HOUSING SOCIETIES.

230. *Historical aspect.*—The problem of housing has two aspects (i) shortage of housing and (ii) unsatisfactory condition of housing from the view point of hygiene and public health. While both the aspects are noticeable in urban and rural areas, the first is more pronounced in the former, and the second in the latter. Housing as a problem has hitherto been recognized only in urban areas; it is only recently that the need was recognized for positive action to solve this problem in rural areas also.

The problem in urban areas was noticeable even during the normal conditions of the prewar period. But it became acute only during and after the end of the second World War. The reasons for this state of affairs are well known—increase of urban population consequent on the conditions created by the war, slackening of building activity due to the rise in the cost of labour and price of building materials, and diversion of private capital to more profitable lines of investment. The housing shortage became particularly acute in the City of Madras and the Government appointed a Special Officer in 1946 to investigate the housing problem in the City and to submit proposals for the formation of a housing society with a fairly large capital. In pursuance of his recommendation, a co-operative house construction society was formed in Madras in 1947. By this time, housing shortage in many urban areas throughout the State assumed the dimensions of a major problem. Collectors were therefore, instructed by Government to constitute housing Committees in urban and semi-urban areas where the shortage was acute with a view to select suitable lands for construction of houses. Pursuant to the reports of these committees co-operative housing societies were formed in several towns. There was a marked progress in the number of societies and their activities after 1947, as shown by the following statement :—

	Composite State figures.		Residuary State figures
	30th June 1939.	30th June 1947.	30th June 1955.
Number of housing societies ..	126	130	175
Number of members	4,600	7,458	16,421
	(RUPEES IN LAKHS).		
Paid-up share capital	10.53	22.12	110.20
Government loan outstanding against the societies.	20.36	4.43	289.54
Number of houses constructed since 1924.	2,315	2,580	6,152

The principle of financing the housing co-operatives was accepted by the State Government even as early as 1924. Government have been placing funds every year at the disposal of the Registrar and he has been sanctioning loans to the housing societies. Under the rules framed by the Government, State loans are sanctioned up to four times the paid up share capital of a member subject to a maximum of Rs. 10,000 per house, repayable in 20 years. Recently Government of India also have formulated a housing scheme for urban areas for persons belonging to "low income groups." Persons with an annual income of not more than Rs. 6,000 are considered to belong to this group. The scheme provides for issue of loans up to 80 per cent of the estimated cost of the house, inclusive of the site value, subject to a maximum of Rs. 8,000 per

individual, repayable within a maximum period of 30 years. The current rate of interest is 4½ per cent. The implementation of this scheme is entrusted to the State Government.

231. *Different types of Co-operative Housing Societies.*—Housing societies in our State are based either on individual ownership system or co-partnership system. A society based on the former system lends money to its members to enable them to build houses themselves on the sites already owned by them or purchased from the society. Co-partnership system has been developed on two lines, one on ownership and the other on tenancy. In a society based on co-partnership ownership system, the member ultimately becomes the owner of the house through a system of hire-purchase. In a society based on the tenancy system, the member will remain perpetually a tenant.

The housing societies in this State were organized only on the basis of individual ownership till about 1947 and only thereafter societies began to be organized on the co-partnership ownership system. Housing societies on the basis of co-partnership tenancy system have not been popular in this State.

Based on the two broad systems indicated above the housing societies in the State have been classified into (i) building societies (which give loans for construction of houses by members themselves), (ii) house building societies (which, besides giving loans to members, also undertake construction of houses as their agents), (iii) house construction societies (which themselves construct houses and sell the buildings on hire purchase to their members) and (iv) the Co-operative Township, which, besides combining the characteristics of the first three kinds, undertake to provide amenities such as water-supply, drainage, education, etc.

On 30th June 1955 there were 175 housing societies in the State. The following statement shows their achievements :—

Particulars.	Ordinary building societies.	House building societies.	House construction societies.	Town-ships.	Tenancy societies.	Total.
Number of societies ..	124	38	11	1	1	175
Number of members ..	7,772	4,281	3,028	1,115	225	16,421
	(RUPEES IN LAKHS).					
Paid-up share capital ..	28.59	24.35	53.59	3.42	0.25	110.20
Government loan sanctioned during the year, 1954-55.	12.70	22.13	20.18	0.71	..	55.72
Government loan outstanding against societies.	54.29	52.28	177.35	5.62	..	289.54
Number of houses erected in all up to 30th June 1955.	..	..	..	..	..	6,152

Besides the housing societies mentioned above, there are what are called house mortgage banks in this State. On 30th June 1955 there were five such banks, two in Madras and one each at Erode,

Coimbatore and Tanjore. These banks issued long-term loans for periods up to 20 years from out of long-term deposits raised by them and (till recently) from the loans taken from the South India Co-operative Insurance Society. On 30th June 1955, these banks had a membership of 6,684 with a paid-up share capital of Rs. 9.40 lakhs. During the year 1954-55 they issued loans to their members to the extent of about Rs. 5.11 lakhs for construction of houses and Rs. 4.69 lakhs for other purposes such as purchase and construction of houses, redemption of mortgages on houses, liquidation of old debts, etc.

We propose to deal with the important problems relating to these societies.

232. *Basis for fixing loan instalments.*—Under the present rules, a member is required to contribute share capital to the extent of one-fifth of the total loans sanctioned to him. The loan amount given to the member includes Government loan obtained by the society on his behalf (four-fifths) and the share capital subscribed by him (one-fifth). The instalment payable by the member is fixed on the entire loan repayable in 20 years. By this method, the member is required to pay a larger amount as instalment, as his share capital also is included in the total loan given to him. Besides, the period of repayment virtually gets reduced from 20 to 16 years, as by the end of the 16th year, the Government loan gets discharged and the balance of the loan is cleared by adjustment of share capital. With a view to lighten the burden of annual instalment on the borrower, we suggest that the instalment payable by the member is fixed with reference to the Government loan alone, treating share capital loan as repayable by adjustment in one lump sum after the Government loan is discharged. The share capital loan is to be made interest-free, at the same time making the share capital not eligible for any dividend.

233. *Maximum Government loan admissible.*—Under the present rules, societies are allowed to borrow up to four times their paid-up share capital and members allowed to borrow up to five times their share capital subject to a maximum of Rs. 12,500: for example if a member wants a loan of Rs. 12,500 from the society he should put in a share capital of Rs. 2,500, the balance of Rs. 10,000 being provided by Government. (The payment of share capital may be either in cash or by adjustment of 80 per cent of the site value.) It has been represented to us that the proportion of share capital payable by the member to the total loan required by him, viz., 20 per cent is high. The Madras State Co-operative Union has even suggested that Government loan should be given up to 95 per cent of the cost of the house, the member's contribution being limited to a minimum of 5 per cent. This amounts to reducing the margin of security available for Government loan from the present limit of 25 per cent to about 5 per cent. While we consider it

unsafe to lower the margin to such an extent, we think that some relaxation is necessary, with a view to help more number of people to avail themselves of the benefits of the co-operative housing schemes. We therefore recommend that Government loans may be allowed to societies up to 5 times their paid-up share capital instead of four times and members allowed loans from societies up to six times their paid-up share capital instead of five times. This suggestion will have the effect of reducing the margin of security for Government loans only by 5 per cent, i.e., from 25 per cent to 20 per cent. In several cases, parties actually invest, besides Government and share capital loan, their own resources to some extent. There is also careful scrutiny of loan applications before they are sanctioned. Then, there is the valuation by the Public Works Department after the completion of construction. In view of all these factors, the reduction in the margin of security for the Government loan by 5 per cent is not likely to endanger the safety of Government loans.

234. *Rate of interest on Government loans.*—The rate of interest charged by the Government during the current year (1955-56) on loans to housing societies is 4½ per cent (it varies from year to year). It has been represented to us, that this rate is very high and should be reduced by at least 1 per cent. As the object of Government is to encourage persons belonging to low income groups to own houses, a reduction in the rate of interest will serve to attract more persons to build houses and thus help in solving the problem of housing shortage in our growing towns. We think that the rate of interest can well be 4 per cent, which is the borrowing rate of the State Government. As regards funds obtained from the Government of India for the implementation of the low income group housing scheme, the State Government may (if necessary) persuade the Central Government to charge only 4 per cent on these amounts.

235. *Need for liberalizing certain concessions.*—Members of societies now enjoy half concessions for payment of fees towards registration and encumbrance certificates in respect of loans taken by them up to Rs. 5,000. It has been suggested that the loan limit up to which this concession is available, should be raised. Under low income group housing scheme, a loan of Rs. 10,000 is allowed to a member. The Government of India and the State Government are anxious to encourage low income group housing schemes. The half-fee concessions referred to above may well be extended to members falling under the low income group category (i.e.), up to a loan limit of Rs. 10,000.

236. *Desirability or otherwise of restricting loans to persons who do not already own houses.*—The present practice is to give one loan to an individual for the construction of one house irrespective of the fact whether he already owns a house or not. It is stated that this practice gives scope for some people who already own houses to take

advantage of the Government loan for speculative purposes. One of the basic purposes of housing societies is to relieve congestion without encouraging speculation. Hence, it appears to have been the policy all along not to deny loans to persons simply because they already own houses. A second house might be a genuine need under certain circumstances. For instance, the house already owned by a person may not be quite suitable for his present requirements; or he may have grown up sons for whom it might be necessary to provide houses. For all these reasons, it seems to us that it will not be desirable to restrict Government loans only to persons who do not own any house. However, we consider it desirable that only one loan should be given to a person during his lifetime by Government. This restriction will prevent persons from selling the house already built with a speculative motive, and applying for Government loan later on.

237. *Need or otherwise for exempting co-operative housing colonies from the payment of property tax for a certain period.*—The housing colonies constructed by the co-operative housing societies have to be provided with amenities such as roads, drainage, lighting, etc. Under the City Municipal Act and District Municipalities Act, these amenities have to be provided by the lay-out owners at their cost, water-supply being provided free of cost by the local body. In the housing colonies brought into existence by the co-operative housing societies, these amenities have been either provided by them at their own cost or the cost thereof paid by them to the local bodies. As a result, the societies have to collect these charges from the members by enhancing the cost of sites or buildings. It has been represented to us that as the formation of housing colonies by societies adds to the importance of the towns and cities, and brings in more revenue to the local bodies, the houses in the colonies should be exempted from the payment of property tax initially for a few years. Such a concession was in a way recommended by the Madras Provincial Housing Committee (1947), but was not accepted by the Government. A complete exemption from property tax for all the houses built in a housing colony or exemption for long periods will not in our view be justified, having regard to the fact that the local bodies also have to maintain the amenities and render other services to the people of the locality, which they cannot do without collecting property tax from the owners of houses. With a view, however, to encourage the construction of more and more houses in our growing cities and towns in order to relieve congestion—which is also in the interests of the local bodies—some relief is necessary in the matter of levying property tax. At the same time, the relief should be such as to benefit only owners of small houses who are generally people of limited means. We think that in the housing colonies where all the amenities except water-supply, such as roads, drainage and lighting have been provided for at the cost of the society, such of the houses in the colony as have been built with a Government

loan not exceeding Rs. 8,000 in the city and Rs. 5,000 in the mufassal may be exempted from property tax for a period of two years from the date on which the house becomes liable to the levy of property tax. We understand that the Income-tax Department also exempts the newly built houses from income-tax for the first two years. In this connexion, we may also refer to the suggestion of the Government of India to the State Government that in the case of housing schemes for industrial workers, the State Government might persuade local authorities to allow a rebate of at least 50 per cent in the general rate of house tax, at least for an initial period of ten years. As the addition of a large number of houses to the city or town will eventually bring more revenue to the local bodies, such a concession will be justified, taking a long range view of the matter.

238. *Supply of Government timber at concessional rates to housing co-operatives.*—The high cost of building materials is one of the reasons that deter persons belonging to low income groups from undertaking construction of houses. Till a few years back, Government were supplying timber at concessional rates to co-operative societies, but we learn that this concession has now been withdrawn. It has been suggested that with a view to encourage people to construct more houses a concession of about 10 per cent in the price of Government timber may be shown to co-operative societies. We recommend this suggestion.

239. *Need or otherwise for the formation of a central organization for financing the housing co-operatives.*—It has been suggested to us that a central organization might be started for the purpose of financing the housing co-operatives in the State. Such a central organization, unless it is able to tap long-term moneys and lend at rates, less than 4½ per cent (the present lending rate of the Government) will only add to the interest burden of the ultimate borrowers. Having regard to the fact that even State Governments, float medium-term loans at 4 per cent, it is unlikely that a central organization will be able to raise long-term moneys at a rate lower than 4 per cent; probably the rate will have to be higher. The central organization will require a margin of at least 1 per cent for its working expenses and so its lending rate is not likely to be less than 5½ per cent. The primary housing society will have to add another 1 per cent and lend at 6½ per cent to the ultimate borrower. Considering these practical difficulties, the suggestion regarding the formation of a central housing society purely for purposes of financing the housing societies of the State, does not commend itself to us. Government may continue their present policy of providing long-term finance required by the housing co-operatives.

However, so far, as the house mortgage banks are concerned, the matter is different. Hitherto they have been getting their long-term finance (apart from long-term deposits) from the South India

Co-operative Insurance Society. With the nationalization of life insurance we learn that such loans have been stopped. It has been suggested, therefore, that a Central House Mortgage Bank may be formed for the purposes of financing the existing house mortgage banks as well as those that are likely to come into existence in future.

As the primary object of nationalization of life insurance is only to bring about the socialization of profits in the insurance business, we do not see any reason why, in the new set up also the investment of insurance funds in the housing schemes should not be continued. We recommend that the State Government may take up this matter with the Central Government and see that the proposed Insurance Corporation continues to finance the co-operative house mortgage banks in this State.

We also recommend the formation of a Central Co-operative House Mortgage Bank, with powers to float long-term debentures. It may work generally on the lines of the Central Land Mortgage Bank. It will not be possible for such an organization to raise the long-term moneys required for its operations without Government guarantee. We, therefore, suggest that Government may guarantee the repayment of principal and interest of the debentures floated, by the Central House Mortgage Bank. Government may also provide this organization with other necessary assistance such as the free services of staff, etc., in the initial years. The Government will be quite justified in according such assistance. Housing has two aspects—broadly speaking (1) construction of new houses; and (2) up-keep of the existing houses in proper condition by timely major repairs, etc. Unless the latter aspect is effectively ensured by the grant of adequate loans for sufficiently long periods—the housing problem cannot be expected to be satisfactorily solved. The urban banks cannot in the very nature of things fulfil this need satisfactorily. Hence there is real need for starting House Mortgage Banks in all municipal areas. They can function usefully and on the scale expected only if they are furnished with long-term funds. It will be scarcely possible for them to raise by themselves the long-term funds needed. Hence, there is need for a central organization and it can function only with Government assistance of the types recommended by us.

240. *Rural housing.*—According to the Provincial Housing Committee, the problem of rural housing is not as serious from the quantitative viewpoint, as from the qualitative point of view. Many of these houses are ill-ventilated, insanitary and unhygienic. "The man and the kitchen, the man and the grain and frequently, the man and the cattle are found sharing together the same room, throughout the night."

The All-India Co-operative Planning Committee recommended the formation of housing societies for groups of villages, which would construct and give houses on hire-purchase system, over a period of 20 to 30 years.

A scheme for organizing co-operative housing societies in rural areas was sanctioned by the State Government in April 1950. It is applicable to all places outside municipalities and major panchayats (for which, the urban housing scheme is in force). Though the scheme was in force for about five years, it did not evoke much response from the rural public on account of certain rigid conditions imposed under the scheme, such as insistence on payment of 33½ per cent of the Government loan as share capital by the member, construction of the building at a cost of not less than Rs. 3,000, provision of a plinth area of not less than 460 square feet, etc. The conditions have been liberalized in 1955. The essential features of the modified scheme are as follows:—(i) Government loans are allowed to individuals up to four times their share capital as in the case of urban housing societies. Where the members offer agricultural land of value equal to loan amount as collateral security, Government loans are allowed up to seven times their share capital. (ii) The cost of construction of the house may be even as low as Rs. 750. (iii) The minimum plinth area of the building may be 240 square feet.

241. *Extension of the area of operations of rural housing societies.*—The present practice is to form a rural housing society with area of operations covering usually a revenue village or two. It has been found that there is not sufficient scope for developing the scheme in a limited area. If the area is widened so as to cover, say a firka, it is likely to secure a better response. It may be mentioned in this connexion that the All-India Co-operative Planning Committee also recommended the formation of housing societies for groups of villages. It will be possible thereby not only to secure better personnel for managing the societies but also sufficient business to make the society an economic unit. When even for a village credit society a larger area is now advocated, it is rather inexpedient to have a restricted area for a rural housing society. Therefore, we recommend that the area may well be extended up to a firka.

242. *Need for increasing the maximum borrowing limit in rural housing societies with a corresponding increase in the individual maximum borrowing limit.*—At present the borrowing limit of a rural housing society is normally four times its paid-up share capital. The limit of borrowing for the member is normally five times his paid-up share capital. Elsewhere, we have recommended that in the case of urban housing societies their borrowing limit may be raised from 4 to 5 times their paid-up share capital and the

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borrowing limit of members fixed at six times their paid-up share capital (including share capital loan). On the same analogy, we recommend that in the case of rural housing societies also, members may be normally permitted to borrow from the society up to a limit of six times their paid-up share capital. The borrowing limit for the society may be raised from four to five times. When agricultural land is offered as collateral security, the existing higher limit (seven times for the society and eight times for a member) may continue.

243. *Need for subsidizing rural housing societies for agricultural labourers.*—It has been proposed in the Second Five-Year Plan that out of 6,000 houses to be constructed under the rural housing scheme, 3,000 will be for agricultural labourers at not more than Rs. 750 on a subsidized basis. One-fourth of the cost, viz., Rs. 187-8-0 will be given as subsidy and the balance will be treated as loans repayable in 20 years. (Plans and estimates have been worked for a house to be constructed costing Rs. 750.)

It is needless to refer to the deplorable conditions in which agricultural labourers, who are mostly Harijans, are living in rural parts. Their income is such that they cannot be expected to construct houses with Government loan alone. The industrial labourers are better off than those people monetarily; they are subsidized to the extent of 25 per cent of the cost of houses ranging from Rs. 2,700 to Rs. 3,840. Hence, there is no valid reason why the agricultural labourers should not be given this help by way of subsidy. Such a help can be extended to other rural artisans and workers also. However, we feel that this concession need be given only to persons who own immovable properties valued at less than Rs. 1,000.

244. *Industrial housing.*—(i) The Government of India have formulated a subsidized housing scheme for industrial workers, coming under the Factories Act. The scheme contemplates the construction of tenements through the following agencies:—

(a) State Government or Statutory Housing Board, (b) employers, (c) registered co-operative societies of industrial workers.

(ii) It provides for the construction of two classes of tenements: (a) one-roomed with an area of 220 square feet, and (b) two-roomed with an area of 356 square feet. The two-roomed tenements are intended for occupation by workers drawing a salary of not less than Rs. 250 per mensem. The tenements could be built in single, double or multi-storeyed types at costs ranging from Rs. 2,700 to Rs. 3,840.

(iii) Financial assistance is provided to co-operative societies in the form of loans and subsidies, loans to the extent of 50 per cent and subsidy to the extent of 25 per cent. The remaining 25

per cent should be met by the worker. The period of repayment of loan is 25 years. The rate of interest is $4\frac{1}{2}$ per cent (for 1954-55) provided the State Government do not add any margin.

(iv) When the scheme is implemented by an employer, the assistance by way of loan and subsidy will be $37\frac{1}{2}$ per cent and 25 per cent respectively, and the period of repayment will also be restricted to 15 years, instead of 25 allowed for co-operatives.

Under the scheme of Industrial Housing, three societies have been registered in this State recently.

245. *Need for reducing the contribution payable by members towards the cost of houses.*—The main difficulty experienced in forming Industrial Housing Societies for construction of houses for the workers is that the workers are not able to pay 25 per cent of the cost of the site and buildings which they are now required to pay. Employers have therefore to be approached to help the members financially to enable the latter to pay the share capital. In several cases, employers are not prepared, to finance. Therefore, we suggest that the workers might be required to contribute only 10 per cent, Government meeting the balance as loan and subsidy. This will attract more labourers to the scheme.

246. *Need for giving to the Industrial Housing Societies a larger subsidy than that given to the industrial employers.*—When the scheme of industrial housing is implemented through the agencies of co-operatives, the ownership of the house will ultimately pass on to the workers, whereas in the case of construction by employers—the houses will remain their property—though they will let out the houses on a "no profit basis". It is needless for us to explain the advantages accruing to the workers and community as a whole by the members becoming individual owners eventually. Hence, in our opinion, the subsidy admissible to workers who organize themselves into co-operatives, must be definitely higher than those admissible to employers. We, therefore, recommend that the subsidy to the former may be $12\frac{1}{2}$ per cent more than the subsidy given to the employer.

247. *Liberalization of the rules of allotment of houses by the societies to their members under the scheme of industrial housing.*—According to the rules governing the allotment of houses constructed under the Industrial Housing Scheme, the ownership of the house will pass on to the worker only after 25 years; but under some special circumstances like death or retirement, the ownership may accrue after 15 years under certain conditions (that he or his heir should not encumber or alienate, etc.), provided the full cost of the house (i.e., total cost minus subsidy) is paid. If death or retirement takes place within 15 years, he will have to give vacant possession of the house. The society will refund to him the balance (if any) in the hire purchase instalments paid by him after deducting the rent

which he would have had to pay for occupying the house as a tenant and 2 per cent per annum on the cost of the house towards depreciation.

If a member dies or retires before the 15th year, he, his heirs, or nominees are not entitled for conveyance of the building even when they agree to pay the balance. This is a great hardship on the worker. It does not stand to reason that death should entail disabilities. Death is an event in which the member has no hand. We feel that his heirs need not be asked to quit the house provided they agree to pay the balance of the loan regularly. The conveyance may be effected to the heir or nominee at any time after the loan is discharged in full. However, the heir will have only limited ownership till the expiry of 25 years.

In the case of retirement after ten years, he or his heir (if he is an industrial worker) may be permitted to pay the prescribed instalments even thereafter and acquire limited ownership after paying the loans due in full at any time thereafter. He will acquire full ownership after 25 years only. If retirement is before ten years, he may be required to pay the proportionate subsidy and the balance of the loan if he desires the house to be conveyed. In such cases also he will have only limited ownership up to 25 years.

248. *Relaxation of the condition relating to insurance by the society in the scheme of industrial housing.*—One of the conditions of the agreement to be executed between the society and the Government under the scheme of industrial housing, is that the society should insure the houses against loss or damage (a) by fire, flood, earthquake, cyclone and other acts of God, (b) riots, civil commotions or revolutions, and (c) acts of enemies during war or other risks of war. The insurance policy should be assigned in favour of the Government and all premia should be paid in time by the society.

The incidence of insurance premia will naturally have to be passed on by the society to the members. The loss or damage envisaged in this connexion might be a rare occurrence and may not arise at all. It may be noted that there will be no need to adopt the flat system of construction in our State. Detached or semi-detached houses with open space around them, will be more suitable for the conditions of our State as the pressure on building land is not very great. Consequently there is less likelihood of the loss or damage occurring in any house affecting the other parts of the colony. We, therefore, consider that the condition relating to insurance is an avoidable burden on the members. We would like to point out in this connexion that house construction societies and the building societies to which large sums have been advanced by the Government are not insuring the buildings. The Government of India have stated that they will have no objection to the State

Government not insisting on all or some types of insurance mentioned above. Therefore, we recommend that this condition may not be insisted upon by the State Government.

249. *Formation of societies for financing purchase of house-sites.*—Under the rules now in force, housing societies can advance loans only for the construction of dwelling houses; but not for purchase of sites. There are large numbers of people in urban areas—salaried employees of Government, firms, companies, banks, etc., who cannot find the initial capital required for the purchase of house-sites, though they can afford to pay a decent amount as monthly instalment. With a view to benefit such classes of people, we suggest that Government loans may be made available through housing societies for the purchase of house-sites also up to 50 per cent of the cost of sites, on the mortgage of the sites. The loan may be made repayable in a period of seven years.

Issue of loans through housing societies for such purpose or the formation of separate house-site societies for financing the purchase of house-sites will serve to attract large numbers of people to the urban housing schemes and to give a fillip to the construction of new houses.

CHAPTER 16.

WEAVERS' CO-OPERATIVE SOCIETIES.

250. Handloom is one of the oldest and major cottage industries of India. That this industry had attained a high degree of perfection in our country centuries before machine was invented to produce cloth and that its fortunes registered a steep decline on the advent of industrialization, are now matters of history. The industry however survives as a mode of living to millions of people. It occupies even now an important place in the economy of India as may be seen from the fact that there are 28 lakhs of handlooms in this country. The Madras State alone accounts for about 5.6 lakhs of handlooms; it means that 5.6 lakhs of families depend on this industry for their livelihood. As an industry which gives sustenance to such a large sector of the community, its importance in national economy can hardly be over-rated.

History of weavers' co-operations in the Madras State up to 1940.—The application of co-operative methods for the improvement of the socio-economic conditions of the workers engaged in this industry, was on a limited scale up to 1940. There were only 194 primary weavers' co-operative societies in that year with about 20,000 members and a share capital of Rs. 1.42 lakhs in the Composite State. The number of looms harnessed by these societies was

only 7,000. The previous Madras Committee on Co-operation (1940) recorded that the slow progress of co-operative effort in this field was accounted for by causes such as the indifference and ignorance of the weavers, lack of loyalty on the part of members, the difficulty of marketing the finished goods produced by the members, etc. A Provincial organization (State Handloom Weavers' Co-operative Society) was brought into existence in 1935 to co-ordinate the working of these societies and to help them in the purchase of yarn and sale of finished goods. It made comparatively limited progress up to 1940. In that year, its membership and share capital were 326 (of which 181 were weavers' societies) and Rs. 63,425 respectively. It enabled the primaries to purchase yarn from the mills directly by guaranteeing credit to a total extent of about Rs. 63,000. It received goods from the primaries to the value of Rs. 12.68 lakhs and sold them through its emporia.

From 1940-41 to 1945-46.—The immediate impact of the conditions created by the Second World War on the handloom industry was rather disastrous. Prices of yarn, dyes, chemicals, etc., registered a steep rise. There was shrinkage in the demand for handloom cloth due to the closure of some foreign markets and restrictions on transport by land and sea. Weavers found it difficult to procure adequate yarn and secure continuous employment. Government came to the assistance of the weavers' co-operatives in 1942 and extended help in the following directions:—

(i) Indemnity was given to the co-operative central banks against losses arising from the financing of weavers' societies which undertook Relief Schemes sanctioned by the Government.

(ii) Capital grants were made for adapting looms to weave new varieties of fabrics at a rate not exceeding Rs. 5 per loom.

(iii) Free services of supervisory staff were given to societies working Relief Schemes.

(iv) A concession in the shape of 10 per cent preference in price was allowed in the purchase of handloom goods of certain varieties by Government. Orders were also obtained from the Supply Department of the Government of India for the production and supply of certain kinds of cloth. For the execution of these orders, help was rendered by the sanction of free services of staff, interest-free advances for purchase of yarn and payment of wages, capital grants for the adaptation of looms, etc.

During this period there was some expansion in the number and activities of the weavers' co-operatives but it was not the result of a recognized policy of expansion. In fact, in the year 1945-46, due to yarn shortage, Government even directed that there should be no further expansion of the weavers' co-operatives. By the end of 1945-46, however, the number of weavers' societies increased from

194 in 1940-41 to 336, number of looms from 7,000 to 39,000 and the value of goods produced from about Rs. 14 lakhs to Rs. 348 lakhs.

Progress from 1946-47.—The ban imposed by the Government on the registration of new societies was, however, shortlived. During 1946-47 itself, the ban was lifted. Government ordered an increase in the basic ration of yarn to the looms worked by the members of weavers' co-operative societies by 20 per cent. Government also enunciated a positive policy of bringing as much of the handloom industry as possible into the co-operative fold. With this object, they sanctioned an additional staff of officers and Inspectors for work connected with the organization of new societies and their supervision. There was a spectacular rise in the number of new societies immediately thereafter. From 336 in 1945-46, the number of societies rose to 659 in 1946-47 and the number of looms from 39,000 to 86,000. From 1946-47, there was a gradual increase in the number of societies, their membership and share capital, the number of loans brought within their fold and the value of goods produced by them.

The period from 1946-47 was not, however, one of almost unbroken prosperity for the weavers' co-operatives. They were suffering from some set back or other; it was either shortage of yarn or slump in business. Even in the year 1946-47, the demand for handloom cloth declined as mill cloth became cheaper with the abolition of control on textiles. Many societies had to cut down their margin to suit market conditions and to avoid deadstocks. In 1948-49, there was acute scarcity of yarn and a scheme of rationing of yarn was introduced by the Government. In 1949-50 and again in 1951-52 there was slump in the handloom trade and schemes of relief were sanctioned by the Government. (The salient features of the schemes are described later in this paragraph.) The second scheme of relief was discontinued by about the middle of the year 1953-54 when the several developmental schemes financed from the cess fund were initiated.

The following were some of the developments in the sphere of weavers' co-operatives from 1946-47 onwards:—

(i) When yarn scarcity occurred, the Madras State Handloom Weavers' Co-operative Society was entrusted with the execution of a scheme of monopoly distribution of yarn throughout the Province both for co-operatives and others. Normally the society was getting only about 5,400 bales of yarn per month for distribution to its affiliated societies. But under the scheme of control it had to distribute an additional 14,000 bales of yarn per month to weavers outside the co-operative fold also. The distribution was done through its emporia and its affiliated primary weavers' societies. After the scheme was in operation for some time it was modified so as to enable private trade channels also to distribute about 50 per cent of the

available supply of yarn. Government sanctioned a loan of Rs. 3 crores to the State Handloom Weavers' Co-operative Society to enable it to purchase from the Mills the yarn intended for distribution. The State Society drew Rs. 2 crores out of this loan and repaid it.

(ii) In the year 1949-50, Government sanctioned a scheme of relief for the benefit of the weavers thrown out of employment as a result of the slump in handloom business. The scheme contemplated that any weaver who decided to join a weavers' co-operative society might be given an interest free loan up to Rs. 25 to enable him to take shares in the society. This amount was to be recovered in 12 monthly instalments. Government also guaranteed the repayment of loans borrowed from central banks by weavers' societies working the scheme and undertook to reimburse the societies to the extent of the business losses incurred in working the scheme. Five thousand two hundred and sixty-seven weavers were admitted as members by the societies under the scheme and a sum of Rs. 77,835 was given to them as advances towards share capital. The production of only utility varieties like dhoties, sarees and towels was permitted and Government sanctioned the services of technical supervisors to draw up designs and specifications and to render other technical assistance. The scheme was wound up when market conditions improved. None of the societies which worked the scheme sustained loss and the need for Government to reimburse the loss did not, therefore, arise. The societies repaid completely the interest-free loans borrowed from Government under the scheme as also the loans taken from the central banks under Government guarantee.

(iii) In 1950-51 Government approved a scheme formulated by the Madras State Handloom Weavers' Co-operative Society for the installation of calendering, bleaching, printing and dyeing plant at an estimated cost of Rs. 5.60 lakhs. The State Government sanctioned a grant of Rs. 1.4 lakhs or 25 per cent of the cost whichever was less, while the Central Government sanctioned a grant of Rs. 2.15 lakhs. The plant is expected to account for 15,000 yards of calendered cloth and 4,000 yards of printed cloth per day. The construction of the buildings, etc., is in progress and it is expected the work will be completed by the middle of 1956.

(iv) During the same year, Government approved a scheme formulated by the Madras State Handloom Weavers' Co-operative Society for the formation of a co-operative spinning mill at Guntakkal in the Anantapur district (now in the Andhra State) with 11,000 spindles. The mill was registered in March 1951, with an authorized share capital of Rs. 30 lakhs. The State Handloom Society and the primary weavers' co-operative societies alone were eligible for membership in the mill and the yarn produced by the mill was to be taken over by the State Society and distributed to the primaries. The Mill went into production in February 1954.

(v) The year 1951-52 again witnessed a period of acute slump in the handloom trade and Government had, therefore, to put in operation another scheme of relief for giving work to handloom weavers thrown out of employment. The scheme was on the lines of the one which was worked in the year 1949-50. The weavers outside the co-operative fold were provided with an advance not exceeding Rs. 25 per head so as to enable them to join the co-operative societies and to take shares. Government placed at the Registrar's disposal a sum of Rs. 5 lakhs for this purpose. Government also fixed a ceiling rate of six annas per knot as wages and agreed to meet the cost of supervisors to be appointed at the rate of one for every five societies, to advise them on specifications of cloth, sale of goods, etc. The societies selected for working the scheme were to be provided with funds by Government through the Madras State Co-operative Bank to an extent of Rs. 35 lakhs to enable them to purchase yarn and to pay wages. The State Co-operative Bank ear-marked Rs. 15 lakhs from its own funds for financing the scheme through the central banks. Government guaranteed the repayment of the loans borrowed from Central Banks by weavers' co-operative societies working the scheme and also to make good the ultimate business losses sustained by the societies in working the scheme. The scheme worked in ten districts of the residuary Madras State. One hundred and thirty-nine Weavers' Co-operative Societies worked it. A sum of Rs. 1.15 lakhs was given as interest-free advance towards share capital of members. The societies borrowed Rs. 12.96 lakhs from the Central Banks for the purchase of yarn and payment of wages. The value of goods produced was Rs. 35.52 lakhs. A sum of Rs. 3 lakhs was placed at the disposal of the Registrar for sanction of subsidies to societies to make good the business losses sustained in working the scheme. A sum of Rs. 2.58 lakhs was sanctioned to recoup business losses sustained by 106 societies. The State Co-operative Bank did not find it necessary to avail itself of the Government loan of Rs. 35 lakhs.

(vi) The year 1952-53 witnessed the formation of another co-operative spinning mill named the South India Co-operative Spinning Mills, on the lines of the one formed at Guntakkal. It is expected that the mills will acquire a site and set up the spinning plant soon.

(vii) During 1953-54, the Madras State Handloom Weavers' Co-operative Society was bifurcated consequent on the formation of the Andhra State and its assets and liabilities were divided between the two component parts.

To sum up, the period subsequent to 1945-46 was characterized by—

(a) intermittent slumps in the handloom trade,

(b) measures initiated by the Government to give temporary relief to weavers, and

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(c) measures such as the establishment of calendering plant and spinning mills, undertaken by the Madras State Handloom Weavers' Co-operative Society with Government assistance calculated to promote permanently production and marketing of handloom goods.

251. *Measures taken by the Government of India to rehabilitate the Handloom Industry.*—We may here indicate the measures undertaken by the Government of India from time to time to put the handloom industry firmly on its feet, in view of their effects on the working of the weavers' co-operatives in our State. As early as in 1950, the Government of India directed the reservation of a field of production for the handloom industry so that it might be free from the serious competition of the organized mill industry in the reserved categories. Certain varieties like dhoties with borders containing coloured yarn exceeding $\frac{1}{4}$ inch in width, lungies, serangs, check patterns, chaddars, bed-sheets, bed-covers, table cloth and napkins, duster cloth, wiper cloth, coarse cloth of plain weave, sarees with borders exceeding $2\frac{1}{4}$ inches in width and towels or towelling cloth in honey-comb weave were reserved for production by the handlooms. In 1952 the Government of India decided that mills should be prohibited from weaving more than 60 per cent of the quantity of dhoties produced by them during the 12 months ending with March 1952 and of piece dyeing of sarees by the mill industry.

In the same year the Government of India took the following further steps for developing the handloom industry :—

An All-India Handloom Board was constituted with the Textile Commissioner to the Government of India as Chairman. The functions of the Board were, besides advising Government generally on the problems of Handloom industry, to examine schemes for the improvement and development of the handloom industry and to make recommendations for assistance from the handloom cess fund.

In November 1952, the Government of India constituted a Textile Enquiry Committee to make an enquiry into the structure and organization of the various sectors of the cotton textile industry (one of them being handloom) and to assess the extent to which each of these sectors might be utilized for the production of cotton textiles, having in view considerations such as supply of cloth for internal consumption at reasonable prices, utilization of both men and material in the direction that is socially most desirable, etc.

In February 1953, the Government of India decided to levy an additional excise duty on cloth produced by the textile industry and necessary legislation known as the Khadi and Other Handloom Industries Development (Additional Excise Duty on Cloth) Act, 1953, was passed. Following the passing of the Act, the Government of India requested the various States to formulate and send

to the All-India Handloom Board proposals for the development of the handloom industry in their jurisdiction. The All-India Handloom Board has laid down general principles to be followed in the formulation of schemes to be financed from the cess fund. Broadly classified, the general principles observed by the Handloom Board permit the grant of financial assistance for (i) share capital of weavers joining co-operative societies, (ii) working capital of societies, (iii) setting up of marketing depots, (iv) provision of mobile vans to serve as sales depots and for propaganda, (v) rebate on sale of handloom cloth, (vi) setting up of preparatory and finishing plants, (vii) improvement of looms and (viii) establishment of housing colonies for weavers, etc.

Out of the share of cess fund allotted to this State, Government had sanctioned Rs. 222.92 lakhs for implementation of various schemes, up to 31st December 1955. A sum of Rs. 190.32 lakhs has been spent in the execution of the schemes. Prior to the introduction of the cess fund schemes, the number of looms in the co-operative fold in Madras was Rs. 0.98 lakhs out of a total of Rs. 5.60 lakhs in the State. Up to 31st December 1955, 48,144 looms have been newly enlisted.

Working capital provided by the Central banks to the primary weavers' societies had increased from Rs. 44.10 lakhs on 31st December 1953 to Rs. 86.83 lakhs as on 30th September 1955. Production has been stepped up from an average of Rs. 18 lakhs per month to Rs. 33 lakhs per month. The number of depots run by the State Handloom Society was only 64 (53 within the State and 11 in other States). It has been increased to 283. Six vans have been put on the road to serve as mobile sale shops-cum-publicity media. As a result, sales have increased from Rs. 21 lakhs per month to Rs. 28 lakhs per month.

Problems and recommendations.

252. *Expansion of co-operative effort so as to cover the bulk of the handlooms.*—Out of 5.6 lakhs of looms in the State, 1.46 lakhs have been brought within the co-operative fold. The objective is that by the end of the Second Five-Year Plan period, 2.75 lakhs of handlooms representing roughly 50 per cent of the total number of looms in the State should be brought within the co-operative fold. There are, however, certain difficulties which must be resolved for facilitating the realization of this objective. The chief obstacles are (i) the indebtedness of the worker to his master weaver; (ii) the reluctance of the worker to leave the master weaver, from whom he gets easy credit on occasions; and (iii) inability of the worker to provide himself with a loom of his own.

The first two difficulties were insistently brought to our notice by the management and members of a weavers' co-operative society

which we visited at Madurai. The replies received to the questionnaire, particularly from weavers' co-operative societies also suggest that the weavers should first be redeemed from their indebtedness to the master weavers if they should be enabled to join the weavers' co-operatives. It has also been suggested that a weavers' co-operative society should make arrangements to give advances to its members on festival and ceremonial occasions up to Rs. 250. The by-laws of weavers' co-operative societies do not normally provide for the issue of loans or advances for these purposes. Good working societies have, however, been permitted to make provision in their by-laws for grant of loans up to Rs. 100 for ceremonial expenses, etc., with the permission of the Registrar but in practice many societies have not sought such permission.

So far as loans required for the relief of indebtedness of the workers are concerned, no definite data are available regarding the extent of indebtedness. It is generally represented that weavers are heavily indebted to the master weavers under whom they work. We recommend that arrangements may be made by the Government to survey the extent of their indebtedness to the master weavers and to draw a phased programme designed to relieve them of their indebtedness and enable them to join as members of the co-operatives.

So far as advances for ceremonial and festive occasions are concerned, we were told that master weavers advanced money rather liberally on such occasions. We recommend that the societies may be permitted to issue special advances on festive occasions such as Deepavali or Pongal apart from the usual wage advances, up to an extent related to the financial condition of the society, the standing of the members, etc. Such advances need not exceed the normal monthly wages of a weaver and be recoverable in six months.

Workers who weave on the looms provided by the master weavers cannot naturally join as members of co-operatives. Most of these weavers have no resources to equip themselves with looms. Provision of advances for this purpose will not attract them, as the recovery of advances will impose a burden on their slender earnings. The only way to bring them within the co-operative fold is, in our opinion, to supply looms on a subsidized basis. Hence we suggest that they may be provided with the looms by the societies at 50 per cent of the cost of the looms and this amount may be recovered over a period of years—say three years. We consider that aid of the kind suggested will promote the objective of bringing the bulk of the handlooms within the co-operative fold. We recommend that this may be recognized as one of the purposes for which the cess fund could be utilized. The societies may be given 50 per cent of the cost of the looms so provided as subsidy and the balance as interest-free loan.

253. *Financing of Weavers' Societies.*—The question relating to the financing of weavers' co-operative societies has been dealt with by us in Chapter 8. The generality of opinion among the weavers' societies which have answered our questionnaire is that the Central banks do not finance them adequately. In fact even some Central banks have agreed with this view but have suggested that the loans issued by them to the weavers' societies should be guaranteed by the Government, if full finance was expected of them. In Chapter 8 we have discussed this question and indicated our views thereon.

We would, however, refer to certain alternative suggestions made to us for the financing of weavers' societies. The suggestions are :—

(i) a separate financing bank on a State-wide basis should be formed to finance the weavers;

(ii) the department itself may finance the weavers' societies;

(iii) the State Handloom Weavers' Co-operative Society may undertake the financing of weavers' co-operative societies.

(i) In Chapter 8 we have already dealt with the first suggestion and shown how a separate financing bank for weavers' societies alone is inadvisable.

(ii) The suggestion that the Department itself may directly finance the weavers' societies is based on the availability of cess fund money now. Whether the scheme of assistance through cess fund will be a permanent feature of the handloom industry is doubtful. It is learnt that from 1957-58 onwards, loans for the weavers' societies might not be granted from the cess fund. Apart from this consideration, there are other objections to this proposal.

(a) If the departmental staff for supervision is saddled with this responsibility, their legitimate work of supervision and guidance will suffer and the development work which they are expected to do will be hampered.

(b) As far as possible the Department should not undertake the financing of societies. In the case of trading organizations like the weavers' societies, cash credit facility will be required and this cannot be provided by the Department. The Central Banks with their vast field staff will be better suited to finance the weavers' societies than the Department.

(iii) Regarding the third alternative, we have to state that the State Handloom Weavers' Co-operative Society will have to devote its exclusive attention to its chief objectives of supplying the yarn and other raw materials to the primaries and of arranging to market their goods. Financing by itself is a full time work for a banking organization. An Apex Society at Madras will not be able to finance about 800 societies scattered throughout the State, with as

much efficiency and promptitude as a District Central Bank will be able to do in respect of weavers' societies within its area. On principle it will be wrong to combine Banking and business at apex levels as the loss arising in the activities relating to the latter will affect the banking section adversely and vice versa.

Considering all these aspects we are of the view that the financing of the weavers' societies should be undertaken by the Central Banks, as recommended earlier with of course a guarantee from the Government regarding the repayment of loans.

As already remarked one of the most healthy features of the banking organization of the co-operative movement in the State is the existence of a common Central Bank for financing all types of societies within its area. We feel that on no account should this principle be departed from by constituting a separate Central Bank for weavers' societies or as a matter of fact, for any other class of societies.

254. Procurement of raw materials.—The chief raw material required by the primary weavers' societies is yarn. One of the main objectives of the State Handloom Weavers' Co-operative Society is to procure and supply the raw material required by its affiliated primaries. It has fulfilled the role of a supplier of yarn to the primaries to a considerable extent.

Based on the production figures relating to the year 1954-55, it is estimated that the total quantity of yarn required by the primaries in that year was 26,413 bales. The State Society was able to supply only 10,745 bales, i.e., about 40 per cent of the total requirements.

The primary weavers' societies allege the following reasons for not purchasing their entire requirements of yarn from the State society :—

(i) The State society is not able to supply the required count of yarn or the yarn of a particular mill, specified by the primary society.

(ii) The price charged for yarn by the State society is sometimes higher than that charged by private merchants.

(iii) Private traders allow credit for the purchase of yarn, while the State society does not. This facility is helpful to them, especially during times when they are unable to secure the required finance from the Central banks.

The views of the State society are indicated below :—

(i) The primary weavers' societies do not file firm indents periodically as required of them. They purchase yarn from the State society when it suits them and resort to private traders at other times. Only if the primaries are determined to purchase

all or the bulk of their requirements of yarn from the State society and desist from purchasing from other sources, the State society as the largest single purchaser of yarn, will be able to negotiate favourable terms with the mills and secure quality yarn at competitive rates.

(ii) When the price of yarn obtainable in the market is more favourable, the primaries which purchase yarn from the State society are allowed to claim the difference in price in certain circumstances and it is refunded by the State society.

(iii) The State society has not enough resources to supply yarn on credit: even so it is not desirable to allow credit and lock up its funds.

(iv) The State society is not always successful in getting timely and adequate supplies of yarn from the Mills, all of which cannot be said to be sympathetic towards it. Sometimes it is able to secure yarn only by seeking the intervention of the authorities concerned.

(v) The State society has to pursue a cautious policy in the matter of purchasing and stocking yarn as the price of yarn is subject to rather violent fluctuations. Enormous funds are also required if it is to embark on a policy of purchasing and stocking yarn with a view to assure a steady supply to the primaries.

While the reasons adduced by the primaries might be true in some cases, it has also to be admitted that the State society has been taking all possible steps in its power, subject to the limitation of finance and lack of firm custom among the primaries, to procure yarn of adequate quantity and required quality at reasonable prices. The primaries could be pressed to purchase yarn from the State society only if there is an assured stock of the required quality always at hand. In other words there should always be a buffer stock of yarn to tide over any crisis. There are two main difficulties in the way of the State society building up a buffer stock. One is the inadequacy of finance and the other is the risk of price fluctuations.

It is estimated that even on the basis of the present number of looms and production, the total requirement of yarn per mensem will be 5,000 bales and that at least half this quantity should be held as buffer stock by the State society in its various yarn units. At Rs. 800 per bale, the cost of 2,500 bales will amount to roughly Rs. 20 lakhs. The resources of the State society are not adequate to cover this extra purchase of yarn stock.

It has been suggested to us that this amount of Rs. 20 lakhs must be made available to the State society to enable it to build up a buffer stock in its various yarn units. In addition it has been stated that a guarantee must be forthcoming to subsidise the society against any loss arising out of fluctuations in prices.

In our view the only way by which the primary weavers' societies could be supplied with adequate quantity of yarn of the required quality is by enabling the State society to build up its own stock of yarn by making timely purchase from the mills and maintaining a buffer stock; but it is not possible for the State society to adopt this course considering its resources and the risk attendant on possible fall in the market price of yarn. We recommend that an interest-free loan of about Rs. 20 lakhs may be advanced to the State society from the cess fund to build up a buffer stock of yarn, roughly equivalent to half a month's requirement of the weavers' societies.

The State society may fix the price of yarn allowing a reasonable margin for its working expenses. If by the sale of yarn it incurs any loss, it may be recouped by a subsidy from the cess fund. The profit and loss account relating to the buffer stock may be worked out over a period of six months or one year for purposes of the grant of subsidy. As steady and adequate supply of yarn to the primaries would ensure increased production and sales, the income of the weavers engaged in the industry will also be augmented. We therefore, consider that this is an appropriate purpose for being assisted from the cess fund.

255. Improvement of production technique and standardization.—One of the longstanding complaints against the handloom cloth is the absence of quality standards. This is largely due to the predominant part played by personal skill in the production of the finished goods. Weaving involves both mental and physical strain and these factors limit the ability of the weaver to achieve a uniform standard in the production of cloth. Subject to this limitation, standardization is however possible in a variety of directions:—
(a) Yarn of the specified counts and the required tensile strength could be used, (b) yarn could be dyed with the exact shade of the colour required, and (c) the width and length of the cloth could very nearly conform to specifications. Adherence to specified structural particulars combined with elegance of design, uniformity of texture, fastness of colour, draping quality, etc., would impart the characteristic of dependability to the handloom cloth in the internal and external markets. Trade with foreign countries will particularly be facilitated by the use of samples.

Attempts at standardization have been made by the weavers' co-operatives from time to time.

(a) The State Handloom Weavers' Co-operative Society has been procuring and supplying yarn of the required quality as far as possible.

(b) It maintains four dye factories at Salem, Erode, Kumbakonam, and Madurai. During the year 1954-55 these factories dyed

705 bales of yarn. Some 39 societies are reported to have been given grants from the cess fund for meeting the cost of the dyeing supervisors employed for supervising their dyeing factories.

(c) There are six handloom weaving factories maintained by the State society in different parts of the State (four of these were started recently). The factories are intended to bring forth new and improved varieties of production.

(d) The State society has registered a trade mark by the name of "Co-optex" which is labelled on the goods produced by societies which conform to certain standard specifications prescribed by it.

(e) The State society set up three standardization committees for drawing specification for each variety of cloth such as dhoties, sarees, etc., in such counts as are largely produced in certain regions of the State. The Committees have evolved standards of production of certain varieties which are being introduced gradually.

(f) Under the cess fund scheme, the State society is arranging to manufacture or purchase about 16,000 standard reeds at a cost of Rs. 1.66 lakhs for supply free of cost to such of the weavers' co-operative societies as adopt the standards prescribed for production. A sum of Rs. 1.83 lakhs has been sanctioned from the cess fund for the purchase and supply of 2,600 devices to regulate picks, to members of weavers' co-operative societies.

Having regard to the large number of looms that have been brought within the co-operative fold, the number of dye factories maintained by the State and primary societies must be said to be inadequate. Fastness of colour which is one of the essential attributes of standardization, cannot be guaranteed with confidence, so long as dyeing is done through private agencies. We recommend the establishment of more dyeing factories, as adjuncts to big weavers' societies. Where there is a large number of weavers' co-operative societies in a compact area, the possibility of starting co-operative dyeing factories, composed of weavers' co-operative societies as members could well be explored.

We recommend that arrangements may be made to set apart certain number of looms in every society for the production of standard cloths and that a special concession might be shown to weavers undertaking a standardized production, by way of a small bonus on wages from out of the cess fund.

255-A. Marketing.—The primary weavers' co-operative societies market most of the goods produced by them through merchants, a considerable portion through the State Handloom Society, and to some extent through the consumers societies and other co-operatives. A portion of the goods produced by them is sold directly also to the consumers. During the years 1953-54 and 1954-55 the primary weavers' co-operatives sold goods to the value of Rs. 308.80

lakhs and Rs. 488.12 lakhs through all the sources mentioned above. The following statement shows the extent to which each of these channels was utilized :—

Details of sales.	1953-54. PER CENT.	1954-55. PER CENT.
Through the State Handloom Weavers' Co-operative Society.	23.4	16.8
Consumers' societies	3.1	3.9
Other co-operatives	3.2	3.0
Merchants	41.1	66.2
Consumers direct	29.2	10.1

The policy adopted by the State Handloom Weavers' Co-operative Society in the procurement of goods produced by the primaries is that the goods procured should be limited to a value which is 10 per cent less than the average monthly off-take, in the emporia and depots of the State society subject to a minimum of Rs. 8 lakhs. This policy aims at linking procurement with the capacity of the State society to effect sales and is intended to obviate the contingency of accumulated dead stocks. The State society markets the goods through its emporia, Inter-State depots and foreign depots. It has about 270 selling units all over the Madras State, besides 16 Inter-State units outside the State. It has also 5 foreign units outside India, in Colombo, Singapore, Kuala Lumpur, Aden and Bangkok on an agency basis (as agents of the All-India Handloom Board). It has purchased out of a subsidy from the cess fund 6 vans to serve as mobile shops-cum-publicity media for handloom goods.

Two important factors calculated to improve the sale of handloom cloth by the societies are (i) reservation of the production of certain varieties of cloth for the handlooms and (ii) rebate on consumer sales allowed out of the cess fund. The particulars connected with the reservation have already been referred to. The weavers' societies allow a rebate of 1½ annas in the rupee to the consumers on sales of handloom cloth for Rs. 2 and more up to Rs. 50. A rebate at the rate of one and half anna per rupee on the wholesale sales of handloom cloth by the weavers' co-operatives and a rebate at the same rate on retail sales effected by the consumers' societies is also allowed provided the consumers' societies confine their purchase only to productions of weavers' co-operative societies. Otherwise, they may allow a rebate of 1 anna per rupee. An additional rebate of 6 pies for every rupee of sales has been permitted to be allowed by the weavers' societies and stores societies at the time of the All-India

Handloom Week and Deepavali. Up to 30th November 1955 the rebates so allowed have been subsidized out of the cess fund to an extent of Rs. 51.14 lakhs.

So far as reservation is concerned the opinion generally expressed to us is that though it had done some good, further reservation is necessary to make it more effective. It has been stated that production of dhoties and sarees should be completely reserved for the handlooms. The Madras State Handloom Weavers' Co-operative Society is of the opinion that the reservation of certain types in favour of handlooms such as lungies, bed-sheets, gauze, bandage cloth, dhoties and dusters, is not really beneficial as all these varieties are not usually produced or cannot be easily produced by the mills. It is of opinion that certain fields of production of cotton textiles should be exclusively reserved for production by the handloom and that as a first immediate step the production of all bordered dhoties and coloured sarees should be reserved exclusively for handlooms.

It must be admitted that the reservation of certain varieties of production in favour of the handlooms, and the scheme of rebate on consumer sales, allowed out of cess-fund, have to some extent contributed to increased sales of cloth produced by the weavers' co-operatives. The following figures relating to the total sales of the primary weavers' co-operatives may be perhaps taken as an indication of this trend :—

Year.	Number of looms in weavers co-operative societies. (IN LAKHS.)	Value of cloth.		Value per loom.	
		Produced.	Sold.	Production.	Sales.
		(RUPEES IN LAKHS.)		RS.	RS.
1953-54 ..	1.15	202.02	308.80	178	270
1954-55 ..	1.33	356.58	488.12	266	364

It may be seen that sales have increased appreciably along with production. It is rather difficult to say to what extent this phenomenon of increased sales is attributable to the policy of reservation.

Some of the primary weavers' co-operatives have suggested to us that the State society should take over their entire production and some have suggested that at least a larger percentage, say 50 per cent of the cloth produced by them, should be taken over by the State society. The State society cannot obviously take over the entire or the bulk of the production of the primaries without reference to its capacity to effect sales without allowing dead stocks. Further, procurement of goods from the primaries is limited by the extent to which the primaries have adopted the standard specifications prescribed by the State society. If the responsibility for

marketing its goods rests partly at least with the primaries, it will tend to infuse in them a sense of responsibility in the production of saleable varieties and adapting production to suit the changing tastes of consumers in the localities concerned, etc. Further the present system seems to be working fairly well and no drastic change need be attempted now. The point is that the State society should ever remember that it exists for the benefit of the primaries and regulate its policies on this basis. Conversely the primaries should feel and act toward the State society on a proper understanding of its role. If these two things are there, we are sure that in due course a proper relation between the two will be evolved to their mutual advantage.

256. *Powerlooms.*—The introduction of powerlooms in the handloom sector has been a matter for controversy since the publication of the Textile Enquiry Committee Report in 1954. The Committee recommended that, ultimately in the course of about 15 to 20 years, barring about 50,000 looms (in the country) intended for manufacturing special fabrics with intricate body designs, etc., the entire handloom sector should be converted into one of semi-automatic handlooms or the decentralized powerlooms. The Committee was of the view that by adopting a course of gradual conversion of the handlooms in this manner, the twin objectives of maintaining employment over the short-term and securing the best possible efficiency in the long run would have been achieved. The opinion expressed to us by the State Handloom Weavers' Co-operative Society and other societies which have answered our questionnaire, is emphatically against the introduction of powerlooms on the grounds that there is not full employment for the weavers even under the existing circumstances, that there are periodical slumps in the sale of cloth even with the existing production, and that the problems of unemployment and marketing will be aggravated.

The handloom is not what it was some decades back. The throw shuttle loom has given place to the fly shuttle loom; and now the semi-automatic loom is being introduced. The powerloom is only another stage in the evolution of this cottage industry and is probably inevitable. The weavers' societies, however, are apprehensive of the possible unemployment that will be caused by the replacement of handloom by the powerloom, and not without reasons. We are in a transitional stage, and during this transitional stage, nothing should be suggested which would seriously dislocate the industry and throw out of employment thousands of weavers. Though we have no reasons to disagree with the recommendations of the expert body mentioned above, we suggest that the present position should continue for the next five years. Powerlooms need not be introduced on any significant scale and such further concessions as reservation of cloth of particular categories as are enjoyed by the handloom, should be continued. We may even go further and suggest that the reservation may be extended, if possible.

CHAPTER 17.

COTTAGE INDUSTRIES SOCIETIES (OTHER THAN HANDLOOM WEAVERS' SOCIETIES).

257. The general characteristics of a cottage industry are that it is an industry carried on by a worker in his own home, that labour plays a greater part in the production of the articles than machinery, that the tools and appliances used are simple and not costly and that the capital invested is not much. The machinery employed is mostly hand-driven, though in some cases, power also might be used. The labour employed consists generally of the workers' family. The First Five-Year Plan has dealt with cottage industries chiefly under two heads, viz., (i) village industries; and (ii) handicrafts. Some of the village industries referred to are oil-pressing, paddy husking, palm gur manufacture, bee-keeping, match making, manufacture of woollen blankets, leather tanning, etc. Examples of handicraft industries are, pot-making, mat weaving, toy making, and manufacture of articles out of cane, bamboo, etc.

Cottage industries have a vital role to play in the economy of our country as our man power is large, but capital resources meagre, especially as pressure of population on the land is heavy and has to be reduced in the interests of balanced economy, etc. As a means of reducing unemployment and under-employment, the potentialities of cottage industries can hardly be exaggerated.

The Madras State contains numerous cottage industries. Apart from handloom weaving and palm gur manufacture which are the major cottage industries and which are dealt with separately, the cottage industries are hand-spinning, cumbly weaving, lace-making and embroidery; coir making, brass, bell-metal and copper works; iron smithy; cabinet and furniture making; basket making; mat weaving; leather tanning, leather goods manufacture; pottery, hand-made paper; gur making, bee-keeping; paddy husking, etc.

There are a number of agencies set up by the Government of India and the State Governments to plan and execute programmes of assistance to the cottage industry by way of loans and subsidies and other technical assistance, such as the All-India Khadi and Village Industries Board, the All-India Handicrafts Board and the All-India Small Scale Industries Board. Corresponding to the All-India Khadi and Village Industries Board, the Madras Government have established a Khadi and Village Industries Board for the State.

Though the importance of cottage industries in the economy of our country is generally recognized, they have to contend against many difficulties even for survival. The advent of cheap machine made goods and the disappearance of a sheltered market for products of handicrafts as a result of the opening of communications

have led to the decline of the handicrafts. Some of the difficulties are, lack of funds at reasonable rates to purchase raw materials, tools and implements, non-availability of raw materials of good quality at fair prices, lack of proper technical assistance and want of a well organized marketing agency for the sale of the finished goods, etc. A co-operative organization for the artisans employed in the cottage industries will be an appropriate agency to solve many of these difficulties with the assistance of the State. Attempts have been made from time to time to organize some of the important cottage industries in our State on co-operative lines. On 30th June 1955, there were 160 cottage industries societies with 15,502 members and a share capital of Rs. 2.86 lakhs. During the year 1954-55, they produced articles to the value of Rs. 5.72 lakhs and sold articles to the value of Rs. 11.95 lakhs. The important among these societies are those for the mat weavers, metal workers, coil workers, potters, oil producers, basket makers, women engaged in garment making, etc. A statement showing the different kinds of cottage industries societies in the State with their membership, share capital, value of goods produced, sold, etc., is given in Appendix No. 24.

258. *Scope for organizing cottage industries societies on co-operative basis.*—Normally only such cottage and small industries which can survive by facilities being offered to them could be helped co-operatively. For instance, industries such as bell-metal, brass and copper, mat weaving, etc., have scope for improvement if organized on co-operative lines, as these do not suffer to any great extent keen competition from large-scale industries.

A cottage industry which has to face overwhelming competition from factories or mills cannot in the very nature of things hope to survive unless it is propped up by other aids such as reservation of certain spheres of production to them. For example oil pressing can be organized usefully on co-operative lines only if protection is given to it by prohibiting oil mills from producing edible oil for instance. Cottage industries like hand-made paper and soap making cannot improve their position merely by being organized on a co-operative basis unless an assured market is secured by reservation. In short, in selecting cottage industries for organization on co-operative basis, the criterion should be whether the industry has chances of survival having regard to the competition of factories and the tastes of the consumers.

We deal below with the important problems relating to the cottage industries societies.

259. *Finance.*—Finance is one of the major difficulties of the cottage industries societies. Though the credit requirements of these societies are comparatively limited, the Central Banks hesitate to finance them as the societies are mostly composed of workmen without tangible assets. Indeed, some central banks, have

in their answers to our questionnaire told us that without Government guarantee it will not be possible for them to finance these societies liberally. Further, the central banks can give only short-term loans. The societies require not only short-term credit but also long-term loans for the purchase of tools and implements, equipment, etc. Government have, in some cases, been giving long-term funds required by these societies in the shape of loans or free grants. For instance, the Madura Leather Workers' Societies (the present Gandhiniketan Village Industries Society, Kallupatty) received Rs. 13,500 half as free grant and half as loan for the construction of tannery, purchase of equipment, etc. Apart from such financing by the central banks and the State Government, the latter also issue loans to the cottage industries societies in the Community Project and National Extension areas up to an extent of ten times the share capital and reserve fund of the societies. The Central Government also sanction loans and subsidies in deserving cases.

It is appropriate to mention in this connexion that in the State of Bombay, Government have rendered considerable financial assistance to the cottage industries co-operatives by the grant of loans and subsidies for the purchase of tools, equipment and working capital. They have authorized their Joint Registrar for industrial co-operatives and village industries to give marginal guarantee to the central financing agencies ranging from 20 to 40 per cent of the total loans or cash credit issued against possible losses.

With a view to enable the central banks in our State to finance the cottage industries societies adequately, we recommend, that the Government may, as a matter of policy, agree to guarantee the repayment of the loans issued to them (both principal and interest), provided the loan is recommended by the department to these societies.

One of the reasons which make central banks hesitate in financing the cottage industries societies is that they do not have adequate share capital and reserve fund. We suggest that Government may, in deserving cases, provide the required share capital and reserve fund to such societies, the former as loan and the latter as grant. Provision of share capital and reserve fund will not only augment the borrowing power of the societies but will also infuse in the central banks, a sense of confidence regarding security. Loans for equipment, etc., may, however, be given by the Government free of interest repayable over a long period not exceeding ten years.

260. *Improved machinery and implements.*—The importance of introducing improved tools and appliances in cottage industries is obvious. This question is allied to the provision of technical assistance to initiate the members in the use of such implements, and the training of the members in improved methods of production. The survival of many a cottage industry in our country is

dependent on its taking to improved methods of production so as to increase output per man-hour and reduce cost of production. There are certain industries such as toy making, button making, iron smithy, etc., which can be carried on with advantage by the use of electric power. The application of the latest scientific methods and modern technique will help to regenerate the industry and enable it to produce articles of better quality at economic prices. We suggest that Government may employ technical assistants and depute them to help each group of societies.

261. *Marketing*.—There is at present no arrangement for organized marketing of the products of the cottage industries societies. Each society is left to itself for marketing its goods. In the present stage of development of these societies, it is also too early to form marketing federations. However, the idea of forming such federations may be kept in view and steps taken to organize them where conditions are favourable. Liberal help may be given by the Government towards their working. There are now a few district or regional museums run under the auspices of the Madras Industries Association and Industries Department where some societies exhibit their products. Though this helps marketing to some extent, it is not enough. Steps must be taken to organize an emporium in each district with liberal subsidies from the Government for undertaking the sale of the products of cottage industries.

If Government and local bodies buy the products of the cottage industrial co-operatives to meet their requirements, it will be a substantial way of help to these societies. There is a large variety of articles purchased in bulk by the Governments, Central and State, such as shoes, boots, knives, carpets, cumblies, coir products, etc. If such purchases are confined to the products manufactured by the cottage industries societies it will give a great fillip to the development of these societies. For instance, if the Government were to purchase all the shoes required for the various departments, such as Police, Jails, etc., it will go a long way to stabilize the working of these societies for manufacturing leather goods.

Subsidy on production.—One other way in which Government could help the cottage industries societies in the marketing of their products is by giving a subsidy, based on their production. This will enable them to withstand better the competition of factories engaged in the same line.

262. *Administrative control over cottage industries societies*.—We understand that administrative and statutory control over the cottage industries societies till now vested with the Registrar has been transferred to the Director of Industries from 1st March 1956. We are of the view that the administrative and statutory control of the cottage industries societies may continue as heretofore with the Registrar; he may be aided—if necessary—by Technical

Assistants. There is no reason why these co-operative societies should be taken away from the administrative control of the Registrar. The expansion of these societies and their development would be better secured by entrusting them to a Joint Registrar under the control of the Registrar. The problems arising in connexion with these societies are not different from those relating to other non-credit societies. The major problems are: (i) finance; and (ii) marketing. These are financed by Central Banks and the authority having control over the Central Banks is the Co-operative Department. It is proper that these societies and the Central Banks which finance them should be under the control of the same department, viz., the Co-operative Department. The problems relating to marketing could be more effectively performed by the Co-operative Department which has got a wide experience in this field. Such technical assistance as may be necessary may be provided by deputing a qualified person to serve under the Joint Registrar. The Second Five-Year Plan contemplates considerable expansion of cottage industries and this could be carried out with single minded purpose by the Co-operative Department. We may add that this is what is being done in Bombay with beneficial results. It has to be conceded that the expansion and development of cottage industries should be only through the development and expansion of co-operatives and there is then no purpose in removing the societies from the control of the department.

263. *Jaggery societies*.—Societies for the manufacture of palm jaggery have been formed in this State to provide employment to the ex-toddy tappers who were thrown out of employment consequent on the introduction of prohibition. (In some districts even before prohibition was introduced many tappers were engaged in the production of palm jaggery.) These societies are deemed to be cottage industries societies.

The main objectives of these societies are to issue licences to the tapper-members for the tapping of sweet juice from palm trees for the manufacture of jaggery and to arrange for the sale of jaggery so manufactured. The membership of the societies is confined primarily to the ex-tappers, though a few non-tappers are also admitted, with a view to secure suitable men to manage the affairs of the societies on sound lines. The share value is fixed at a low level (Re. 1 or Rs. 5). The licences for the tapping of sweet juice are issued by the Senior Inspectors who are in charge of supervision of those societies, on the recommendation of the concerned panchayats.

The jaggery manufactured by the members, is to be delivered to the societies. The societies either market the jaggery themselves in local shandies or arrange for marketing through the nearest marketing society. Marketing work is done as agent of the members, and a commission on sales is charged by the

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societies. Where the societies do not arrange for marketing, the members themselves dispose of the jaggery produced by them on their own account.

The particulars of the business done by these societies during the year 1954-55 are furnished below :—

Number of societies as on 30th June 1955 ..	1,584
Membership	1.85 lakhs (of whom 1.58 lakhs were extoddy tappers).
Paid-up share capital	Rs. 6.69 lakhs.
Number of licences issued up to 30th June 1955.	1.01 lakhs.
Quantity of jaggery produced by the societies.	26.76 lakhs maunds.
Value of production	Rs. 81.42 lakhs.
Value of jaggery sold through jaggery manufacturing societies and marketing societies.	Rs. 36.80 lakhs.
Loans issued by the societies to their members for jaggery manufacture.	Rs. 2.09 lakhs.

The central banks are reluctant to finance these societies. Small loans are, however, being given by the central banks in some districts. With the help of these loans and with their own meagre resources consisting of share capital and thrift fund collections, the societies give small loans to the members for purchase of equipment and raw materials. The department should see that these societies are provided with sufficient funds.

264. *Technical assistance.*—A State-wide scheme was launched in 1949 to improve the industry by the adoption of improved utensils and improved methods of production. Under the scheme, a special staff of Palm Gur Instructors trained at the Central Palm Gur Training School, Cuddalore, is maintained. These Instructors give training to the ex-tapper members of the societies at their own places in improved methods of jaggery production, manufacture of palatable products, use of gur making equipment and furnaces, etc. The work of the Palm Gur Instructors in the State is supervised by a State Palm Gur Organizer working under the Registrar. Many of the Senior Inspectors posted for supervision of jaggery manufacturing co-operative societies have also undergone training for a period of one month in the improved methods jaggery manufacture at the Training School, Cuddalore. To encourage ex-tappers to use improved gur making equipment, 1,000 sets of improved equipment were distributed free of cost to them in 1950 (Composite State). During 1952-53, 315 sets were supplied at half cost, the other being borne by Government. During 1954-55, Government have sanctioned Rs. 6,000 towards meeting half the cost of gur making equipment for supply to ex-tapper members.

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Government have also sanctioned funds for the free supply of about 700 improved gur making sets to select societies in the two community project areas of Lower Bhavani and Malampuzha, and the sets have been supplied.

265. *Assistance by Government for other purposes.*—As the tapping of palmyra trees provides ex-tappers with occupation only for a period of 6 to 8 months during the year, the members have to seek other modes of employment also. Government have been giving interest-free loans to these members for the purchase of milch animals to take up to dairying as a subsidiary occupation. The concession of interest-free loan was in force till 1953 and now interest at 4 per cent is charged.

On 30th June 1955, there were 1,737 ex-tappers as members of milk supply societies and unions with a paid-up share capital of Rs. 0.21 lakh. They produced 4.60 lakhs lb. of milk to the value of Rs. 1,00,400. Four hundred and forty-three ex-tappers were members of eight land colonization societies. One thousand and fifty-four acres were subleased to them. In addition to the societies mentioned above, there were four cottage industrial societies and nine other types of societies for the benefit of ex-toddy tappers and 401 ex-toddy tappers were provided with employment through them. Fourteen acres of poramboke lands were secured on lease to eleven ex-tapper members.

266. *Marketing.*—In districts where palmyra jaggery production is large, marketing federations have been organized for the marketing of this produce. There are four such federations in the districts of Tirunelveli, Coimbatore, South Kanara and Ramnathapuram. The sales effected by these marketing federations during 1954-55 are furnished below :—

Name of the society.	RUPEES IN LAKHS.
Tirunelveli Jaggery Marketing Co-operative Society	1.80
Kunnathur Jaggery Marketing Co-operative Society (Coimbatore).	4.40
South Kanara District Coconut and Palmyra Jaggery Marketing Federation.	0.56
Ramnath District Palmyrah Jaggery Co-operative Marketing Federation.	0.21

All the societies have been given the free services of a Senior Inspector each and proposals have been submitted to strengthen these federations with liberal Government aid in the form of staff, subsidy loan, etc. As co-operative marketing of jaggery alone will secure for the tappers the full benefits of their hard toil and as the federations cannot succeed in this task without liberal Government aid, we recommend the early implementation of the scheme proposed.

Similar federations may be formed for other districts where there is a large number of jaggery societies concentrated in compact regions. Government may help them also liberally when they come into being.

We may in this connection state that liberal Government aid to jaggery societies is justified as they are helping the ex-tappers who have lost their avocations consequent on the State policy of prohibition. We are happy to say that Government have in the past been helping these societies liberally.

The expenditure on the Palm Gur Development Schemes is shared by the Madras Government and the Central Government on 50 : 50 basis through the All-India Khadi and Village Industries Board. We learn that the Board has been very helpful in developing palm gur industry through the co-operatives under the guidance of its Palm Gur Adviser Sri Gajanan Naick.

We understand that in the Second Five-Year Plan provision has been made for the supply of 5,000 improved gur making sets, each costing of Rs. 25, to the members of these societies at half cost at the rate of 1,000 per year, and for the training of members in the manufacture of articles out of palm leaves and palm fibre by employing instructors. We suggest that efforts may be made to get these sets manufactured by cottage industries' societies of metal workers, etc., in our State.

CHAPTER 18.

SOCIETIES FOR FISHERMEN.

267. The annual fish production in our country was estimated in 1948 at about 5.2 lakhs of tons valued at Rs. 17.9 crores. Of this, nearly 71 per cent comprised marine and estuarine fish and 29 per cent fresh water fish. The availability of fish in our country works out to only 3.4 lb. per annum per capita as against approximately 16 lb. in Ceylon, 70 in Burma and 90 in Japan. The long coast line of our country coupled with the inland waterways affords ample opportunities for developing fishing industry. It is needless to refer to the food value of fish. Apart from augmenting the food resources of the country, the development of this industry will increase employment opportunities. Even otherwise, as many people are dependent on this industry and as they are not reaping the full benefits of their hard labour, co-operation has a useful role

to play in developing this industry and ameliorating the conditions of the fishermen. The main difficulties which they experience and which co-operative societies have to solve are dealt with below.

The fisheries trade in our country is beset with a chain of middlemen such as boat owners, commission agents, wholesale merchants, etc., who also function as money-lenders to these poor folk. Almost all things required by fishermen for carrying on their trade, such as boats, nets, yarn, sail cloth, etc., as well as credit for their domestic needs, are being obtained through these middlemen. These middlemen hardly allow the fishermen to dispose of their catches except to themselves at prices advantageous to them; they also manage to keep the fishermen perpetually indebted to them. Generally speaking, it is this domination by the middlemen in the fisheries industry, that has led to the formation of co-operative societies exclusively for the benefit of fishermen.

On 30th June 1955, there were 221 societies with a membership of 34,960 and share capital of Rs. 5.9 lakhs. Of the 221 societies, 111 were in the two West Coast districts of Malabar and South Kanara and they accounted for a membership of 16,654 and share capital of Rs. 4.71 lakhs. The loans outstanding against the members and societies on 30th June 1955 were respectively Rs. 10.9 lakhs and Rs. 4.10 lakhs.

Besides catering to the credit needs of their members, fishermen societies have also been purchasing and supplying their domestic and other requirements such as foodstuff, yarn for making fishing nets, etc. During the year 1954-55, the societies distributed to their members foodgrains and other necessities valued at Rs. 1.21 lakhs and sold yarn and other fishing materials to the value of Rs. 0.52 lakh. The inland societies took on lease fishing rights for a total rental of Rs. 1.80 lakhs.

Figures relating to the total fishermen population in the residuary State are not available; figures are, however, available regarding the number of adults engaged in the fishery industry. According to the 1951 census, the total number of those engaged in this industry is 74,000 of whom independent workers are 57,000, employees 14,000 and employers 3,000. It can be assumed that the total of the first two categories, viz., 71,000 are those who stand in need for the benefits of co-operation. On 30th June 1955, the total number of members was 34,960. The number of fishermen brought within the ambit of co-operation is thus nearly 50 per cent of those eligible.

268. *Supply of credit by fishermen societies.*—It is stated by the Director of Industries and Commerce that the credit requirements now provided by the fishermen societies to their members constitute only a fraction of their total needs and that the rest is obtained from money-lenders and merchants. In view of the pernicious effects of

this private credit on the fishermen and their trade (referred to at the outset) the first step in the economic uplift of the fishermen should be their emancipation from this economic bondage. The Central Banks now supply only short-term credit; some Central Banks are hesitant to provide even this credit fully, as the fishermen cannot offer any material security and their profession is associated with uncertainties and hazards. The fishermen should be helped with long-term credit if they are to be enabled to free themselves from the clutches of the middlemen. In South Kanara and Malabar, costly boats and nets owned by money-lenders or other middlemen are operated by groups of fishermen on condition that they sell the day's catches to the owners of the boats and nets. The latter naturally fix the prices of the catches at rates advantageous to them, collect interest on advances made by them, commission on sales, etc. It is said that the prices are so manipulated that the fishermen find themselves indebted to middlemen even after handing over all the season's catches to them. If long-term loans are given to the societies to purchase and own craft and tackle, which can be hired out to the members, they can overcome the exploitation of the middlemen. Such long-term loans cannot be given by Central Banks. We recommend that the Government may provide the required long-term credit to the fishermen societies free of interest or on very low rate of interest, repayable over a period of 5 to 10 years, according to the nature of the purpose. Such long-term loans may, as far as possible, be in the shape of equipment and not in cash.

269. *Supply of raw materials for trade—Yarn.*—Yarn is most essential to fishermen for their daily operations and the aim of fishermen societies should be to make this available to their members at the proper time and at reasonable prices. It is understood that in 1950, Government sanctioned a scheme at an estimated cost of Rs. 8.84 lakhs for the supply of yarn and other materials to fishermen at 75 per cent of the cost price and that this scheme was given up in 1953, when the supply position of yarn eased. The Director of Industries and Commerce has suggested that the societies should be subsidized up to 12½ per cent of the value of purchases made by them, to meet the fluctuations in prices, handling charges, sales tax, etc.

There is no provision in the by-laws of fishermen societies for the outright purchase and sale of their requirements. Nor is it desirable that such a provision should be introduced, as the losses arising, if any, may cripple the society. If, however, a federation of fishermen societies is started in a compact region for undertaking the marketing of fish, supply of the requirements of the affiliated societies, etc., it may make provision in its by-laws for making outright purchase and sale of yarn, etc., to a specified extent, say up to the limit of its paid up share capital. Government may subsidize the purchase of yarn by this federation as suggested by the Director

of Industries at least for the first five years. This step will serve to attract new members to fishermen societies and strengthen the loyalty of the existing members.

Other requisites such as logs, hooks and tackle may be supplied to societies by the Fisheries Department, at subsidized rates for sale to the members.

270. *Facilities required for curing fish.*—The marketable surplus of fish caught from rivers, tanks and other inland resources is almost wholly consumed as fresh fish and there is practically no preparation for the market. But regarding sea fishing the position is different. Fish is a highly perishable commodity and has to be disposed of as quickly as possible. It is stated that fresh fish cannot be stored for more than twenty-four hours. Considerable time is consumed by the slow movement of small fishing boats which have to stay for hours to get sufficient catch. During this time, the fish heaped in the boats get trodden upon and are exposed to the full glare of the sun. Due to these reasons and due to lack of quick means of transport immediately after the landing of fish, only 20 per cent of the sea fish catch is reported to be marketed as fresh fish and the remaining 80 per cent preserved as sun-dried or salted fish, which are the popular methods of preservation in this country. Only recognized curers are allowed to cure fish in the Government curing yards and they have to put up their own sheds for this purpose. The Director of Industries has suggested that Government should help the societies in putting up sheds in these yards by the grant of loans and subsidies to enable them to hire out the sheds to their members for curing. Where there are no curing yards, he has suggested that Government may assign foreshore or poramboke lands to the societies to serve as curing yards and drying grounds and for construction of sheds, etc. We commend the proposals of the Director of Industries for acceptance by Government.

271. *Storage of fish.*—Fish requires special storage facilities. In his report on the marketing of fish, the State Marketing Officer has observed that the use of ice for packing fresh fish during transport should be encouraged by making ice available at all important centres. He has also drawn attention to the need for chilled rooms for temporary storage of iced fish in all landing ghats and consuming centres where fish should be accepted for storage on daily rates. The Director of Industries is of the view that the construction of buildings with cold storage facilities is not an easy task for the fishermen co-operatives and that the Government may provide cold cabinet or insulated boxes in all landing or market centres at a nominal rate of hire for societies to save fish from spoilage. As the sale of fresh fish will be more profitable to the fishermen than the sale of dry fish, the proposal of the Director of Industries will benefit the members of fishermen societies in getting a better return for their catch. This will, however, be of help to the

societies only if they themselves undertake marketing; we commend the implementation of the suggestion made by the Director of Industries when a federation of the fishermen societies is organized to undertake marketing, etc.

272. *Transport.*—The report on the marketing of fish by the State Marketing Officer reveals that the producer's share in the consumer's price is high when sold in the form of fresh fish and that in other cases he is able to get only about 30 per cent to 40 per cent of the value of his catch. If quick transport facilities are available he can sell his fish in distant markets as fresh fish and this will fetch him a better return. The Industries Department of the State has provided motor vans for this purpose at hire charges approved by the Government on a self-supporting basis. It is understood that only very few societies have been able to avail themselves of this facility as they could not pay for the van at the rate stipulated and halting charges when the van is not used. We suggest that societies may be asked to pay only hire charges and not halting charges, pay of staff, etc. If the running of the van is successful in a route, we suggest that the societies or a federation of the societies may be provided with a van with all its equipment at a subsidized cost by the Government recoverable in instalments.

Even if motor vans are provided, they cannot fully benefit the fisherfolk in remote areas unconnected by motorable roads. We would here refer to a resolution passed by the South Kanara District Co-operative Conference urging upon the Government the desirability of connecting the hamlets of fishermen with the main Highways by motorable roads to facilitate quick transport. We recommend the implementation of this resolution.

273. *Marketing of fish.*—The fishermen play only an insignificant part or no part at all in the marketing of fish. Except for a very small portion of the catches which are carried by the fishermen in baskets for disposal at nearby markets, the rest are all sold only to the middlemen. Even the existing societies for fishermen are functioning mostly as credit societies. They have not undertaken marketing on any appreciable scale. Marketing cannot, however, be undertaken effectively by small isolated societies. They cannot command knowledge of market conditions and equipment required for marketing such as transport and godown facilities. It is, therefore, necessary that a marketing federation should be formed for the fishermen societies of a compact region. This federation may usefully undertake other activities such as purchase and distribution of the requirements of the fishermen societies, provision of transport facilities, etc. The federation will require large funds for the purpose of putting up godowns, acquiring transport facilities, etc. We recommend that when such federations are formed, Government may give liberal assistance to it by way of subsidies and loans and also by way of free services of departmental and technical staff.

274. *Power fishing.*—Madras State has a long coast line and the possibilities of developing sea-fishing are, therefore, considerable. As only country crafts, which cannot operate beyond a few miles from the shores, are used for fishing, it is said that the possibilities of the industry are not fully taken advantage of. Mechanization of fishing operations will bring about better and increased production of fish. It is understood that the department of industries is conducting experiments to determine the best type of fishing vessels and fishing gear suited to local conditions.

It is stated that the department will offer this improved machinery to the societies at concessional rates and thus pave the way to modernization of this industry. Increased production due to modernization, unless followed by scientific methods of preservation and quick means of transport, would only result in glut and wastage in the market and a steep depression in the prices of fish. Further, if the marketing side does not keep pace, such modernization may throw out considerable number of fishermen out of employment. We would, therefore, commend a policy of modernization in stages.

275. *Supervision and administration of fishermen societies.*—The administrative control of fishermen co-operative societies is vested with the Director of Industries and Fisheries. There are two Deputy Directors, one for marine and the other for inland work and they are assisted by a Co-operative Sub-Registrar. There are also six regional Assistant Directors at different centres of the State with a staff of three Co-operative Sub-Registrars and three Senior Inspectors and nine Junior Inspectors. The staff for supervision is stated to be inadequate. Owing to illiteracy and pre-occupation with fishing at sea for most part of the day, the fishermen are incapable of managing the societies. It has been difficult to find suitable persons to act as office-bearers in a fishing village. Most of the hamlets are situated in isolated and inaccessible areas with no halting convenience and one can personally contact fishermen only at certain hours of the day. It is stated that in the east coast, an Inspector has very often to travel from his headquarters 60 to 70 miles and has to walk across barren areas, back-waters and marshes to reach the societies. Lack of adequate staff responsive to the needs of the fishing population has been the chief obstacle in the development of these societies. We suggest that in view of the difficulties mentioned above, a Senior Inspector may be appointed for the supervision of every 10 societies. We also suggest that big societies may be given the exclusive services of Inspectors to work as their Secretaries and Managers.

We are not quite convinced of the need for vesting the administrative control over the working of fishermen societies with the Director of Fisheries as at present. We are of the view that, as co-operative organizations, the fishermen co-operative societies

should be under the control of the Registrar of Co-operative Societies. We would in this connection refer to the reasons given by us in Chapter 17 for placing the cottage industries societies under the administrative control of the Co-operative Department. The same reasons hold good here also. Indeed, we would like to mention here, that co-operative societies of all other types also should be under the administrative control of the Co-operative Department, and such assistance as may be necessary from the technical departments may be rendered by the latter.

CHAPTER 19.

OTHER TYPES OF SOCIETIES.

276. The Co-operative Fire and General Insurance Society.—The Madras Co-operative Fire and General Insurance Society was registered in 1941 mainly with a view to enable the Co-operative institutions in the State to place their insurance business with a co-operative concern. Its area of operations extends to the whole of India. The objects of the society are comprehensive, embracing practically all branches of insurance, except life. But fire and motor insurance are the main business undertaken by it.

The society had 423 'A' class members (State Co-operative Bank, Central Banks, marketing societies and other registered societies) and 2,712 'B' class members (other than societies) on its rolls on 30th June 1955. During the year 1954-55 it issued 5,449 fire policies involving Rs. 7.65 crores. The total premium income was Rs. 4.14 lakhs. Eighty-five claims involving Rs. 57,263 on account of damages by fire were settled during the year. The Fire Insurance Fund at the end of the year amounted to Rs. 3.91 lakhs. The re-insurance business done by the society amounted to Rs. 2.95 crores. The working of the society is satisfactory.

It has been suggested to us that all co-operative institutions should be made to insure their stocks with the co-operative fire and General Insurance Society especially as all the insurance concerns doing this business offer the same facility and collect the same premium under an agreement between them all. The Registrar has exhorted all the co-operative institutions in the State to patronize this society. We think that even without compulsion all co-operatives will patronize this concern only in due course. Steps may be taken towards this end by the department and central banks.

The following further suggestions have been made to us for developing the business of the society :—

(i) When co-operative societies and their members insure their stock, it is desirable that they take out policies for the full value of the stock instead of for the value of the loan.

(ii) Buildings owned by all co-operative societies Government and local bodies should be insured with this society.

Regarding the first suggestion, we think it will have an adverse effect on the business of the society concerned with its own repercussion on the business of the insurance society as the members agree to insure up to the loan limit even, only with reluctance.

Regarding the second suggestion, insurance of buildings is not generally in vogue in co-operative housing societies and other societies. We believe Government and local bodies also do not generally insure their buildings and therefore, there is not much scope for this business.

277. Co-operative Life Insurance.—In view of the nationalization of life insurance, we are not dealing with the co-operative life insurance societies.

278. Cattle insurance.—Cattle mortality is one of the important causes for rural indebtedness and insurance of cattle is intended to provide for losses arising out of cattle mortality. If worked successfully, it may be of great benefit to the ryots. Its success, however, depends on various factors :—

Firstly, the insured cattle must be properly looked after by the owners. Secondly there should be adequate facilities to deal promptly with cattle diseases of an epidemic nature. In the absence of such facilities, no insurance scheme can be worked successfully for obvious reasons. Lastly in the matter of determining whether the dead animal was the one actually insured and whether the loss was due to accident or negligence on the part of the owner, it is rather difficult to secure reliable evidence. The overhead charges due to the need for employing large field staff for this purpose make the cost of insurance high. Above all, the ryots are not insurance-minded.

The Madras Committee on Co-operation (1939-40) was of the view that the co-operatives cannot take up this activity. The All-India Co-operative Planning Committee (1945) which examined this question was also of the same view; but it recommended that the State Government might itself undertake Cattle Insurance as an experiment in selected areas after collecting the necessary data and that the question of giving a co-operative form may be considered after sufficient experience has been gained.

We agree with the view of the All-India Co-operative Planning Committee. We consider that co-operatives cannot undertake this business in the present conditions when cattle management is generally inefficient and veterinary assistance is not always available and when there is lack of reliable data regarding the mortality of the cattle, in different age-groups. Indeed, five cattle insurance

societies were started in this State in the Twenties but were liquidated as none of them was able to do any work. There has also been no representation to us that cattle insurance societies should be started.

279. *Producers'-cum-consumers' co-operative societies.*—On the suggestion of some co-operators of Malabar, Government sanctioned in 1945-46 a scheme for the organization of "producers'-cum-consumers' co-operative societies (one for every *hirka* generally) for procuring or importing foodgrains and for distributing foodgrains at controlled rates, as well as other essential articles. Their membership consisted of both producers and consumers. Virtually they were given a monopoly of procurement and distribution of food-stuffs. The administrative control over these societies was first vested in the Revenue Department. Government conferred on the Collector of Malabar all the powers of the Registrar, except those connected with audit. The societies transacted huge business running into crores of rupees. Making allowances for lapses here and there, the societies served the people well in spite of the internal stress and strain inherent in an organization composed of both producers and consumers.

On the abolition of foodgrains in the Malabar district in June 1952 and the lifting of all restrictions on their movement with effect from July 1954, these societies were relieved of the work relating to procurement of foodgrains. They were attending only to the distribution of foodgrains thereafter. As rice of good quality became available in the open market at reasonable rates, the offtake in the rationshops run by these societies decreased considerably and they found it difficult to run their business without loss. The societies had therefore to give up eventually distribution work altogether.

In 1955, these societies were transferred to the administrative control of the Co-operative Department. Government also ordered the conversion of these societies into other types of societies with a view to ensure that the funds built up by them were not dissipated and they are being converted into rural banks, marketing societies, urban banks, etc.

Out of 107 producers'-cum-consumers' societies in Malabar 9 were liquidated and 12 converted into other types of societies in 1953-54. Of the remaining 86, the registration of 4 was cancelled in 1954-55 and 9 were reorganized with other types of societies. Thus, there were 73 societies on 30th June 1955. These societies had a membership of 1.34 lakhs and paid-up share capital of Rs. 20.48 lakhs and a reserve fund of Rs. 50.04 lakhs. Fifty-two societies worked at a total net loss of Rs. 12.96 lakhs and 21 societies worked at a total net profit of Rs. 4.67 lakhs. Since 30th June 1955, 43 societies have been reorganized into 41 rural banks and two other types of societies, and 9 societies have been liquidated

leaving 21 producers'-cum-consumers' co-operative societies on 15th March 1956. As the reorganization is expected to be completed in a couple of months, it is unnecessary for us to deal with this subject further except to say that care should be taken to ensure homogeneity of outlook among members by strictly eschewing divergent objectives.

280. *Societies for ex-servicemen.*—One of the ways in which ex-servicemen were sought to be rehabilitated in our State was by organizing co-operative societies exclusively for them with a view to provide employment. Broadly, the existing societies for them are of three types, co-operative land colonization societies, co-operative workshops and co-operative motor transport societies. These societies were organized and supervised by the Resettlement Directorate till March 1948, when the administrative control over them was transferred to the Co-operative Department. Control over workshops alone has been transferred to the Director of Industries from 1st February 1956.

Land colonization societies.—There are six land colonization societies for ex-servicemen in this State. On 30th June 1955, they had 827 members of whom 412 were active colonists. Out of the total extent of 6,553 acres of land allotted to them, 2,644 acres have been reclaimed and 1,542 acres brought under cultivation.

The unsatisfactory progress in reclaiming and cultivating the lands is attributed to lack of irrigation facilities, failure of monsoon, desertion of members, etc.

Co-operative workshops.—There are three types of co-operative workshops for the ex-servicemen; metal, timber and engineering. The metal workshops produce a variety of household utensils. The timber workshops manufacture furniture of various kinds. The engineering workshop undertakes the manufacture of machinery such as toggle presses, spinning and polishing lathes, tile presses, etc. Of the seven co-operative workshops in the State, two are for metal, four for timber and one for engineering.

On 30th June 1955 there were 614 ex-servicemen members in these workshops with a paid-up share capital of Rs. 0.38 lakh. The value of the goods produced and sold by the workshops during 1954-55 was Rs. 4.81 lakhs and Rs. 5.11 lakhs respectively. A sum of Rs. 0.99 lakh was paid as wages to the members. All the workshops, however, worked at a loss during the year, to a total extent of Rs. 2.18 lakhs.

Co-operative motor transport societies for ex-servicemen.—For giving employment to ex-servicemen who, while in the Defence Services, worked as motor drivers, cleaners, fitters, etc., Government sanctioned in 1946 a scheme for the formation of motor transport societies. The transport authorities were requested by

Government to give special consideration to the societies in the granting of route permits to their lorries without prejudice to the provisions of the Motor Vehicles Act and Rules.

On 30th June 1955 there were eight Motor Transport Societies in the State. They had 183 vehicles (146 lorries, 36 buses and a car). Three hundred and eighty-four ex-servicemen were employed by these societies. They were paid salaries and allowances to the tune of Rs. 4.42 lakhs during 1954-55. Goods transport has been the main line of activity of the Motor Transport Societies. Besides the general public, several departments of Government, like the Civil Supplies, Public Works, Forests, etc., entrust their transport works to these Motor Transport Societies. Other co-operative institutions such as wholesale stores, marketing societies also engage the lorries of these societies for transport purposes.

All the Motor Transport Societies are running passenger transport also, which is reported to be a more profitable line of business for them than lorry transport. During the quarter ended 30th June 1955, the societies earned Rs. 6.91 lakhs, of which Rs. 2.81 lakhs represented the earnings from bus service. It is stated that the Co-operative Motor Transport Societies, where they operate, have ensured the public comfortable journeys by avoiding over-loading and fast and reckless driving and conforming to the scheduled timings, charging fixed and reasonable rates of fares, etc.

Problems and recommendations.

281. So far as the land colonization societies for the ex-servicemen are concerned, their problems are akin to those of the ordinary land colonization societies. The fact that only about one-fourth of the lands allotted has been brought under cultivation underlines the need for greater State assistance in the matter of reclamation, sinking of wells, etc., as recommended by us in Chapter 11 on co-operative farming.

Regarding the conferment of absolute ownership rights to the colonists, our recommendation in this regard, in respect of the civilian land colonization societies holds good.

The following suggestions have been made to us with a view to improve the working of the co-operative workshops :—

(i) The Forest department might supply timber such as teak-wood to co-operative timber workshops at concessional rates with facilities for selecting the quality of the timber required.

(ii) Priority should be given to the metal and engineering workshops in the matter of supplying raw materials such as iron, steel, copper, zinc, etc., wherever supply is controlled.

(iii) When the Jail department is not in a position to supply the furniture requirements of the Government offices or the local bodies, the authorities concerned should be permitted to place orders with the co-operative workshops without calling for tenders.

The first suggestion would, to some extent, help the societies in getting raw materials at cheaper rates and enable them to compete with private trade. We recommend that Government may permit the Forest department to supply the timber requirements of these societies at 10 per cent below the normal rate for a period of five years from 1957.

We commend the implementation of the second suggestion subject to the requirements of Government departments, as it would ensure adequacy of raw materials at reasonable prices and enable the workshops to reduce the prices of their finished goods.

Regarding the third suggestion, we find that Government have observed in their Order Ms. No. 2218, dated 25th June 1955, that the workshops should be able to supply articles at competitive rates and that there is no case for dispensing with the tender system. The question has to be considered in the light of the future of these workshops. We have to bear in mind the following facts :—

These societies have been in existence for seven to eight years. They have received liberal assistance from the Government and Post-war Services Reconstruction Fund by way of subsidies and loans and free services of staff. Still they are all working in loss. The wages paid in a year are less than a lakh of rupees and it means that only some of the 600 and odd persons who are members of these societies are employed as full-time workers. Even in advanced countries like England industrial co-operatives of producers have not been forging ahead. There will be no justification for indefinitely bolstering up these workshops. In fact, propping up these workshops in the manner suggested is not conducive to their efficient working.

Indeed, we feel that the time has come when the prospects of these workshops stabilizing themselves as economic units may be thoroughly examined individually and steps taken to wind up the uneconomic ones.

It has been suggested that civilians should also be admitted in the co-operative workshops formed for ex-servicemen with a view to improve their efficiency. The Special Officer appointed by the Government to examine the working of the Co-operative Workshops has stated in his report that the ex-servicemen workers cannot be called really skilled workmen, that they are not in a position to produce goods without defects and that they seem to think that the management is bound to provide continued employment irrespective of the quantity and quality of the work or business considerations. In the interests of the efficient working of the workshop we think it is necessary to admit skilled civilian workers also as members. On the suggestion of the Special Officer Government have now prescribed a limit of 20 per cent of the sanctioned strength for admission of civilians. We recommend that the limit may be enhanced to 40 per cent which will also be in

conformity with the proportion in which finance is made available for the working of these societies by the State Government and the Post-war Services Reconstruction Fund (40 per cent and 60 per cent).

It has been represented to us that the business of the motor transport societies is profitable only in the plying of buses and not in running lorries and that 5 per cent of the route permits in the Madras City and 10 per cent of the route permits in other districts should be made available to these societies. While we do not wish to recommend a specific percentage, we suggest that such help as is possible may be given to these societies consistent with rules in the matter of granting route permits for running buses.

282. *Labour contract societies.*—The labour contract societies composed of labourers and a few sympathisers obtain contracts for the execution of public or private works and execute the works through their members (and hired labour, if necessary). The labourers are paid current wages. In certain countries like Italy, such societies have played a significant role in securing for the workers a fair deal. It is a well-known fact that contractors get the lion's share of the profits of these contracts; if the national goal of a socialist structure is to be achieved, labour contract societies should be formed on a large scale and encouraged. The Planning Commission, recognizing the utility of this type of co-operatives, has advocated the formation of such societies.

In our State, Government have given the following concessions to the labour contract societies :—

(i) When a labour contract society is prepared to take works costing less than Rs. 2,500 it should invariably be entrusted with the work at the estimated value by the Public Works Department. The Deputy Registrar should send to the Executive Engineer, Public Works Department, a list of labour contract societies which he considers competent to take up such works. The Executive Engineer should examine the list and give due regard to the views of the Deputy Registrar.

(ii) Works costing less than Rs. 2,500 should as far as possible be entrusted by the district boards to the labour contract societies (wherever they exist) in preference to private contractors. The Deputy Registrar should send a list of such societies to the Divisional Engineer, Highways, who will consider the list and give due regard to the views of the Deputy Registrar and make recommendations to the President, District Board. The President, District Board, will act on the advice of the Divisional Engineer and select the society to be entrusted.

(iii) Labour contract societies need not pay security deposits, but in such cases payments for work done should be limited to 90 per cent of the value of the work and the balance of 10 per cent should be retained as security deposit.

(iv) Work done should be check-measured with the least possible delay and payment should as far as possible be made within seven days in the case of minor works and fourteen days in the case of large works. No registration fees need be paid by these societies for enlistment as contractors.

On 30th June 1955 there were 13 labour contract societies in our State with a membership of 1,715 and share capital of Rs. 0.37 lakh. They secured during the year contracts worth Rs. 2.96 lakhs and executed works worth Rs. 2.18 lakhs. They distributed wages worth Rs. 1.05 lakhs and earned a gross income of Rs. 0.93 lakh. The societies usually undertake works such as erection of buildings, digging of canals, repairs to tanks, supply of road materials, maintenance of roads, etc.

In view of their potentialities for raising the standard of living of the workers, we consider that such type of societies should be organized in increasing numbers and given State encouragement and assistance. The officers of the Public Works, Highways and Revenue departments should adopt a helpful and sympathetic attitude towards the working of these societies.

We consider also that the limit of Rs. 2,500 now fixed for the value of the works that may be entrusted to these societies without tenders may be raised to Rs. 5,000. Government may give a subsidy of 50 per cent towards the cost of the equipment required by these societies; and the balance may be given as a long-term loan, repayable in five years. As the successful execution of the works entrusted to these societies mostly depends on expert direction and guidance, the technical staff required by these societies may be made available to them free of cost till the societies establish themselves. Similarly, administrative staff may also be given to them free of cost for a period of five years.

CHAPTER 20.

SUPERVISION, PROPAGANDA, EDUCATION AND TRAINING.

283. *Supervision.*—Supervision over the working of a co-operative society implies, besides the scrutiny of its affairs from the viewpoint of the Act, rules and by-laws, the training of its members and office-bearers in co-operative principles and practices. It involves constant assistance in routine work, advice in financial matters and guidance in the general administration of the society.

There are two agencies for the supervision of societies in our State, one being the non-official agency comprising the supervising unions, which supervise the working of village credit societies and the other official consisting of departmental officers who supervise the working of non-credit societies such as weavers' societies,

stores societies, etc. We have dealt with supervision by the latter agency under Chapters relating to the Central Banks and the appropriate societies. We propose to deal with the work of the supervising unions in this chapter.

Supervising unions have been formed on the principle that affiliated societies would influence and improve the working of one another by mutual supervision and control even as the members of a society are expected to exercise mutual supervision among themselves.

The objects of a union are chiefly to exercise supervision over affiliated societies and to develop their work, to recommend the loan applications of these societies to the Central Bank, to organize fresh societies and to settle matters of common interest between the affiliated institutions. The general body of union consists of delegates deputed by affiliated societies who elect, from among themselves, members of the governing body which is the executive body of the union. The funds of the union consist of affiliation fees, delegate fees and grants made by the Central Bank towards its expenditure. The supervisors appointed by the Central Bank work under the immediate control of the union, though they are paid by the Central Bank and the powers of substantial punishment vest with the Central Bank.

On 30th June 1955, there were 148 supervising unions with 8,530 affiliated societies. To meet the cost of the supervisors the central banks collected supervision fund to the tune of Rs. 3.37 lakhs during 1954-55 and themselves contributed Rs. 2.20 lakhs from their general funds. They employed 429 supervisors for this purpose.

284. Place of supervising unions in the co-operative structure.—Differing views have been expressed to us regarding the usefulness of the unions. One view is that the unions are superfluous bodies serving no useful purpose. The other view is that supervising unions form an important and necessary link between the central bank and the village primary societies and that it does serve an useful purpose.

The question whether the supervising unions served a useful role in the co-operative structure was considered by the Madras Committee on Co-operation (1939-40). In view of the differing views expressed before them also, the Committee recommended that the question of retention or abolition of these unions might be left to the decision of the central banks concerned.

Supervising unions are necessary for the following reasons:—

(i) The loan applications of village credit societies will have to be dealt with directly by the central bank in the absence of the union. The recommendations of the union on the loan applications of societies are based on a knowledge of local conditions, and

this advantage will not be available to the central bank without a supervising union. It will have to depend merely on the reports of its paid staff, which may not always be desirable.

(ii) There will be no immediate control over the supervisory staff. May be, not all unions exercise an effective check over the work of the Supervisors but the presence of an authority which can impose or recommend punishment and through which the reports of the Supervisors pass to the central banks will act as a check on the tendency (if any) on the part of the supervisory staff to commit any irregularity. Without the association of local non-official element in supervision work, supervision may become bureaucratic and the emphasis on local help and guidance may recede into the background. It is not unlikely that, in the absence of immediate check over them by leading men of the area, there will be a tendency on the part of some Supervisors to indulge in malpractices in recommending loans, etc. The supervising unions will offset such a tendency by decentralizing control on the supervisory staff to an extent and bringing the centre of control nearer.

(iii) The union is now a constituency for the election of a director to the Central Bank who is elected from among the members of the governing body. In its absence, the societies will have to elect a director from among their members. It is more desirable to have an organized constituency for this purpose, with a close knowledge about the working of societies in an area, than an ad hoc body, brought into being for the purpose of electing a director to the central bank once in three years.

(iv) The unions are valuable organizations for discovering and developing co-operative leadership in rural areas and evoking and fostering local initiative, enthusiasm and talents. This system is ideally suited to give an opportunity to the influential, informed and public spirited individuals who are members of societies to play a useful part outside those societies.

(v) The unions enable the would-be directors of the central banks to learn the elements of administration and thus play a diligent role later on.

(vi) In some areas at least, the governing body members contribute a good deal in collecting the overdues of central banks and toning up the administration of societies by resolving factions, etc. in the affiliated societies.

(vii) When an unregistered bond has to be executed by a village credit society, its office-bearers have been permitted to execute it in the presence of a governing body member of the union concerned. In the absence of a supervising union, this facility will have to be confined only to the particular member of the area who represents the societies on the Board of Management of the Central Bank. This will cause hardship to the societies.

(viii) The members and office-bearers of societies who desire to contact the supervisors are now able to meet them through the

unions. The books and forms usually required by the village credit societies are also stocked and sold by the supervising unions concerned. In the absence of a union, these advantages will not be available to the village credit societies.

(ix) The arbitration claims filed by the village credit societies are generally referred to the members of the governing body of the union. Being employees of the union, the Supervisors consider themselves bound to help the governing body members and this facilitates the speedier disposal of the arbitration references. In the absence of a union, this work is likely to be hampered.

(x) The unions are not now wholly autonomous bodies in exercising supervision as they were in the beginning, when co-operators were firmly wedded to the twin ideologies of decentralization of Supervisors and centralization of finance. Then it was considered a heresy for the central banks to think of having a hand in supervision. Such a view is no longer held and indeed in all districts, a good deal of this work is now exercised by the central banks. The present arrangement in this regard, i.e., both supervising unions and central banks attending to this work (particularly central banks appointing, transferring and exercising major disciplinary control over the Supervisors) is best calculated to secure the advantages of "centralized administration" and "decentralized control".

Above all, it is in perfect harmony with the co-operative ideal of mutual aid. It widens the social and economic interests of the local leaders, beyond the confines of their own particular localities. It may be true that some unions are not functioning satisfactorily. The fault is not in the system but with the men who are in charge of it. The very fact that some unions are working on useful lines is an index of the potentialities of the organization.

We are, therefore, of the opinion that supervising unions are necessary and should be continued.

The question may be considered whether it will be necessary to retain the unions, in the context of the large-sized societies proposed to be formed in future. It may be said that as these societies will function with efficient paid staff and maintain accounts, etc., properly they will not be in need of help and guidance from the supervising unions or the supervisory staff. But it will take some years before all the small societies are converted into large-sized ones. Till then, the societies require supervision. It cannot also be said without assessing the actual working of the large-sized societies for some years to come, that they will not require the assistance of the supervisory staff or that the central banks will find it possible to deal with them directly, without the aid of the supervising unions. The position has to be examined at the appropriate time. Under the present conditions, we have to say that supervising unions should be continued.

The reasons why the supervising unions are not able to discharge their functions as effectively as is expected of them are said to be (i) inadequate supervisory staff under their control, and (ii) absence of suitable personnel on the governing bodies of the unions.

Regarding (i) there are now many unions with Supervisors who have under their charge more than 20 societies. Unless the number is reduced to 12 to 15, supervision cannot be efficient. But this is a difficulty which cannot be solved by the unions and central banks. Central banks are not in a position to employ adequate supervisory staff without outside financial assistance. We understand that in the Second Five-Year Plan proposals have been made for Government subsidizing the cost of additional Supervisors appointed with a view to bring down the number of societies in charge of each within manageable limits. Without an efficient supervisory staff, it is well nigh impossible to forge ahead in the implementation of the integrated scheme of credit and marketing. Therefore we fully support this proposal, which will increase the effectiveness and the usefulness of supervision exercised by the supervising unions. Indeed we feel that the subsidy to the Central Banks provided for in the Second Five-Year Plan in this regard needs to be liberalized to such an extent as to enable them to have one supervisor for every twelve societies.

Regarding (ii) having regard to the fact that members of the governing body of the union have to guide and help other societies in their area, they should be good co-operators and be an example for other members of societies to follow. With this view, a provision has been made in the by-laws of the unions that only those delegates who are not in default in respect of any loan taken by them in the societies of which they are members, are eligible for election as members of the governing body. In addition, it is desirable that only delegates of A and B class societies are chosen as chief office-bearers (i.e., President and Secretary) of the governing body. Unless the chief office-bearer is able to exert his knowledge and influence and ensure the good administration of his society, he cannot do much to reform other societies. We find that, out of 10,489 village societies on 30th June 1955, 127 were of the "A" class and 1,622 were of the "B" class. Taken together, the number of societies coming within these two categories is fairly large and generally cannot be said to reduce the scope for selection of the chief office-bearers to the governing bodies. We suggest that a suitable provision may be made in the by-laws of the supervising unions to carry out the above recommendation. We also feel that, if any union desires to introduce such a qualification even for governing body members, it may be permitted to do so.

With a view to tone up the administration of the unions, we would like to make another suggestion also, viz., that the Executive Committee of the Central Bank may be empowered to nominate to the governing body of each union a person, whose services in

their opinion will be useful to the movement. Such a nominated person need not, however, be eligible for being elected as President or Secretary of the union or as a director of the central bank from the union. Suitable provision may be made in the by-laws of unions to implement this suggestion.

285. *Number of societies affiliated to each union.*—We note that in many districts the number of societies affiliated to unions differs widely. For example, the Thirumangalam Union in the Madurai district consists of 132 societies whereas the Vadamathurai Union in the same district consists of only 25 societies. Similarly in Chingleput district the Uttaramerur Union consists of 74 societies, whereas the Tirukandalam Union consists of only 12 societies. This wide disparity in the number of affiliated societies assumes significance particularly in view of the fact that the unions serve as a constituency for the election of directors to the Central Banks. In order that societies may have equal representation in the Central Bank, we suggest that unions in each Central Bank area may be reorganized with more or less equal number of societies, though the number need not be the same in the arithmetical sense. Further, the size of the unions should be as to obviate unwieldiness and ensure adequacy of work for the supervisory staff and governing body members. Ordinarily, a union with say more than 100 societies or less than 30 societies will not normally secure these desirable considerations. We feel that a union may normally have 40 to 60 societies. The Central Banks in whose jurisdiction unions which are not definitely in conformity with these wholesome requirements exist, may take steps to reconstitute them. The reconstitution should be made in such a manner as to ensure that at least four to five Supervisors work in each union. We understand, however, that in South Kanara there are unions with about twenty-five societies, and that they are working satisfactorily. We have no objection to the modification of our general recommendations to suit such special local conditions.

286. *Propaganda.*—The strength and expansion of the Co-operative Movement is dependent on the effectiveness of publicity and propaganda aimed at spreading co-operative ideals among the various sections of the public. The objective of publicity and propaganda is to create an interest among those who are outside the Co-operative Movement in the ideals of the movement and make them join the movement as well as to foster the loyalty of those in the movement already, by reinforcing the faith in the values of the movement.

The premier co-operative institution in the Madras State to propagate the principles of co-operation and serve as the recognized exponent of the views of co-operators, is the Madras State Co-operative Union, which has completed more than 40 years of useful existence. Membership of the union is open to all limited liability and unlimited liability societies having a share capital and reserve fund of not less than Rs. 5,000. On the 30th June 1955, there

were 710 societies on the rolls of the union. The representatives of these societies form the general body which elects the chief office-bearers as well as the Board of Management consisting of 48 members. There is an Executive Committee of 15 members, to which the Board has delegated important functions.

Till some time back, the State Union had a provision in its by-laws enabling its Board of Management to co-opt persons of knowledge and distinction in various fields of social activity, to serve as honorary members of the union. We commend the reintroduction of such a provision in its by-laws, so that the union can secure the services of eminent persons in carrying out its duties as the premier organization in charge of education, publicity, propaganda, etc.

In accordance with its objects, the union publishes co-operative journals, pamphlets, books, etc., convenes co-operative conferences, maintains libraries, arranges for exhibitions, and serves as an information bureau on co-operative matters. It spreads co-operative education and does propaganda through cinema shows, magic lantern slides, songs, dramas, etc.

287. *Journals, etc.*—The State Co-operative Union has been publishing a monthly journal "The Madras Journal of Co-operation" in English. The issues of the journal contain articles on the principles and practices of co-operation in India and abroad. The history and working of noteworthy societies is described in the journal from time to time. It commands a fairly good circulation both in the Madras State and other States and in Ceylon, Burma, Malaya and other countries. About 2,000 copies are printed and circulated. It is rendering undoubtedly useful service for the cause of co-operation in this State though it has to be said that it is benefiting only the English-knowing public. Even when the Madras State is reorganized more or less into a Tamil State, we feel that this journal should be continued to be published in English so as to serve as a medium of publicity both for people here and abroad.

Besides publishing the journal, the Union also brings about Souvenirs on important co-operative occasions. It is also arranging to publish an annotated edition of the Co-operative Societies Act and Rules with case laws, etc.

There are five other co-operative journals published in the various languages of the State: Tamil journals "Kootturavu", "Kootturavu Thondu" and the "Madura-Ramnad Kootturavu" published by the Tamil Nad Co-operative Federation, Coimbatore. Co-operative Non-Official Association, Tanjore, and the Madura District Co-operative Central Bank, respectively; the Malayalam journal "Paraspara Sahaya" published by the Malabar District Co-operative Central Bank; and the Kannada journal "Kannada Sahakari" by the South Kanara District Advancement Co-operative Society, Mangalore. The Madras State Co-operative Union has

been subsidizing the publication of "Kootturavu", "Paraspara Sahaya" and "Kannada Sahakari". During 1954-55 subsidies given to them amounted to Rs. 1,000, Rs. 250 and Rs. 300 respectively. In a way they can be said to carry the message of co-operation to the villages.

288. *Propaganda vans*.—Having regard to the fact that our masses are not literate enough in adequate numbers, printed word alone will not suffice to publicize the ideals and achievements of the Movement. Hence other audio-visual aids of propaganda should be pressed into service.

It has been suggested that propagandists should be appointed to be exclusively in charge of propaganda, that the State Union should be provided with mobile propaganda vans equipped with electrical projectors, film and radio musical records, etc. In the context of the numerous plans for the development of the Co-operative Movement in the next five years, the importance of propaganda cannot be over-rated. The expansion of the Movement in various directions must be supported by an informed and instructed public opinion; otherwise the success of the schemes proposed to be launched cannot be assured. Propaganda is necessary particularly in rural areas, where extensive schemes of rural credit and marketing are to be implemented. Only purposive and persistent propaganda in the rural areas will serve to give a grounding in co-operative principles and practices to the members, actual and prospective, thus enabling the movement to be built on firm foundations. Truly did the Royal Commission on Agriculture stress the significance of patient and persistent education in the principles and practices of co-operation as the panacea for all the ills from which the movement was suffering.

We consider that under these circumstances, it is essential that the Union should be helped by the Government to equip itself with mobile vans fitted with propaganda aids. In dealing with the question of education and training of the panchayatdars of village societies in this chapter itself, we are later recommending the grant of subsidy by the Government for the purchase of two mobile vans to be used for propaganda purposes in centres where the training of panchayatdars is to be undertaken.

289. *Library*.—The library of the State Co-operative Union consists of about 2,000 and odd books. The library and the reading room are used by students of co-operation and members of the co-operative institutions at Madras. The number of books in the library is not adequate. The Government have been giving a grant of about Rs. 100 per year to the Union for the purchase of books. The grant is obviously inadequate. In the opinion of the Union, the grant should be increased to Rs. 5,000. We recommend that Rs. 5,000 may be granted at least as a block grant and a sum of Rs. 1,000 as recurring grant with a view to enable the Union to

extend its library service. When libraries are maintained by the District Co-operative Central Banks, or by other District Co-operative institutions, we recommend that a block grant of Rs. 1,000 and an annual grant of Rs. 300 might be sanctioned to them to enable them to extend their library services.

290. *Finances of the Union*.—The State Co-operative Union derives its funds chiefly from membership fees, Government grant towards the pay of the Manager, grants from the Common Good Funds of State institutions like the Madras State Co-operative Bank and the Madras Central Land Mortgage Bank, surplus, if any, from the sale-proceeds of publications, etc. On an average, the income of the Union is about Rs. 30,000 and the expenditure is a little less or more. Having regard to the variety of objects which the State Union has to carry out, its resources must be said to be rather inadequate. It has, therefore, been suggested that a source of finance should be found within the movement itself to support the Union continuously. We may in this connexion state that in the Bombay State, the Co-operative Societies Act and Rules provide for appropriating 1 per cent to 1½ per cent of the net profits of all societies declaring a dividend of 4 per cent and more to the "Education Fund" of the Bombay State Co-operative Institute (corresponding to the State Union here). Legislation may be undertaken in this State also with a view to provide a steady and assured source of income to the State Union from the net profits of societies. We are suggesting a suitable amendment in Chapter 24. We also recommend that 50 per cent of the amount accruing to the State Co-operative Union in this manner may be distributed to the Central Banks, for purposes of education, training, publicity, etc.

291. *Future of the Tamil Nad Co-operative Federation*.—Apart from the State Co-operative Union, the Tamil Nad Co-operative Federation, Coimbatore, is also undertaking propaganda work in this State. It operates over the entire Tamil Nad. It had 416 societies as its members as on 30th June 1955. The Federation is in charge of the publication of the Tamil Monthly "Kootturavu" which commands a circulation of 2,000 copies. It convenes annually conference of co-operators of Tamil Nad. It has also published some books on Co-operation and allied subjects.

It has been suggested that, in view of the proposals for the formation of linguistic States, there is no need for a separate language federation and that it may be amalgamated with the State Co-operative Union. The consensus of opinion received by us is in favour of such amalgamation. We consider that the Tamil Nad Co-operative Federation should be amalgamated with the State Co-operative Union, if the area of operations of the latter becomes more or less coterminous with the Tamil area consequent on States Reorganization. In that case, both the journals, The Journal of Co-operation as well as "Kootturavu" may be published by the State Co-operative Union itself, as separate journals.

292. *Education and training.*—The Co-operative Movement is run by a large band of workers, official and non-official, paid and honorary. If the movement is to develop on sound lines and expand in diverse directions, it is essential that those who work, guide, supervise and control the movement are well conversant with the principles and practices of co-operation. There is a feeling in certain circles that any educated person can take charge of a co-operative society and work it. But actually this can be worked successfully only if the personnel concerned are specially trained in co-operation and allied subjects and imbued with the co-operative spirit. In this context, education and training of those working in the movement have a vital bearing on the movement.

293. *Study circles.*—One of the ways by which co-operation and social progress has been furthered in America and other countries is by the formation of study circles. In these, select persons gather periodically and discuss matters of moment and consequence. As a result of the working of the circles, knowledge of co-operation and connected subjects can spread, with the resultant impact on the progress and working of the movement. We, therefore, recommend that the State Co-operative Union may engage itself in this useful line of activity as well. Similar study circles may be organized in the districts by the Central Banks and by big urban banks. This will have the effect of stimulating interest in co-operation among the general public.

294. *Co-operation and women.*—Co-operation is essentially a socio-economic movement. It is a movement in which women can and ought to play a very useful part. Indeed, there are many sectors of the movement which can succeed better if women take a lively interest and participate actively in the working of societies. In advanced countries women play a very important role in the co-operative movement—as indeed in other social movements. For instance, the Women's Guilds in Great Britain have rendered meritorious services in the cause of women in general and secured increasing participation of women in the co-operative movement. But in the conditions of our country, we are not sanguine about the possibility of organizing such associations and working them enduringly successfully.

We feel that the following measures, which we consider practicable, may usefully be undertaken to bring women within the co-operative fold gradually. Girls' schools and colleges afford scope for acquainting women in the early stages of their life with the ideology and the methods of the movement. We suggest the formation of students' stores in all girls' schools and colleges in the State as recommended in the chapter relating to the Stores.

There are many classes of co-operative societies on the governing bodies of which women can render valuable services. For example, the presence of women on the boards of management of stores societies, housing societies and big milk supply societies and

unions would serve to bring to the notice of the management the shortcomings, if any, in the functioning of these institutions and thus facilitate the adoption of prompt remedial measures. This in turn is likely to lead to an expansion of the activities of these societies. We would, therefore, suggest that provision may be made in the by-laws of these classes of societies for the co-option of a woman director on their boards, if no woman comes by way of election. Similar provision may be made in the by-laws of urban banks, for co-option of women as directors.

Cottage industries societies, especially those which are engaged in hand-spinning, basket making, manufacture of ready-made garments, etc., afford splendid scope for the enlistment of women in large numbers within the co-operative fold. We are glad to note that there are 37 cottage industries societies exclusively for women with 3,825 members and a paid-up share capital of Rs. 22,241 as on 30th June 1955. They produced and sold garments, etc., to the value of Rs. 19,328 and Rs. 29,212 respectively during the year 1954-55. We wish such societies are encouraged by liberal State help by way of subsidies for the maintenance of staff, equipment, over-head charges, etc.

With a view to bring in women in large numbers within the co-operative movement, we suggest also that during the celebration of the Co-operative Week every year, special efforts may be made to enrol more women in the societies. We suggest also that in the administration report of the department information may be given indicating the extent of participation of women in the movement.

295. *Co-operation and youth.*—The success of the co-operative movement ultimately depends on the character of the co-operators. It will be easier to secure the services of the right type of men to work the institutions in due course, if the youth of the country are properly trained in the formative period of their lives. Co-operative virtues of self-help and mutual help could be inculcated in young men and women and the value of joint endeavour could be effectively brought home better through practical demonstration. The formation of students' co-operative stores in every high school and college is the best means of enabling them to learn the ideals and practical utility of the co-operatives.

We are aware that in some countries such as United Kingdom there are co-operative youth organizations for different age groups with a view to foster a social outlook and team spirit and a spirit of comradeship virtues which are indispensable for social progress in general and co-operative movement in particular. We do not, however, consider that in the conditions of our country it is generally possible to initiate the organization of co-operative youth clubs and work them successfully. Indeed, organizations like the Scouts Movement are calculated to foster the virtues referred to and it may not be quite desirable to start new organizations. Instead, the Scouts Movement may better be strengthened to achieve the ends in view. We also suggest the following additional steps.

The text books in the high schools and colleges may well include topics on co-operation suited to the standard of the students. Particularly the biographies of really eminent co-operators may be incorporated in the curriculum with a view to instil into them a desire for emulation.

The State Co-operative Union, Central Banks, big urban banks and other societies may well arrange annually for awarding prizes to students in their areas by holding essay competitions and oratorical contests. Such a course will undoubtedly serve to publicise the co-operative movement besides an interest in its ideals, achievements and potentialities.

We have earlier recommended the formation of study circles. We urge that special efforts may be made to make the students participate in their working.

If these suggestions are implemented, we hope that the way will be paved for the gradual assimilation of co-operative principles and practices by the youth of our Nation, leading eventually to their participation in the movement in later years.

296. Education and training of departmental officers.—The education and training of the departmental staff in the State is imparted by the Central Co-operative Training Institute at Madras. The Institute is directly under the control of the Registrar. Candidates who have been recruited as Senior Inspectors and Junior Inspectors are deputed to this Institute. Candidates are given theoretical training for nine months and practical training for three months. They have to pass examinations in Co-operation, Auditing, Banking and Book-keeping, conducted by the Registrar. During the period of training, a Junior Inspector is given a stipend of Rs. 45 per mensem and a Senior Inspector Rs. 65 per mensem. The normal teaching staff of the Institution consists of a Principal and two lecturers. The lecturers are of the grade of Senior Inspector. Till 1955 the Principal was of the grade of Co-operative Sub-Registrar. The post has thereafter been upgraded to that of the Deputy Registrar.

The stipend of Rs. 45 per mensem to candidates selected as Junior Inspectors is, in our view, very inadequate and not calculated to make a candidate live in reasonable comfort without impairing the efficiency of his training. We, therefore, recommend that so far as the Junior Inspector candidates are concerned, the basic pay of Rs. 65 may be given to them as subsidy.

297. Co-operative Training College.—It has been suggested that the Central Co-operative Institute should be converted into a Co-operative Training College in which all categories of the Departmental staff and intermediate and higher categories of the non-official staff should be given training. It may be stated in this connexion that the Madras Committee on Co-operation (1939-40)

recommended the establishment of a co-operative college, where aspirants for employment in the Co-operative department and for higher posts in the Co-operative institutions might be trained. Government accepted this recommendation and agreed in principle to convert the Central Co-operative Institute, Madras, into a Co-operative College, but the proposal was deferred for the duration of the war. In 1945, the question was again taken up and referred to the Madras University for its consideration. The University considered that there was no need for a co-operative college and that the purpose could be served by amplifying the syllabus for the B. Com. degree course. Later, the University decided to institute a B. Com. (Hons.) course. Government have sanctioned two posts of Deputy Registrars to work as lecturers on co-operation in the University. At present there are only two colleges, viz. (Pachaiappas and Loyola) offering this course. Up to 1954, 86 candidates have taken B. Com. (Hons.) degree with co-operation as the special subject. Under the rules, persons with B. Com. (Hons.) degree with co-operation as special subject are exempted from undergoing the course of instruction and training and also the passing of tests prescribed for others. Most of them, however, have sought for and secured employment elsewhere rather than in the co-operative movement, for a variety of reasons, the chief of which is the desire to start high and reach higher position fairly quickly. Thus neither the department nor the Co-operative institution is really benefited.

In the context of the vast expansion of the co-operative movement contemplated in the Second Five-Year Plan, it is estimated that a large number of trained personnel at all levels, about 2,000, would be required by both the department and the institutions in the course of the Plan period. Even after the Plan period, there will be demand for trained personnel, as many of the schemes included under the Second Five-Year Plan will have to be continued. The limited training facilities available in the existing institute are inadequate to meet the demand quantitatively and qualitatively for trained personnel. Thus arises the need for the establishment of a co-operative college.

The Registrar has proposed to Government that the Central Co-operative Institute, Madras, may be converted into a Co-operative Training College on the following lines:—

The proposed college will, besides imparting training to the subordinate personnel of the Co-operative Department which is now done by the Central Co-operative Institute, undertake the training of the intermediate and higher personnel of the department and of co-operative institutions in the State. No doubt, the Co-operative Training College, Poona, and the Regional Training Centre, Madras (run by the Reserve Bank) have provision for training the higher and the intermediate service personnel of the department and the societies. But the Poona College is situated far away from Madras and it provides training to a limited number

of candidates. Further, the training that is imparted at the centre has been designed with reference to all-India requirements and not with reference to the needs of any particular State. On the other hand, the training proposed to be given at the Training College, Madras, for the higher and intermediate personnel could be designed so as to meet the exact needs of the Co-operative Department and the Institutions in this State, in the light of practical experience. Hence it has been proposed that persons of all categories in the department and persons belonging to the intermediate and higher levels in the societies, may be given training in this college. About 200 students will be trained annually in this college. The period of training for the intermediate and higher personnel will be five months, consisting of a theoretical course for one and a half months and practical training for three and a half months. The theoretical training will be an orientation course since they have had already basic training. Besides recent trends in co-operative theory and practice, future lines of development of co-operatives will be taught. The practical training will include visits to important institutions and centres within and outside the State for intensive study of their working. Special short-term courses of training on important subjects like Land Mortgage Banking, Co-operative Marketing, Co-operative Banking, Co-operative Trading, Co-operative Auditing, Industrial Co-operation, etc., will also be organized for both intermediate and higher personnel. It is not proposed to hold examinations but the trainees will be expected to contribute to discussions by placing the results of their study at the seminars which will be a regular feature of the training. In short, the training will be an inservice training with a bias towards the practical side.

Management of the College.—It has been proposed to entrust the affairs of the college to a committee consisting of (i) the Registrar of Co-operative Societies, Madras, who will also be the Chairman of the Committee, (ii) the President or Secretary of the Madras State Co-operative Union, (iii) an Educationist, (iv) a representative of the Central Committee on Co-operative Training, and (v) the Principal of the College who will also be the Secretary of the Committee.

Staff of the College.—In the scheme proposed by the Registrar, the teaching staff of the college will consist of a Principal in the grade of Joint Registrar, four professors in the grade of Deputy Registrars and four assistant professors in the grade of Co-operative Sub-Registrars and experts in particular subjects as part-time Professors.

Period of training.—The period of training will be twelve months consisting the nine months' theoretical course and three months' practical course.

The generality of the opinion is in favour of upgrading the central co-operative institute into a co-operative college. While we

therefore, support the proposal of the Registrar to convert the institute into a college, we would like to suggest the following modifications :—

We feel that the management of the college may well be entrusted to a committee consisting of the Vice-Chancellor of the Madras University as the Chairman, and the Registrar of Co-operative Societies, President of the State Co-operative Bank, Secretary of the State Co-operative Union, Professor of Economics of the Madras University, a representative of the Central Committee on Co-operative Education and Training, and the Principal of the College as members. The Principal will be the member Secretary of the Committee.

The Principal of the College may be either a Joint Registrar of Co-operative Societies or a qualified person with experience in co-operation, with the status of a Joint Registrar.

There are two matters common to both the Central Co-operative Institute and the mufassal institutes to which we would like to draw attention :—(i) At present, as soon as a course is completed, the staff or part of the staff is disbanded. This is not a wholesome feature. The staff should be treated as on a vacation basis. This facility is necessary to enable them to recuperate and also equip themselves for the next year's course, unless there are no prospects of running another course within three months thereafter. (ii) Most of the lecturers in the Central Co-operative Institute and the mufassal institutes are Senior Inspectors. It is highly desirable that they should be replaced by experienced Co-operative Sub-Registrars, so that they may command greater prestige in the eyes of the students and thus make their influence felt.

298. *Research and evaluation.*—In recent years the principle of co-operation has been applied to many aspects of the economic life of the nation. It is sought to be introduced in many new activities. When co-operative principles are thus applied, certain assumptions are made regarding the conditions of the Community. There is now no organization to test the validity of these assumptions and to assess the results achieved by the co-operative schemes launched from time to time. When the movement has expanded in various directions, there must be a machinery to evaluate the results achieved in terms of the objectives with which the expansion was made. Statistics published in the administration reports cannot serve the purpose of evaluation adequately. There must be purposeful research into the results of the working of the movement in every direction and an appraisal of the results achieved. If this is not done, the movement cannot retrace its steps where it has gone wrong or rectify the situations brought about by mistaken assumptions. Without research and evaluation, the movement cannot develop on sound lines.

The question arises as to which agency should undertake this function. It has been suggested by some co-operators that the proposed Training College may be in charge of this work also, while a few others prefer to entrust the work to the University. Research implies a patient and objective collection of statistics and detached assessment of the results of the various schemes launched in the movement from time to time. It requires study and examination in a calm and academic atmosphere by scholars and not by those who are actually participating in the schemes and who, thereby have developed unconsciously certain mental attitudes towards the schemes in operation. We consider, therefore, that the University is the best authority to undertake this work. In view of the enormous amount of Government and public funds invested and to be invested into the movement—particularly in the new schemes ahead—it is essential to ensure that the objectives for which huge amounts are spent are realized in actual practice. We therefore recommend that the University may undertake this function and that Government may give to it the necessary financial help for this purpose.

299. Education and training of non-official staff.—For the training of the subordinate personnel for co-operative institutions, such as Supervisors, etc., there are institutes at Tanjore, Coimbatore and Malabar. One more is proposed to be started at Madurai from the next academic year. The one at Malabar was started only in November 1955 to serve the needs of Malabar and South Kanara districts. The institutions are independent organizations registered under the Co-operative Societies Act. The State Co-operative Union co-ordinates their activities and conducts common examinations. The minimum educational qualification for candidates desiring admission into the institutes is a pass in the S.S.L.C. In the case of candidates belonging to scheduled castes and the Muslim community, those who have appeared for S.S.L.C. also are eligible. The two institutes at Tanjore and Coimbatore turned out 369 candidates during 1954-55. It is expected that all the four institutes may turn out 500 to 600 candidates per year. The course of training is for 11 months (theoretical training for 9 months and practical training for 2 months). A tuition fee of Rs. 50 is charged from each candidate for the whole course. Till 1955 the Superintendents of the institutes were in the grade of Co-operative Sub-Registrars. Now the posts have been upgraded to those of Deputy Registrars. The services of the departmental officers are given free to these institutes and the cost of the non-official staff met by Government as subsidy. The funds of these institutes consist of tuition fees, contribution from central banks and the Madras State Co-operative Union, and grants from Government.

Besides the normal course of training to supervisors, the institutes conduct special short-term training classes for the employees of non-credit co-operative institutions for six to eight weeks in the months of May and June every year.

300. Special training for B.Com. students.—The Madras State Co-operative Union conducts a practical training course for six months to the B.Com. degree-holders with co-operation as special subject to enable them to qualify themselves for the posts of Secretaries, or Managers of Central Banks and other big institutions. Only those who are sponsored by co-operative institutions, are admitted to this course. The training period is divided into two phases—one at the District Central Bank and the other at the State Co-operative Bank. So far, however, only two candidates have undergone this training.

301. Course of training in the institutes.—The total period of training in the institutes (11 months) in our State is the longest; the period in other States ranges from six to nine months. The general opinion is that the present period of training is absolutely necessary. We do not recommend any change in the total duration of the course—having regard to the subjects to be learnt, etc. Nor can any of the subjects be eliminated without detriment to effective training.

So far as the method of giving practical training is concerned, a change has been suggested. At present the supervisors are, after theoretical training, deputed to Central Banks for practical training. They are attached to supervisors or Bank Inspectors, who are expected to guide and advise them. This is considered to be an unsatisfactory arrangement. Further, the time at which the candidates are attached to Supervisors for practical training is the collection season of the year—April and May—and the supervisors and Bank Inspectors cannot therefore devote due attention to this work. It has been suggested that the candidates may with advantage be given practical training by their own teaching staff. We think that the teaching staff would take more interest in the training of the candidates than the staff of the Central Banks. They can also dovetail the practical training with the theoretical classes. We suggest that the lecturers may take the candidates in batches to institutions for practical training at convenient intervals in the course of the whole term, instead of reserving the practical training to the very end. A practical insight into the working of societies gained along with the theoretical knowledge of co-operative principles, will leave a better impression on the minds of the trainees, than if the practical training is given at the end. The Committee considers it desirable that more attention should be given to practical training, and some of us are of the view that if possible the lectures may be held in the morning and practical training given in the evening.

302. Minimum educational qualification.—The general opinion is that the minimum educational qualification now prescribed (viz.), S.S.L.C. is enough. The pay and allowances which the candidates are likely to secure in employments, after training, are not

such as to attract applicants with higher qualifications. We do not, therefore, recommend any change in the minimum educational qualification.

303. *Medium of teaching.*—In one institute we found that some subjects were taught through the medium of English. Having regard to the fact that the minimum educational qualification for admission to the institute is S.S.L.C., we are of the view, that the medium should as far as possible be the regional language. Suitable text-books in the regional language should be arranged to be published in all subjects if the change over is to be effected. The State Union may well address itself to the task with a sense of urgency.

304. *Training of both official and non-official candidates in the same institute.*—Some have suggested that there should not be separate institutes for official and non-official candidates but that both should be trained together in the same institute. But in view of the differences in the general relative qualifications of the Departmental and non-official candidates, etc., we do not think that this suggestion can be adopted, however much it may be desirable.

305. *Union to play the part of an Employment Exchange.*—It is said that many persons trained in the mufassal institutes are not suitably employed. We hope that in the future expansion of the Movement, the position will improve. We suggest that the State Co-operative Union may maintain a register of trained candidates with particulars regarding their address, etc. Co-operative Institutions may intimate their vacancies to the Union and the latter may furnish particulars of suitable candidates to the former. In short, the State Co-operative Union may act as an Employment Exchange for persons who have had training in Co-operation.

306. *Training of panchayatdars and members.*—Training for the panchayatdars of village societies is of vital importance to the sound working of these societies. In 1944, a scheme of training intended for the panchayatdars was sanctioned by the Madras State Government. Under this scheme, training classes for panchayatdars were conducted for 15 days in each centre during the period of the vacation of the mofussil training institutes (April to June) by their staff. The candidates who underwent training were given a stipend of Rs. 15 each; 25 candidates were selected for each training centre. Government gave a grant of Rs. 15,800 and the State Co-operative Bank contributed Rs. 7,000. These amounts were distributed among the co-operative training institutes for meeting the cost of conducting the classes. The classes were discontinued from 1947 as both the State Government and the State Bank stopped their contribution.

307. *Provision in the Second Five-Year Plan.*—In the scheme included in the Second Five-Year Plan, the training proposed is

on a State wide basis to cover 1,800 panchayatdars drawn from 900 societies annually. During the Plan period 9,000 panchayatdars and members, from 4,500 credit societies are proposed to be trained. For the purpose of their training, the State is divided into two regions: one with Cuddalore as Headquarters will serve the needs of Madras, Chingleput, South Arcot, North Arcot, Salem, Tiruchirappalli and Tanjore districts and the other with Coimbatore as Headquarters will serve the remaining districts. Training will be given in 30 centres in each region at the rate of 1 to 5 centres in a district. There will be 60 centres for the entire district. Training will be given to 30 candidates at each centre for a period of seven days. Thus training will be given to 1,800 candidates in each year.

The teaching staff will consist of one Co-operative Sub-Registrar-Superintendent and two non-official lecturers for each region. One propaganda van with audio-visual aids, magic lanterns and films will be placed at the disposal of each region and this will move with the teaching staff and do propaganda work in and around the villages. Apart from the teaching staff, non-official co-operators will be invited to give lectures to the trainees. The Madras State Co-operative Union will be in charge of the scheme. The total cost of the scheme for the Plan period is Rs. 6.22 lakhs.

This scheme of education and training of panchayatdars combines with advantage, propaganda about the working of the movement in and around the centres where training is given to the panchayatdars and other trainees. The expansion of the movement contemplated in the next Plan period can be successfully implemented only if the persons in charge of the village co-operatives are fairly conversant with the purposes of the schemes as well as co-operatives. Besides, they need a working knowledge of these societies both in the administration and accounts sides. They should also be imbued with the right spirit if the village co-operatives are to function usefully as per expectation. Hence any money spent on education of the panchayatdars must be deemed to be well spent. Hence we recommend that the Government may arrange for the expeditious implementation of the schemes in this regard.

CHAPTER 21.

SET UP OF THE CO-OPERATIVE DEPARTMENT—AUDIT AND OTHER STATUTORY FUNCTIONS OF THE DEPARTMENT.

308. We briefly indicate below the departmental set up:—

The Registrar of Co-operative Societies, besides exercising all the powers of the "Registrar" under the Madras Co-operative Societies Act, functions also as the Head of the Co-operative Department. He is assisted by gazetted as well as non-gazetted staff,

some of whom are vested, in varying degrees, with the powers of the "Registrar" under the Madras Co-operative Societies Act, etc. The Joint Registrars who are invested with all the powers of the "Registrar", work in the Head Office, on a functional basis, with jurisdiction over all the districts.

At the Head Office, there are besides the Joint Registrars, a few Deputy Registrars (5 in number at present) each in charge of specified subjects functioning as gazetted assistants, Co-operative Sub-Registrars working as Managers, Junior Superintendents, Accountant, Senior Inspector-Superintendents, Junior Inspector-Clerks, Upper Division Clerks, Lower Division Clerks, etc. For technical work connected with the Milk-supply Societies and Unions, there are 2 Dairy Officers in the cadre of District Veterinary Officers and a number of Dairy Assistants, etc., work under them. Similarly for technical work connected with the jaggery societies, there is a State Palm Gur Organizer who is a gazetted officer assisted by a number of Palm Gur Instructors who, however, work under the immediate control of the Deputy Registrars in the circles. For checking plans and estimates relating to housing societies, there are 2 Public Works Department Supervisors. There is also a Deputy Tahsildar of the Revenue Department to attend to work relating to land acquisition by the Co-operative Housing Societies. (Till about a year back there was a Deputy Collector for this work.)

The districts except Madras and Nilgiris have been bifurcated into two circles and all these circles and the 2 districts referred to, are each in the charge of a Deputy Registrar. The Deputy Registrars have been empowered to function as "Registrar" under the Madras Co-operative Societies Act except in regard to the following sections:—43 (Supersession), 44 (Liquidation), 51 (5) (revision of awards) and 57 (modification or reversal of the proceedings of subordinates).

Each Deputy Registrar in charge of a circle is assisted by a number of Co-operative Sub-Registrars (3 or 4 according to the volume of work in the circle) who have also been delegated with certain powers of the "Registrar". [Under sections 15, 32 (1), 37, 38, 39, 41, 51 (2) and (3) and 57 (A).] The Co-operative Sub-Registrars work on a functional basis. Below them, for office as well as field work there are Senior Inspectors and Junior Inspectors and other staff. The Senior Inspectors and Junior Inspectors attend to work connected with the co-operative societies such as audit, execution, liquidation, inspection, etc.

The Co-operative personnel fall mainly under two services: (1) The Madras Co-operative Subordinate Service and (2) The Madras Co-operative Service.

- (1) Madras Co-operative Subordinate Service —
Co-operative Sub-Registrars.
Senior Inspectors.
Junior Inspectors.
Dairy Assistants.
- (2) Madras Co-operative Service—
Joint Registrars.
Deputy Registrars.

Qualifications.—The age and educational qualifications, etc., which are now in force do not, in our view, require any modification, except as regards recruitment of Junior Inspectors from non-official co-operative staff.

309. Method of recruitment.—The method of recruitment for the various categories is as follows:—

Junior Inspectors.—Direct recruitment or by promotion of clerks in the Co-operative Department.

Senior Inspectors.—Direct recruitment or by promotion of Junior Inspectors.

Co-operative Sub-Registrars.—Direct recruitment or by promotion of Senior Inspectors.

Deputy Registrars.—Direct recruitment or by promotion of Co-operative Sub-Registrars.

Joint Registrars.—By promotion from Deputy Registrars.

The proportion prescribed for direct recruitment to promotees against permanent vacancies, is as follows:—

Category.	Direct recruitment.	Promotion.
Senior Inspectors	1	2
Co-operative Sub-Registrars	2	3
Deputy Registrars	1	2

The total number of posts in the categories mentioned above is as follows (as on 31st March 1955):—

	Number of posts.		Total.
	Permanent.	Temporary.	
Junior Inspectors	*	*	664
Senior Inspectors	168	658	826
Co-operative Sub-Registrars	64	102	166
Deputy Registrars	23	19	42

As the number of posts in the category of Senior Inspectors is more than the number of posts of Junior Inspectors, Junior Inspectors are assured of promotion fairly quickly. The number

* Separate figures as on 31st March 1955, not immediately available]

of Co-operative Sub-Registrars is only about one-fifth of the number of Senior Inspectors and the number of Deputy Registrars is only about one-fourth of that of the Co-operative Sub-Registrars. The chances of promotion for the Senior Inspectors and Co-operative Sub-Registrars cannot, therefore, be said to be adequate. It has been suggested that the proportion of direct recruits to promotees should be reduced for the following reasons :—

(i) A Senior Inspector will normally take about 10 years to get promoted as Co-operative Sub-Registrar and such a promotee will not normally expect to be promoted to the post of a Deputy Registrar in view of the comparatively smaller number of posts in the category of Deputy Registrars.

(ii) The minimum qualifications for direct recruits to the posts of Senior Inspectors, Co-operative Sub-Registrars and Deputy Registrars is generally a degree in Arts, Science or Commerce, although preference is given to persons with higher qualifications. When a person in the lower category, possessing the necessary qualifications for appointment to a higher post, is not able to reach the higher post, after serving in the lower category for a fairly long period, he gets a feeling of frustration.

(iii) Due to the fact that promotions under the existing arrangement come late in life, promotees who have served as Co-operative Sub-Registrars or Deputy Registrars for a long period have not been able to get confirmed in the higher categories in view of the limited number of permanent posts reserved for them. Some specific instances have been brought to our notice in which promotees as Co-operative Sub-Registrars or Deputy Registrars who have served in these capacities for 8 to 10 years had to retire on smaller pensions, based on the permanent posts held by them in the lower categories.

About the necessity for the selection of highly qualified young men, as direct recruits in the higher levels, with a view to infuse fresh blood, there can be no two opinions. However, in the light of the hardships brought to our notice, we think that a slight reduction in the proportion of the direct recruits to promotees will help the promotees without impairing the purpose underlying direct recruitment. We, therefore, suggest a modification of the proportion as indicated below :—

Categories.	Proportion recommended.	
	Direct recruits.	Promotees.
Co-operative Sub-Registrars	1	3
Deputy Registrars	1	3

Training.—The training now given to the Co-operative Sub-Registrars and Deputy Registrars who are directly recruited does not include an academic course, as in the case of Senior Inspectors and

Junior Inspectors. It is desirable that Co-operative Sub-Registrars and Deputy Registrars directly recruited receive a course of theoretical training in the proposed training college.

310. **Pay scales.**—The pay scales now in force are as follows :—

Junior Inspectors	65—2—85—1—90.
Senior Inspectors	90—4—110—5—120.
Co-operative Sub-Registrars	150—5—200.
Deputy Registrars	230—30/2—260—40/2—500—50/2—700.

It has been stated that the present scales require to be enhanced on the following grounds :—

The duties of a Co-operative official are onerous and varied. He has to serve as the friend, philosopher and guide of the movement. He has to enlist the support of non-officials for the numerous co-operative schemes launched from time to time. For this, he must have not only initiative but also organizing capacity. He should learn the art of moving with the public without exhibiting a spirit of authority and patronage and without losing self-respect. He has to get things done by propaganda and persuasion, without the aid of the prestige and power enjoyed by certain other Departments. He has got to be very considerate and tactful even while discharging essential statutory functions, so as not to scare away persons. At the same time, he has to discharge his duties without fear or favour.

Taking into consideration the above facts, the Registrar has recommended an enhancement of the scales of pay of the Junior Inspectors, Senior Inspectors, Co-operative Sub-Registrars and Deputy Registrars. We feel that an enhancement of the pay scales will, besides encouraging the existing staff to do better work, attract qualified and talented young men who are said to prefer certain other Departments generally. We generally support the proposal of the Registrar without going into the details of the scales proposed, as it is a question which has to be decided by the Government with reference to their financial resources, general policies, etc. However we urge that the minimum pay of the Junior Inspectors and Senior Inspectors may be raised to Rs. 75 and Rs. 100 respectively and the maximum pay of the Senior Inspectors may be raised to Rs. 140.

The Madras Co-operative Subordinate Service Rules permit the recruitment of Junior Inspectors, from among supervisors of Co-operative Societies with certain qualifications prescribed therein and with experience of at least five years as supervisors. The maximum age-limit is fixed as 80 years. This special provision in the rules is in the interest of both the department and the supervisors. It is beneficial to the department because it secures the

services of trained personnel; while for supervisors, it gives an opportunity to better their prospects. While this provision is thus a very useful one we are of the view that it is not adequate. Elsewhere we have emphasised the need for opening up avenues for promotions for the supervisors of the Central Banks, with a view to encourage them to turn out more efficient work. We recommend that a certain percentage of the number of Junior Inspectors recruited directly—say 25 per cent—might be reserved for supervisors of Central Banks. The age-limit may be raised to 32 instead of 30. The educational qualifications prescribed for them may remain as they are. In this connection, we feel that other non-official employees of Co-operative institutions, who have similar qualifications and have served for at least 5 years in co-operative societies, may also be made eligible for selection as Junior Inspectors.

311. *Territorial Scheme.*—In a few districts of the State, viz., Madurai, Ramanathapuram, Tanjore and Malabar "Territorial system" of departmental staff (which was introduced in 1939) is in force; that is to say, the Junior Inspectors other than auditors, work on a territorial basis and not on a functional basis as in other districts. An Inspector is in charge of supervision and inspection and attends to work relating to arbitration, execution, liquidation, etc., in his jurisdiction. The experiment has not yielded the expected results, viz., toning up the working of the societies in their areas and a more efficient and quicker discharge of statutory duties such as execution, liquidation, etc. This view point has been endorsed by the conference of the Deputy Registrars held in June 1955. The resolution reads as follows:—

"The conference is of opinion that the territorial scheme has not been of advantage in improving the quality and quantity of statutory functions such as arbitration, execution, liquidation work, etc., and that, therefore, the territorial scheme may be discontinued, even in districts where it is in force now."

The Registrar is also of the same view.

As this scheme has been tried for a fairly long time and found wanting, we agree with the Registrar and recommend its abolition.

We would, in this connexion, refer to a suggestion made by a non-official co-operator that the staff of the Co-operative Department may be reorganized on a territorial basis, with an inspector for a firka and a Co-operative Sub-Registrar for a taluk to attend to all co-operative work in their areas except audit. He has also suggested the reorganization of agricultural credit societies in a firka into a firka bank (which will deal with marketing of produce also) and the abolition of supervising unions, etc. The advantages claimed for this arrangement are that a lot of time and energy of the officers will be saved by the elimination of unnecessary travel

by several officers to the same place, that there will be greater co-ordination between the co-operative officers and the corresponding local officials of the Revenue, Agricultural, Veterinary Departments, etc., and that more efficient supervision and control could be exercised over the working of societies. We have already referred to the "Territorial Scheme" now working in four districts and recommended its abolition. The experience of the department in the working of the territorial system in the four districts in which it is already in force does not encourage its adoption—much less extension;—the system will not in any way be conducive to better or quicker outturn of work. Further, the posting of a Co-operative Sub-Registrar for each taluk will involve the creation of a small office for him with the necessary staff. He will become an intermediate officer between the Deputy Registrar on the one hand and the inspectors and the societies on the other, leading to unnecessary correspondence and avoidable delays in the day-to-day administration. The cost of administration will also become much more than what it is by the creation of a number of new offices at taluk centres. The present arrangement is a happy blend of both the territorial and functional systems. The Deputy Registrar is a territorial officer, while his subordinates generally work on functional basis. We do not, therefore, think that any radical change in the organizational set up of the department in the districts is called for.

312. *Lending the services of officers of the department to the co-operative institutions.*—We may here refer to a feeling among some co-operators, that the practice of deputing departmental men to co-operative institutions to work as secretaries or managers, is not wholesome. We find that during the years 1953-54 and 1954-55, 163 and 164 departmental officers respectively were in the services of the co-operative institutions. These officers on "Foreign service" included Junior Inspectors, Senior Inspectors, Co-operative Sub-Registrars and Deputy Registrars. In the long term interests of the institutions, it is desirable that such deputation is discouraged. We suggest that the additional remuneration of 25 per cent of the pay which, we understand, is usually paid to the deputed officers, may be reduced to 20 per cent. The service rules may, if necessary, be amended limiting the additional remuneration to 20 per cent of the officer's pay in respect of deputation of the officers of the Co-operative Department to co-operative institutions.

An officer should not be deputed to the same institution on foreign service ordinarily for more than two years. On no account should a person be on deputation in the same institution for more than three years.

Adequacy of the Staff.

313. *Audit staff.*—In the paragraph relating to audit in this Chapter, we have explained the inadequacy of the staff now employed and recommended an increase in their number.

Staff for the supervision of Employees' Societies.—So far as employees' credit societies in the Madras City are concerned, Government have sanctioned recently a post of Co-operative Sub-Registrar for inspection of these societies. The Registrar has suggested that in districts where the number of employees' credit societies exceed 30, similar posts may be sanctioned for supervision. There is now no regular supervision over the working of these societies which are 503 in number in the whole State. We commend the suggestion of the Registrar.

Staff for supervision of Milk Supply Societies.—We have recommended an increase in the supervisory staff in Chapter 13 relating to milk supply societies.

Staff for supervision of Stores Societies.—A Co-operative Sub-Registrar for supervision of stores is now given charge of generally 30 stores societies and a Senior Inspector 25 stores. It has been suggested that, with a view to ensure frequent visits and intensive supervision over these societies, the number of stores in the charge of each Co-operative Sub-Registrar and Senior Inspector may be reduced and the staff correspondingly increased. Having regard to the fact that the supervisory staff are expected to visit each stores once in a quarter normally, we think that the present standard of the staff is adequate.

Staff for supervision of Fishermen Co-operative Societies.—We have recommended an increase in the standard of supervisory staff employed, in Chapter 18 on Fishermen Co-operative Societies.

Staff for the supervision of Jaggery Societies.—Usually there is now one Senior Inspector for every 20 jaggery societies but in some districts like Malabar, South Kanara and Tirunelveli the number of societies in charge of a Senior Inspector is less. The present standard is alright and no change is called for.

Staff for supervision of Land Mortgage Banks and scrutiny of loan application.—There is now one Co-operative Sub-Registrar for every three land mortgage banks. We have recommended in Chapter 10 on Land Mortgage Banks that a Co-operative Sub-Registrar may be placed in charge of only two land mortgage banks and the number of Co-operative Sub-Registrars proportionately increased.

314. *Statutory functions of the department.*—The important functions of the Department under the Madras Co-operative Societies Act, are besides registration of societies, audit, arbitration, supersession and liquidation. We deal below with the problems relating to them.

315. *Audit.*—Audit is a statutory obligation of the Registrar, under section 37 of the Madras Co-operative Societies Act. Audit is intended to safeguard the interests of members and creditors, and to ensure that the society is working and developing on sound lines, in accordance with co-operative principles.

Different kinds of audit.—Co-operative audit is of several kinds such as concurrent audit, interim audit, final audit and test audit.

Concurrent audit is one in which the audit staff are continuously engaged in auditing the accounts of institutions throughout the year or in monthly or quarterly intervals. This kind of audit is usually undertaken in big societies such as central banks, wholesale stores, etc., where the work involved is considerable and where it will be disadvantageous to postpone audit, till the end of the year. Interim audit is conducted between two final audits. During the interim audit, with the exception of the preparation of the balance sheet, and profit and loss account, the other aspects such as the checking of accounts, investigation into administrative matters, preparation of a statement of receipts and charges, etc., are attended to. Usually interim audit is done in the village credit societies. Final audit is the statutory annual audit, involving the closing of accounts for the year and the preparation of the receipts and charges statement, Balance sheet, Profit and loss account and verification of assets and liabilities. Test audit is the audit conducted by the Deputy Registrar or the Co-operative Sub-Registrar to test whether the auditors have done the work properly.

Staff for audit.—The audit of co-operative societies is done generally by departmental officers consisting of Junior Inspectors, Senior Inspectors and Co-operative Sub-Registrars. In exceptional cases, private audit is allowed. Usually village credit societies are audited by Junior Inspectors and other types of societies including central banks by Senior Inspectors and in some cases by Co-operative Sub-Registrars. Individual societies or groups of societies sometimes take the services of officers under Fundamental Rule 127 exclusively for the audit of their accounts at their cost. Government have sanctioned a specific number of posts under Fundamental Rule 127 in advance and the Registrar has been empowered to make appointments subject to the maximum strength sanctioned under each of the categories.

The sanctioned strength of the staff for audit is as follows :—

Category of staff	Category strength	Under Fundamental Rule 127
Junior Inspectors	282	15
Senior Inspectors	127	250
Co-operative Sub-Registrars		20

Of the staff shown under Fundamental Rule 127, the number actually employed as on 30th June 1955 was as follows :—

Co-operative Sub-Registrars	12
Senior Inspectors	232
Junior Inspectors	11

Private audit.—Audit of big institutions like the Madras State Co-operative Bank, the South India Co-operative Insurance Society, etc., is being done by private auditors. Private auditors are of two categories, Chartered Accountants and retired Officers of the Co-operative Department. They are authorized by the Registrar under section 37 of the Madras Co-operative Societies Act to audit the accounts of co-operative societies subject to the following conditions :—(a) That the resolutions of the general body or the Board of Directors choosing the auditors are communicated to the Registrar and his previous approval obtained by the society and (b) that the auditor or the firm of auditors submit the audit report in the form prescribed by the Registrar and also submit all such returns and statements as he may prescribe and furnish him with such information, as he might require at any time.

Every year the Registrar draws up a panel of private auditors consisting of Chartered Accountants and retired Co-operative Officers who may audit co-operative societies.

Audit by Audit Unions.—Audit is also done in a few cases through what are called audit unions, which are co-operative societies, formed specifically to arrange for the audit of their affiliated societies. There are only two co-operative audit unions in the State, one at Madurai and the other at Coimbatore. They take the services of auditors from the Department under Fundamental Rule 127 and collect their cost proportionately from the affiliated societies.

316. *Separation of audit from administration.*—The question of separation of audit from administration has been engaging the attention of co-operators and the Government for the last 15 years. In 1940, the Madras Committee on Co-operation examined this question and recommended that the entire audit staff of the department should be constituted into a separate branch and that there should be a distinction right through between the audit and administrative branches, except in the person of the Registrar who will be the head of both the branches. The Committee recommended that the State should be divided into audit circles, each circle having about 1,000 to 1,200 societies in the charge of a circle officer of the grade of a Co-operative Sub-Registrar who will control the audit staff of the circle and issue the audit certificates of all the societies except the central banks. The Committee further recommended the appointment of a chief audit officer of the grade of a Deputy Registrar with necessary staff, to work under the control of the Registrar and to issue audit certificates of all central banks and provincial societies.

The All-India Co-operative Planning Committee (1945) have expressed the opinion that though audit should continue to remain the statutory responsibility of the Registrar, the practice of combining the functions of audit and supervision in one person was

undesirable and that it was likely to lead to inefficiency because if the person who supervised the working of the society also audited its accounts, many defects in its working were likely to remain undisclosed. The 15th Registrars' Conference held at Madras in 1947 endorsed the recommendation of the Planning Committee and resolved that audit should be entrusted to a special staff working directly under the Chief Auditor and the Registrar. The Rural Credit Survey Committee has expressed the view that (where there is a Development Commissioner), the Chief Auditor of the Co-operative Department should be responsible to him and not to the Registrar of Co-operative Societies.

In 1949, Government ordered that the scheme of separation of audit from administration within the Co-operative Department might be given a trial for a period of 3 to 5 years. At the instance of the Government, the Registrar submitted detailed proposals regarding the staff required, cost, etc. The proposals were for the appointment of a Chief Auditor in the grade of a Joint Registrar, four Regional Audit Officers in the grade of Deputy Registrars and District Audit Officers in the grade of Co-operative Sub-Registrars, at the rate of one for each district. The matter was under correspondence till the end of 1949 when the Government ordered that the introduction of the scheme might be deferred due to financial considerations.

In August 1954, the question of entrusting co-operative audit to an outside agency was raised by the Government after some correspondence with the Registrar. The Government ordered that the question of separation of audit from administration might be referred to the present committee.

We see from the replies and evidence received by us that most of the views expressed are in favour of separation of audit from administration, while a few have suggested the desirability of continuing the present arrangement. Those who want separation of audit from administration have generally adduced the following grounds :—

(i) Separation of audit from administration is a well recognized principle in Government Departments. For instance, the audit of local bodies is done by the local fund audit department which is an independent department. Unless audit is done by an independent agency, it is likely to be susceptible to the influence of administrative officers.

(ii) In the present arrangement, there is delay in the completion of audit and the issue of audit certificates.

(iii) If audit is separated, the officers in charge of administrative work will have more time to devote to the development of

co-operatives in their area. Similarly, the officers in charge of audit can concentrate their attention and ensure speedy and efficient audit.

(iv) The Deputy Registrar of Co-operative Societies who is the controlling authority of the auditors in the districts has to be rigorous with the honorary workers of the movement in the discharge of his duties on the audit side. But in his administrative capacity, as one charged with the responsibility of initiating schemes starting new societies, etc., he has to be persuasive and secure the co-operation of the generality of the non-officials in the districts. Otherwise the developmental side of the work will suffer. It is rather delicate and embarrassing for the same person to combine in himself such divergent duties.

(v) There are co-operative institutions in which officers of the department work as the chief executive officers. When audit of these institutions is done by co-operative officials—especially those who are lower in rank than those who are in charge of the institutions, it cannot be said to have an independent character as the auditors may not act without fear or favour.

(vi) Many important non-credit institutions such as weavers' societies, stores societies and milk supply societies are supervised by the Deputy Registrar through a special staff of inspectors. If the audit of these societies is done by another set of inspectors under the control of the same Deputy Registrar, such an audit may not be objective in character.

We proceed to deal with the various arguments mentioned above :

(i) Though on principle a case can be made out for separation of audit certain misconceptions in this regard have to be cleared. It is taken for granted that the Department is administering the societies and that audit should not, therefore, be in its hands. The question is whether the officers of the Co-operative Department are themselves administrators of co-operative societies that is to say, whether they themselves manage the societies by writing their accounts, receiving and disbursing their moneys, etc. Co-operative societies are independent entities with a constitution of their own. Their executive management is in the hands of their governing bodies and their day-to-day administration is in the hands of their own paid officials (where these are employed). An auditor has no handicap in disclosing the defects and he will in no way displease his higher officer by doing so as the latter is not concerned with the day-to-day administration of the society. It has to be mentioned that the Co-operative Department administers only the provisions of the Madras Co-operative Societies Act in relation to the working of co-operative societies and does not administer the societies themselves. Administration of societies is in the hands of their elected committees and their paid officers if any. This

sounds plausible. No nice distinction can however be drawn between administration by the Departmental officers and that by the societies themselves. They are both in practice identical.

(ii) The delay, if any, in the present arrangement, can be remedied even without separating audit from administration. Delay could be due to lack of adequate staff, and separation by itself will not be a remedy for such a state of affairs. But it should not be forgotten that separation will ensure that the auditors will not be detailed for administrative duties. As such, delay in audit will be avoided.

(iii) There is some force in this argument. The Deputy Registrar can devote more time to the developmental side of the cooperative movement in the district if he is relieved of the responsibility towards audit. The Co-operative Sub-Registrar who is in charge of audit work in the office of the Deputy Registrar is also saddled with a number of other items of work, with the result, he is not able to devote sufficient time to watch and control the work of auditors and to take prompt measures to ensure satisfactory progress in audit. If there is an officer solely charged with audit work alone, it will of course be possible to ensure more speedy and efficient audit.

(iv) We are inclined to think that there is some force in this argument also. A large number of co-operative schemes, especially during the period of the Second Five-Year Plan, has to be worked in the districts and their successful execution depends on the extent to which the Deputy Registrars are able to secure the co-operation of non-officials. The attitude of the officers has to be of the kind which will secure the utmost co-operation of the non-officials. This will not always be possible when the Deputy Registrar has to deal with the non-officials as the principal audit officer of the district also, for the co-operatives.

(v) There is substance in this contention. Though the number of institutions in which departmental officers are working is comparatively small, it is desirable that the audit of such institutions is done not by officials who are subordinate to them in rank in the Department.

(vi) So far as non-credit societies such as stores, weavers' and milk supply societies are concerned the responsibility for supervision ultimately rests with the Deputy Registrar. His supervision is exercised through a special staff of Senior Inspectors and Junior Inspectors. It is likely that occasions might arise when the auditors find it embarrassing to disclose defects which might cause a reflection on the kind of ultimate supervision exercised by the Deputy Registrar. This cannot be ruled out as a mere possibility.

On a consideration of the arguments advanced both for separation and the continuance of the present arrangement, we have to state that the question cannot be decided purely on an a priori

basis. Three important points arise in this connexion, viz., (i) There is necessity for timely, prompt and effective audit. (ii) There should be no misapprehension, well-founded or otherwise, in the minds of the public that the auditors are likely to be swayed by the bias or inclinations of their superiors; and a feeling of confidence should be engendered in the auditors that they could discharge their duties impersonally and fearlessly, without displeasing their superiors. (iii) Any reorganization should not lead to a situation in which the efficiency and prospects of the present audit staff will be undermined. In a service, there should be always adequate opportunities for promotion, if the officers thereof have to discharge their duties efficiently. Having regard to these factors and to the weighty recommendations of the bodies referred to earlier, we make the following suggestions in the hope that it will bring about a compromise between an audit totally independent and an audit which will not take away the ultimate statutory responsibility of the Registrar for audit, in the interests of efficient administration.

The reorganization may be generally on the following lines:—

(i) There should be a Chief Audit Officer with the powers of the Registrar under section 37 of the Co-operative Societies Act. He should be a Senior Officer of the Indian Audit and Accounts Service and not an Officer of the Co-operative Department. We are making this suggestion to create a feeling in the minds of the public that the Head of the Audit wing of the Department is really an independent functionary.

(ii) The entire staff of Junior Inspectors, Senior Inspectors and Co-operative Sub-Registrars should be divided into two, audit staff and the administrative staff and they should be kept separate.

(iii) The auditors in the district should be under a District Co-operative Audit Officer of the grade of a Deputy Registrar responsible to the Chief Audit Officer.

(iv) The District Co-operative Audit Officer should check and issue the audit certificates of all societies other than those for which certificates are to be issued by the Chief Audit Officer (referred to above). He should also do the test audit of a percentage of the societies.

(v) The Chief Auditor should be in charge of the audit for the entire State and virtually work as an independent officer as far as audit is concerned, though the Registrar is not relieved of his overall responsibility. The Chief Auditor should issue the audit certificates of the State Co-operatives, Central Banks, etc., review the progress of audit from time to time and generally control the work of audit staff through the District Audit Officers.

So far as Junior Inspector Auditors are concerned, their prospects of promotion as Senior Inspector Auditors in the Audit wing, cannot be said to be inadequate; but the same thing cannot be said of Senior Inspectors, Co-operative Sub-Registrars and Deputy

Registrars in this wing in the proposed set-up. As such meagre prospects will tend to impair the efficiency of audit, we feel that they should be made eligible for promotion to posts of Co-operative Sub-Registrars, Deputy Registrars and Joint Registrars, arising in the department as a whole.

Regarding the number of Deputy Registrars required for work other than audit and the staff required for them, consequent on the reorganization suggested by us, we do not make any recommendation though we think it must be possible to effect retrenchment. This question may be settled in consultation with the Registrar, with reference to the nature and quantum of work in the districts; likewise, the staff required for the Audit wing of the department may be settled by the Registrar and the Chief Auditor.

The Audit staff should be adequately and properly trained. No temporary hand should be appointed to audit work.

317. *Adequacy of Audit staff.*—The basis on which co-operative societies are allotted for audit among the audit staff is as follows:—

(i) Agricultural credit societies	50	per auditor.
(ii) Primary Stores	20	"
(iii) Weavers' societies, Marketing societies, Milk-supply societies.	25	"
(iv) Other special types of societies	20	"
(v) Depots and branches	12	"

Agricultural credit societies are entrusted to Junior Inspectors for audit. It is stated that in practice a Junior Inspector is unable to complete the final audit of 50 societies within the prescribed period of six months (the remaining period of six months in a year being taken up for interim audit). The volume of transactions or business of societies has been increasing during the last decade except in the case of stores with the result that the auditors are unable to cope with the work entrusted to them and the audit is dragged on till the end of February and March of the succeeding year. It is, therefore, necessary to revise the existing standards by reducing the number of societies in charge of each auditor. The Registrar has suggested that the standard in the case of (i) agricultural credit societies may be reduced from 50 to 45 and (ii) marketing societies, weavers' societies and milk supply societies from 25 to 20. In the interests of efficient audit, we support this suggestion.

318. *Audit fees.*—Societies coming under the scope of rule XI which do not employ approved private auditors or have not taken the services of (Co-operative) departmental auditors exclusively by paying for their costs under Fundamental Rule 127 are audited by the regular audit staff of the department. Audit fees are charged in these cases under rule XI of the rules framed under the Co-operative Societies Act in accordance with the scales prescribed by

the Registrar with the previous approval of the Government. The basis of levy of audit fees is the time taken for audit. The following is the scale of audit fees now in force :—

	Fees per diem. RS. A. P.
(i) Central Banks	
(ii) Urban banks with a working capital of Rs. 1 lakh and over	
(iii) Societies other than Central and urban banks whose working capital or the value of whose purchases, sales or articles or goods produced as the case may be in the co-operative year is rupees one lakh or over.	7 0 0
(iv) Urban banks with a working capital of less than Rs. 1 lakh and other type of societies liable to pay fees under the rules	5 4 0

Certain types of societies are exempted from the payment of audit fees under rule XI on grounds of their infancy or in consideration of the class of people they benefit. Rule XII of the rules under the Madras Co-operative Societies Act lays down that societies which do not pay a charge for their audit to the Government as per rule XI or which do not have its accounts audited at its own expense, shall set apart 10 per cent of its net profits to an Audit Fund every year, after setting apart the prescribed percentage of the net profits to the statutory reserve fund. This amount or the audit fee according to the scale prescribed whichever is less is payable to the Government. The scale of audit fee prescribed by the Registrar is as below :—

Class of societies.	Fees per diem. RS. A. P.
(i) All Agricultural societies with unlimited liability	5 4 0
(ii) All other types of societies whose working capital or the value of whose purchases, sales of articles or goods produced is Rs. 1 lakh or over.	7 0 0
(iii) All other types of societies whose working capital or the value of whose purchases or goods produced is less than Rs. 1 lakh.	5 4 0

Societies of which all the members or a majority of the members are Harijans, are exempted year after year by the Government from making any contribution to the audit fund or the audit fees prescribed as above.

There is also provision in rule XI for grant of remission of audit fees by the Registrar. It is generally admitted that cost of audit is a legitimate charge on the funds of a society. The cost of audit as a whole for the department is much more than the audit fees collected. Considering all these facts, we do not recommend any modification of the basis or scale of levy of audit fees.

319. *Audit Unions.*—There are two co-operative audit unions in the Madras State, viz., the Madurai-Ramanathapuram Co-operative

Audit Union and the Coimbatore Co-operative Audit Union, with jurisdiction limited to a compact area. The audit of the societies affiliated to these unions was hitherto conducted by the auditors appointed by them (Audit Union) from a panel of private auditors, mainly retired officers of the department approved by the Registrar. As the practice of authorizing private auditors, from among the retired officers of the Co-operative department, to audit co-operative institutions has recently been discontinued, the unions take departmental auditors and pay for their cost. As audit is got done through the departmental staff, there is no need for the continuance of the audit unions. The general view expressed in the replies received by us also is in favour of their abolition. The Registrar has also suggested their abolition and we support this view.

320. *Arbitration.*—Any dispute touching the business of a registered society (other than a dispute regarding disciplinary action taken by the society against a paid servant of the society) between the society and its members, several categories of persons, etc., referred to in section 51 shall be referred to the Registrar for decision.

Usually money disputes relating to primary credit societies are referred to honorary arbitrators and the important cases are taken up by the departmental officers. In the case of disputes between the society and past office-bearers, past servants, etc., the Deputy Registrars themselves take up the cases for disposal except cases against ex-employees of societies involving less than Rs. 250 which can be disposed of by the Co-operative Sub-Registrars. During the year 1954-55, 47,900 arbitration references were entertained and 58,100 references were disposed of (including those that were pending at the beginning of the year) and the percentage of disposal was 72.7. Of the total number disposed of as referred to above, 30,200 references forming 57 per cent was disposed of by the honorary arbitrators.

The following suggestions have been received by us with regard to the working of section 51 :—

(i) All disputes between a society and its employees should be disposed of only under section 51 of the Co-operative Societies Act and the Industrial Tribunal and Civil Courts should not have any jurisdiction on them.

(ii) The period of limitation for claims under section 51 (1) (c) is now prescribed in rule XV as two years from the date on which the act or omission with reference to which the dispute arose took place. The period of limitation should be increased to three years.

(iii) There is now no provision in the Act or rules empowering the Registrar to transfer the arbitration references entertained by the Deputy Registrar himself to the file of any other Deputy Registrar or arbitrator. A provision should be made to enable such a transfer.

(iv) There is now no provision empowering the Registrar to order stay of proceedings. A provision to this effect should be made.

The first suggestion has been made by the Madurai Mill Workers Co-operative Stores. We understand that there was a dispute between it and some of its employees consequent on the retrenchment of the latter, on the closing down of a mill which the society had taken on hire, that the employees took up the matter with the Industrial Tribunal and that the Tribunal overruled the objection of the society that the dispute came under section 51 of the Act and should be disposed of by the Registrar only. It has been represented to us that it is desirable always that such disputes are disposed of only under section 51 of the Co-operative Societies Act. The reasons adduced are that undue influence is sometimes brought to bear on the employees by some labour leaders and that the society is unnecessarily dragged into courts. Without going into this allegation, we agree with the suggestion that such disputes should be disposed of only under the provisions of the Co-operative Societies Act. Co-operative institutions are not capitalistic organizations. They are not actuated by the motive of profit in their dealings with the employees. The whole scheme of the Co-operative Societies Act is that a simple and inexpensive remedy should be provided for disputes touching the business of the society between the society and its members or its employees and that chances of unnecessary and costly litigations should be minimized. We would, therefore, suggest that the Industrial Disputes Act may be suitably amended, excluding from its scope, disputes touching the business of co-operative societies between the society and its employees. Section 51 may be amplified to bar all references by the parties concerned to the civil courts also, even in respect of disciplinary cases against employees, etc.

The reason adduced for the second suggestion to increase the period of limitation from two to three years is that acts of omission or commission are revealed only after the audit is over and audit certificates are issued which sometimes are delayed. The conference of the consumers co-operatives held in Tirunelveli (1953) expressed the view that this enhancement of the period of limitation was necessary. It might be stated that an ex-officer-bearer or ex-employee should not be kept in suspense for a long period regarding his contingent liability with reference to any act of commission or omission on his part. The increase from two to three years does not appear to be too long a period. Further, any act of omission or commission done at the beginning of a particular year will normally be revealed only in the later part of the succeeding year after the audit certificate is received. There may not be sufficient time to initiate action after making proper enquiries, taking legal opinion, etc. We, therefore, recommend that the period of limitation in such cases may be raised from two to three years.

We feel that there should be provision in the Co-operative Societies Act empowering the Registrar to order stay of arbitration proceedings or to transfer cases from the file of one Deputy Registrar to another. Suitable amendments are suggested in Chapter 24.

321. *Surcharge*.—If any officer or person connected with the organization or management of a society has misappropriated or fraudulently retained any money or other property of the society or been guilty of breach of trust in relation to the society, the Registrar may surcharge him under section 49 of the Co-operative Societies Act. This section does not enable the Registrar to surcharge the persons responsible for misapplication of funds or expenditure incurred by directors contrary to the Act, the rules or the by-laws of the society or any loss or damage caused to the society by their acts of commission or omission, without criminal intent. He can decide such cases only if the Committee of a society chooses to file an arbitration reference; but if they are interested in those responsible for the misapplication of funds, or if they themselves have misapplied the funds, it is unlikely that they will file an arbitration reference. We are proposing a new section 49 (A) in Chapter 24 empowering the Registrar to deal with cases of the kind referred to above.

The present section does not require the Registrar to give an opportunity to the persons on whom he proposes to pass surcharge orders to have their say before the orders are passed. The Madras Central Bank has suggested the desirability of making such a provision. We are suggesting a suitable amendment in Chapter 24.

322. *Supersession*.—If in the opinion of the Registrar the Committee of any registered society is not functioning properly he may, after giving an opportunity to the Committee to state its objections and after consulting the financing bank dissolve the Committee under section 48 of the Madras Co-operative Societies Act and appoint a suitable person or persons to manage its affairs. The period of supersession may be two years in the first instance but may be extended at the discretion of the Registrar; the total period of supersession should not, however, exceed four years on the aggregate. This is a useful provision which was introduced in 1932 when the provincial Act was passed. The following statement shows the number of societies under supersession during the years 1953-54 and 1954-55 :—

Year.	Number of societies under supersession at the beginning of the year.	Number of societies superseded during the year.	Number of societies restored to normal management.	Number of societies cancelled.	Number of societies under supersession at the end of the year.
1953-54	38	9	19	1	27
1954-55	27	16	15	1	27

Of the 27 societies that were under supersession on 30th June 1955, 6 were weavers' societies, 7 stores, 3 marketing societies, 3 urban banks, 2 land mortgage banks and the rest other kinds of societies.

It has been suggested to us by one of the central banks that provision should be made in the Act, empowering the Registrar to remove any member or members of the Committee. Under section 48 of the Act, the entire Committee alone can be superseded. It may, sometimes, happen that actually only one or two members of the Committee might be responsible for unsatisfactory management of the Society. The removal of such members alone, it is stated, will serve the purpose and is better than the removal of the entire Committee.

The Madras Committee on Co-operation (1940) also considered this question but they were of opinion that such a provision was unnecessary as it would cause friction and irritation between the department and the non-official co-operators and embitter their relations.

In our view, the supersession of a committee is brought about by the collective acts of omission or commission on the part of the Committee. Even if only one or two had been really responsible for this state of affairs, the others cannot be exonerated from their responsibility of contributory negligence, etc. If a provision for the removal of individual directors on the Committee is made, it will generally make the other directors of the Committee indifferent to the actions of the directors and there will be no tendency on their part to influence the actions of those who really run the society. Instead of the managing Committee taking the responsibility for the removal of undesirable office-bearers, the Department will have to take it. It is much better for the Department to deal with the Committee as a whole than to single out persons for removal. The latter course is likely to give more room for a feeling in the minds of the public that the orders of the Registrar in removing certain individuals is not wholly free. For all these reasons we do not recommend any change in the existing provision for supersession of the Committees.

323. Liquidation.—Under section 44 of the Act, the Registrar may order the dissolution of a society, if its affairs are beyond revival or redemption. On 30th June 1955, there were 560 societies under liquidation of which the affairs of 29 were pending for over ten years. The total assets to be collected from all the liquidated societies were Rs. 20 lakhs and the liabilities to be discharged Rs. 22.3 lakhs.

It has been suggested to us by a few central banks that they may be appointed as liquidators with a view to speed up the realization of assets in the liquidated societies indebted to them. We do not consider it desirable that the central bank which is itself

the creditor or one of the creditors of societies, should be appointed as liquidator with power to levy contribution orders on the ex-members, etc.

324. Execution.—Section 57 (A) of the Co-operative Societies Act empowers the Registrar and his subordinates to recover the amounts due to co-operative societies on the decrees, awards, etc., in favour of societies. The following statement shows the number of execution petitions received and disposed of by the department during the years 1953-54 and 1954-55 :—

	1953-54.	1954-55. (in hundreds.)
1 Number of Execution petitions pending at the beginning of the year.	163	231
2 Number of Execution petitions received ..	234	221
3 Total number of Execution petitions. ..	397	452
4 Number of Execution petitions disposed of during the year (including withdrawals by decree holders.)	166	203
5 Number of Execution petitions pending at the end of the year.	231	249
6 Percentage of pendency	58 per cent.	55 per cent.
7 Total amount involved in item 3 (Rs. in lakhs).	134.80	156.08
8 Amount involved in item 4 (Rs. in lakhs).	40.44	60.50

Appointment of Senior Inspectors as Sale Officers.—It has been suggested at the conference of the Deputy Registrars held in June 1955 that Senior Inspectors might be appointed as sale officers to execute the decrees instead of Junior Inspectors. It is stated that the Senior Inspectors being more experienced, will do this work better and show better progress than the Junior Inspectors. At present, the cost of the execution staff is met by the fees collected on execution petitions. The following statement shows the position with regard to the fees collected during the year 1953-54 and 1954-55 :—

Year.	Execution fees received.	Execution fees earned for services rendered.	Cost of Execution staff.	Surplus.
	RS.	RS.	RS.	RS.
1953-54	1,75,074	1,43,843	1,01,876	41,967
1954-55	1,99,073	1,63,045	1,28,256	34,789

We see that there is surplus of execution fees collected over the cost of the execution staff. In view of this fact and in view of the fact that the Sale officers have to discharge onerous and responsible duties under rule XXII, we suggest that Senior Inspectors only may be appointed as Sale Officers.

Delivery of possession of properties.—At present the purchasers of properties in co-operative sales are not given possession of the

properties by the Co-operative Department. The department issues sale certificates and purchasers have to go to civil courts to get possession of the properties if there is any trouble in getting possession. There has been a feeling among the co-operators that co-operative sales are not very popular owing to this difficulty. When once the department has undertaken these powers of execution of decrees it should not stop with mere sales, issue of sale certificates, etc., but should have the powers to put the purchasers in possession of the property. The previous Committee also considered this aspect and was of the view that such a provision should be made in the Co-operative Societies Act. We agree with this opinion. We recommend a suitable amendment in Chapter 24.

CHAPTER 22.

FRAUDS IN CO-OPERATIVE SOCIETIES AND OTHER MISCELLANEOUS SUBJECTS.

325. We would like to refer to an aspect in the movement which has received some publicity in the last few years—the one relating to frauds and misappropriations committed by the office-bearers and employees of co-operative institutions. During the calendar year 1955, cases of frauds were reported to the department in 134 societies involving a sum of about Rs. 8.30 lakhs; 13 out of these 134 cases were those in which the amounts misappropriated exceeded Rs. 5,000 each.

We give below a brief account of the big frauds committed in three societies in recent years :—

(i) In a credit society the Secretary is said to have misappropriated more than a lakh of rupees. He was charge-sheeted for misappropriation of Rs. 86,000 over a period of about five years from 1947. The misappropriation was committed chiefly by the following methods :—(a) Misappropriation of the repayments made by borrowers towards the redemption of jewel loans, by not issuing receipts to the parties and not bringing the collections of money to account. (The jewels were returned to the parties and so they were not keen on insisting on receipts.) (b) Issue of bogus jewel loans in the names of the Secretary's friends and dependents, without jewels actually being pledged; (c) Misappropriation of funds by issue of surety loans in the names of imaginary persons; loans against continuity mortgage bonds by forging the signatures of members, etc. The frauds were detected in audit in October 1953 and prosecution launched. The accused was sentenced to transportation for life in 1955 by the Sessions Judge. It is pending appeal in the High Court.

(ii) In a sale society, a director who was in charge of a branch godown, misappropriated funds to the tune of about a lakh of rupees over a period of about an year from 1946 to 1947. The *modus operandi* was to get loans from the Central Bank on false

certificates of the pledge of tobacco stock and issue fictitious loans. The fraud was discovered in 1948 on receipt of an anonymous telegram by the Deputy Registrar who caused investigation to be made. The accused in this case was sentenced to two years' rigorous imprisonment by the Sessions Judge in 1955.

(iii) In the Provincial Marketing Society now under liquidation, the paid Secretary and cashier committed misappropriation to the tune of nearly Rs. 2 lakhs over a period of about two years in 1951 and 1952. The frauds were detected in 1952 during an inspection. The chief methods through which misappropriation was committed was by showing credit purchases as cash purchases and by not bringing stocks to the stock register, etc. Proceedings were taken and the case ended in conviction of the Secretary and the cashier.

We find that the number of cases of misappropriation has generally been on the increase during the last 15 years as shown below :—

Year.	Number of cases.	Amount involved, Rs. IN LAKHS.
<i>Composite State.</i>		
1939-40	40	0.35
1949-50	74	3.02
1952-53	152	6.85
<i>Residuary State.</i>		
1953-54	106	5.14
1954-55	131	4.95

It is reported that on 30th June 1955, the total amount which remained to be recovered by societies out of sums involved in misappropriations was Rs. 23.45 lakhs. In the cases reported in 1953-54, 91 office-bearers and 61 paid employees were involved. In those reported in 1954-55, 79 office-bearers and 60 paid employees were involved, besides five departmental officers.

The total number of 106 and 131 cases in 1953-54 and 1954-55 related to various types of societies as shown below :—

	1953-54.	1954-55.
Rural credit societies	39	51
Stores	19	15
Weavers societies	17	8
Milk supply societies	5	4
Urban banks	6	32
Marketing societies	6	9
Other types of societies	14	12
	106	131

The increase in the number of such cases is perhaps due to the increased opportunities which the diversified expansion of the movement after 1940 afforded to unscrupulous persons. It cannot also be denied that the conditions created by the recent world war have led to a fall in the standard of moral values.

926. We give below extracts from judgments delivered by the criminal courts in some cases, so as to give an indication of the factors which usually facilitate the perpetration of frauds.

Extract from the judgment delivered in the case relating to the sale society referred to above.—"In this connexion, I cannot refrain from observing that the checking of stock by the Co-operative Departmental officials including the Central Bank officials and also the checking done by the Excise officials leaves much to be desired. The working of the sales society branch at . . . is a sad commentary which reveals the thorough inefficiency and incompetency of the officials concerned. It is time the Co-operative Department takes note of the defects in the working of the Act, so that suitable amendments may be made in the Act and by-laws for the successful working of the Co-operative Institutions. Nothing seems to have been done in proper time to avert a catastrophe in a matter involving thousands of rupees and the welfare of the society and the villagers who constitute the members thereof."

Extract from the judgment delivered in the case relating to the credit society referred to.—"There is evidence that, in successive years qualified auditors holding responsible posts, were auditing the accounts of the society, the audit on each occasion occupying several days. A verification of the jewels on hand with the jewel loan ledgers and the cash book would have readily unearthed the fraud; yet until P.W. 1's audit in 1953, none of the auditors chose to do so."

Extract from the judgment delivered in a case relating to a Co-operative Milk Supply Society.—"Before taking leave of this case I am constrained to remark that the affairs of the society has been thoroughly mismanaged by a set of inefficient and irresponsible people who have made a mess of everything and left matters in utter confusion and in a condition under which no successful investigation can be made to fix the responsibility on any individual. The person who, under the by-laws of the society, has been given the responsibility to keep the cash and remit the same to the accounts of the society as and when money is received has conspicuously suffered it to be handled and misused by the Manager which has resulted in squandering of a huge sum of public money and also he easily gets out of the picture pleading ignorance."

From the circumstances of this case, I am led to believe that the Act has got certain loopholes in it to allow dishonest people to thrive by making embezzlement of large sums of public money and escape punishment easily. It also seems to permit irresponsible

persons to be at the helm of affairs, to mismanage things in utter disregard of the by-laws made by them and when the matter gets out of control, resulting in a loss of public money, to plead blissful ignorance and get out of the picture easily without costing anything to them.

I feel it is high time that the provision of the Madras Co-operative Societies Act is amended in such a way as to make a particular office-bearer responsible for any loss as a result of mismanagement. This will effectively keep away the inefficient and irresponsible people from this field and will avoid public money being squandered as it has happened in the present case."

Apart from the general cause such as the lack of character on the part of the persons who happen to be office-bearers or employees of the institutions concerned in the misappropriation cases, specific causes which facilitated the commission of frauds are to be found in (i) the inefficiency of supervision, (ii) ineffectiveness of audit, (iii) indifference of the members of the Committee of Management who leave the entire affairs of the society to the chief office-bearers, without being watchful over the actions of the latter and (iv) indifference of the chief office-bearers themselves who fail to carry out the obligations imposed on them by the by-laws of the society.

(i) The supervision of village credit societies is done by the supervisors of the Central Bank, and supervision of non-credit societies is mainly done by the departmental staff. Having regard to the fact that misappropriation has occurred in village credit societies as well as in non-credit societies, it must be said that supervision on the part of both the agencies has been inefficient in some places. It is not as if the rules and instructions are not comprehensive enough; it is more the failure to adhere to the rules that has facilitated the commission of frauds or non-detection in time. For example, the issue of loans without stocks in a sale society would not have been resorted to if the supervisory staff had been discharging their duties conscientiously.

(ii) Ineffective audit has not a little contributed to the occurrence of frauds or to their non-detection in time. Indeed in some cases, misappropriation has been going on for a number of years, without their being brought to light in audit. In the case of audit, as in the case of supervision, it is more the failure of the audit staff to verify the securities such as jewels or verify the borrowers personally or obtain confirmation slips regarding the investments of the societies, that have been responsible for giving rise to frauds or for their non-detection over a long period.

(iii) & (iv) Though the by-laws of the institutions prescribe the duties and responsibilities of the directors and office-bearers, there is a tendency in some cases for the former to leave things entirely to the latter or for the latter to depend entirely on

the paid staff, without exerting to find out the position for themselves and exercise a close check on the doings of the employees. An instance of this kind has been pointed out in one of the extracts of the judgment given above.

It is said that with reference to the total number of societies and the number of persons engaged in the movement, and also with reference to the total working capital of all the societies, the number of persons involved in misappropriation or the amounts involved in misappropriation, cannot be said to be alarming. We do not think this is the proper approach to the subject. We should recognize the rot that has set in the movement and take measures to stop it in time, without taking a complacent attitude by comparing the quantum of frauds with the quantum of the moneys handled by the societies. The occurrence of frauds cannot also be explained away by pointing out to the expansion of the movement. What is required is only an effective check against possible abuses on the part of those who have access to the moneys, stocks and other properties of the societies, and a faithful adherence to the by-laws, rules, instructions, etc. We would, therefore, urge on the Department and the Central Banks to see to it that the supervisory staff of both and the audit staff of the former strictly carry out the duties and responsibilities enjoined on them. We are glad to note that the Registrar is alive to the situation and has issued necessary instructions to his subordinates and to the Central Banks regarding personal verification of borrowers, verification of securities, etc. If these instructions are closely followed and carried out in practice, we are sure the unhealthy trends noticed in the movement will disappear to a great extent.

We would in particular make the following suggestions :—

In detailing auditors to particular societies great care should be exercised to depute only competent persons to big societies having a variety of transactions and manned by influential persons for a number of years. Failure to do so has been responsible for the non-detection of huge frauds in some societies. Even when some societies are village societies so far as classification goes, some of them are so big that it is necessary for Deputy Registrars themselves to do at least test audit in such cases.

Auditors should not be frequently changed. They should be in charge of audit of the same institutions normally for a period of three years. Even if they go on leave, they should be reposted to the same circle.

Where it is established that the remissness or contributory negligence on their part has facilitated the perpetuation of frauds or their non-detection in time, adequate punishments should be meted out to them. The disposal of charges relating to such remissness on the part of auditors should be looked into specifically during inspection of the Deputy Registrars' offices and also other visits to the circles by the Registrar and Joint Registrars. When the

audit staff is constituted into a separate branch as suggested by us, the Chief Auditor may continue to implement the suggestions given above. We hope he will pay particular attention to the prevention of frauds, etc., in societies. The separation of audit may go some way in preventing these frauds.

We may here refer to the following suggestions which have been made to us for limiting the period for which the same persons could hold honorary office, etc., with a view to lessen the scope for committing frauds and facilitate their detection earlier :—

(i) The same person should not be continued in office beyond a specified period.

(ii) Office-bearers of primary societies should not be allowed to become office-bearers of supervising unions or financing banks.

(iii) It is necessary to prescribe minimum property, educational and share qualifications for the office-bearers of societies.

The first suggestion has been made in the hope that the restriction of the term of office would lessen the opportunities for concealing frauds committed by office-bearers over long periods. It is considered by some that if there is to be a break in holding office, the potential delinquent will hesitate to commit frauds, and even if he does, it will come to light earlier.

While we agree that the implementation of this suggestion will, to some extent, serve to realize the object in view, it may also prevent the institutions from having the benefit of the service of persons with ability and integrity—persons who have built up institutions and who are responsible for their flourishing conditions. The Committee is of the view that the balance of advantage is in not imposing any restriction in the term of office for them. It has to be noted that such unhealthy tendencies as may flow from the continuation of the same person in office for a long period can be obviated if supervision and audit are effective.

The second suggestion has been made with a view to ensure that supervisors who are in charge of societies whose office-bearers happen to be on the governing body of the union or Board of Management of the Central Bank, may discharge their duties without fear or favour. The Committee does not think that such wholesale restriction is in the interests of the movement. We wish however that some arrangement should be made by which the societies whose office-bearers happen to be on the governing bodies of the unions and on Boards of the Central Banks are effectively inspected and audited. We suggest that such societies are inspected once in a half-year by the Deputy Registrars or Co-operative Sub-Registrars. Such societies should be arranged to be audited by experienced auditors, if need be, by making special arrangements for this purpose.

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We do not recommend the third suggestion also. Some amendments to the Act and Rules may be necessary, but we had no time to consider them. It is worth pursuing whether a constructive criminal liability may be provided for by suitable amendments to the Indian Penal Code and the Co-operative Societies Act in cases of Presidents and Secretaries who plead ignorance of the rules or by-laws and plead innocence on the ground of their having entrusted the whole matter to the paid staff.

Miscellaneous.

327. Co-operative societies and the various statutes that affect their working (except the Co-operative Societies Act and the Land Mortgage Banks Act).

The Madras Shops and Establishments Act of 1947—This Act is intended to regulate the conditions of work in shops, commercial and other establishments, etc. It is applicable to all municipal and major panchayat areas. Government have exempted co-operative institutions from all the provisions of the Act subject to the conditions that the societies in which non-members are employed amend their by-laws on the lines of the special by-laws suggested by the Registrar relating to service conditions of employees, and also include the provisions of Chapters II, III, V and VII of the Act in their standing orders and exhibit them in their premises. (These chapters relate to business hours, holidays, health, safety conditions, payment of wages or salaries, deductions that could be made from wages or salary, etc.) Government have been extending the exemption to co-operatives from time to time, and according to the existing orders, the exemption will be in force till 13th October 1956.

The views expressed to us are unanimous that Government may permanently exempt the co-operatives from the provisions of the Shops and Establishments Act. As exploitation of any class of people is foreign to the very idea of co-operation and as service and not profit is the motor force of co-operative activities, there is ample justification for granting the permanent exemption asked for. As a measure of abundant caution, however, the exemption may be given subject to the conditions now insisted upon by the Government for granting temporary exemption.

328. *General Sales Tax Act, 1939*.—Government have given the following exemptions and concessions in regard to the levy of sales tax on the transactions relating to the co-operatives:—

(i) Milk supply societies need pay sales tax only at a single point, i.e., at the time of sale of milk to the actual consumers. No sales tax need be paid for sales of milk by the primary milk supply societies to their milk supply unions.

(ii) Jaggery societies need not pay sales tax on the palm gur produced and sold by them.

(iii) All sales effected by the cottage industrial co-operative societies, of articles such as carpets, cumbries, mats, baskets, pots, stone-wares, brass-wares and toys produced by the members of such societies are exempt from payment of sales tax.

(iv) Co-operative wholesale stores need not pay sales tax on their sales to the primary stores which are members of the former. (This exemption comes into effect from 1st April 1956.)

The Registrar has suggested that as the co-operative workshops for ex-servicemen in this State have not established themselves firmly and as they have to face competition from private institutions and individuals running such workshops, they may be granted exemption from payment of sales tax for a period of at least ten years to enable them to stabilise their position. The total sales effected by the co-operative workshops for ex-servicemen in this State amounted to Rs. 5.11 lakhs in 1954-55. The income by way of sales tax which the Government will have to forego will thus come to about Rs. 8,000 per year. All the workshops worked at a loss in 1954-55, and the total loss was Rs. 2.18 lakhs. The exemption suggested will, to some extent, encourage more sales and enable the workshops to stabilise themselves. We recommend that Government may grant exemption from payment of sales tax on the sales made by these workshops initially for a period of three years and the position reviewed thereafter.

We consider that there is no justification for the total waiver of sales tax in respect of all sales effected by all the co-operatives. The exemptions already granted and now recommended will, we think, suffice for the present.

329. *Factories Act, 1948*.—This is a Central enactment, applicable to the whole of India. It is designed to regulate the conditions in factories relating to health, safety, labour welfare, etc. "Factory" includes (a) any premises whereon 10 or more workers are employed and where manufacturing process is carried on with the aid of power, and (b) any premises whereon 20 or more workers are employed and where manufacturing process is carried on without the aid of power. Co-operative concerns also come within the purview of this Act. It has been suggested that the industrial co-operatives in which the interests of the employer and the employed are identical (i.e.) where the workers have organized themselves into co-operatives, they may be exempted from the operations of this Act. In a society where the workers are themselves their employees, they will not act against their own interests. We therefore suggest that such societies may be exempted from the operations of the Factories Act, except with regard to the provisions relating to the technical aspects concerning machinery, etc. Where, however, such organizations employ also non-member workers exceeding the minimum limits referred to above, this exemption need not be granted.

330. *Industrial Disputes Act, 1947.*—This is a Central enactment. It provides for the investigation and settlement of disputes in industrial concerns by a Special Tribunal.

We have suggested in Chapter 21, that so far as co-operative societies are concerned, the disputes between employee and employer should be settled under section 51 of the Madras Co-operative Societies Act, and the jurisdiction of the Industrial Tribunal should be excluded for the reasons given therein by amending this Act suitably.

331. *Payment of Wages Act, 1936.*—This is a Central Act. Under section 7 of this Act, only certain deductions are authorized to be made from the wages of an employed person. One of such authorized deductions is the payment to be made by the employer to co-operative societies approved by the State Government. In the case of deductions to be made by the employer from the wages of employees who are members of Employees' Societies, Government have been according the necessary permission in each case at the instance of the Registrar. No hardship with regard to the working of this Act has been brought to our notice.

332. *Employees' Provident Fund Act, 1952.*—This is a Central enactment. It provides for the institution of Provident Fund for employees in factories. It applies in the first instance to all factories engaged in any industry specified in Schedule I of this Act (factories engaged in the manufacture of cement, iron and steel, paper, etc.) in which fifty or more persons are employed, but the Central Government may, by notification in the official Gazette, apply the provisions of this Act to factories employing less number of persons also.

Provident Funds are instituted for the benefit of employees of several co-operatives including industrial co-operatives, wherever the institution can financially afford to do so. So far as industrial co-operatives are concerned, the workers who are their members have a stake in the finances of their co-operatives. As members, they are entitled to a share in the profits by way of bonus besides dividend on their shares. When their financial position permits, the societies institute the system of provident fund for the benefit of their workers. Anything done to force the pace of the adoption of provident fund schemes in co-operatives without reference to their financial capacity will result in jeopardizing the interests of the workers themselves. There are only a few industrial co-operatives in this State at present; and they have not established themselves firmly. In view of these reasons it has been suggested that it is necessary to grant exemption to the industrial co-operatives and other societies coming within the purview of this Act, from the operation of its provisions for a period of at least ten years from the date of their starting or from the date from which the Act becomes applicable to them, whichever is later, and permanent

exemption to those which have themselves instituted provident funds. No case of hardship by the application of the provisions of this Act to any co-operative society has however been brought to our notice. We think it will serve to eliminate the difficulties mentioned above, if before applying the provisions of this Act to any co-operative society, the Registrar of Co-operative Societies is consulted.

333. *Employees State Insurance Act, 1948.*—This is a Central enactment providing for certain benefits to the employees in the event of sickness, maternity, injury, etc.

It has been suggested that industrial co-operatives may be exempted from the provisions of this Act for a period of at least ten years from the date from which the Act becomes applicable to them. The Act has been extended to the Madras City very recently. It is too early to gauge its effects on the co-operatives. We would however suggest that before extending the provisions of the Act to any industrial co-operatives, the Registrar may be consulted.

334. *Co-operative societies for the benefit of proprietary concerns, partnership, etc.*—We have been asked by Government to consider whether non-co-operative organizations should be allowed to join together and form themselves into co-operatives. Non-co-operative organizations are mainly partnerships or joint stock concerns.

The object of a co-operative society is the promotion of thrift, self-help and mutual aid among agriculturists and other persons with common economic needs, so as to bring about better methods of production, better business and better living. But the principal objects of the non-co-operative organizations referred to above are quite different. The joint stock concerns are institutions for getting maximum dividends for shareholders. Profit making is their main object. There is generally no ceiling on individual share holdings, and transfers of shares are frequently allowed. An individual shareholder has as many votes as the shares held by him, in contradistinction to the practice in the co-operative society, where the principle of "one man—one vote" prevails. In other words in a joint stock concern humanity is subordinated to profits, whereas in a co-operative, profit is subordinated to humanity. The man and not the money counts in a co-operative. Subject to certain conditions, co-operatives provide for "open membership" which is not at all the case in capitalistic concerns. This vital difference is due to the fact that the former stands for "service" whereas the latter aims at "profits". As a consequence of this "open membership" capital appreciation is effectively avoided in co-operatives. In joint stock concerns, prospects of capital appreciation and getting a good dividend play a big part in influencing investments in share capital. In short, those institutions serve to promote the interests of a handful of well-to-do people while a co-operative society aims at the promotion of the interests of all its members including even the

poorest among them on the basis of equality. Taking for instance a co-operative match factory, there is no conflict of interests in it between the employer and the employees as the employees who are its members elect the Board of Management from among themselves, and the profits are distributed equitably among the employee-members according to the principles enunciated in the by-laws. But in a private match factory, the employees are only wage-earners—and they are nothing more than that. Therefore it will be singularly inappropriate to allow non-co-operative organizations, such as proprietary or partnership concerns to form themselves into co-operative organizations. It will tend to blur the objectives of co-operative societies and create erroneous impressions about the co-operatives in the public mind.

However, there need be no objection to admitting Devasthanams, Hostels, etc., which are not profit seeking institutions.

We have suggested an amendment to section 4 of the Co-operative Societies Act to register only such societies which have for their object the economic interests of members other than partnership firms and joint stock companies.

335. *Nomination by the Registrar to the Boards of Management of Co-operative institutions.*—The practice of nomination of directors by the Registrar to the committees of societies, has been on the increase in recent years—particularly in Housing societies where the by-laws provide for the nomination of directors for periods up to eight years. This course might be necessary and useful in the initial years of a society's working when most of the members may not know each other. But after a period of two or three years, members generally get to know one another and they should therefore be given the opportunity of electing their own representatives and to managing their own affairs through men of their choice. When the management is elected by the general body, it will be more responsive to the needs of the members. The members will also act with due sense of responsibility and co-operate with the Committee in a greater degree. Democratic management is the hall mark of a co-operative organization and if an institution can continue to work only with a nominated Board and cannot manage its own affairs otherwise, it must be said that there is something fundamentally wrong with it. We would therefore suggest that the practice of nomination may be resorted to only where it is absolutely necessary, and when provided for, the nomination may not be extended beyond the first term. The practice of nomination for the second and subsequent terms should be strictly discontinued.

336. *Privileges and concessions.*—The co-operative societies enjoy certain privileges and concessions under the Co-operative Societies Act as well as under the orders of the Government. We recommend that the existing privileges and concessions may be continued with the amplification suggested by us in the various chapters of our Report.

CHAPTER 23.

CO-OPERATION AND PLANNING—CO-OPERATION AND COMMUNITY DEVELOPMENT PROGRAMMES.

337. The First Five-Year Plan (1951-56) recognized co-operation as "an indispensable instrument of democratic planning, combining initiative, mutual benefit and social purpose." It envisaged a vital role to the co-operatives in improving the agricultural and industrial economy of the country. However, no major schemes of co-operative development could be included in this plan, as the emphasis was on major works like irrigation and electricity for paving the way for increased production. Now that this object has been largely achieved, the Second Five-Year Plan recognizes that "economic development along democratic lines offers a vast field for the application of co-operation in its infinitely varying forms." The building up of the co-operative sector as part of the scheme of planned development is one of the important objectives of national policy. Major schemes of co-operative development have been included in the Second Five-Year Plan of the State and there is now a great opportunity for the co-operatives to play their part in diverse directions such as augmenting production, increasing employment, ensuring social justice and developing cottage industries.

(i) Increasing Production.

338. Credit is indispensable for production. If the village credit societies provide adequate and timely credit to the agriculturists, it will go a long way in augmenting production. With a view to enable the village credit co-operatives to discharge this function efficiently, they are proposed to be reorganized into large-sized units according to a phased programme.

In addition to the village credit societies, there are other co-operative agencies in the rural sector to provide the credit needed by the agriculturists, Co-operative Marketing Societies, which are primarily intended for the sale of the agricultural produce of their members, also give short-term loans to them on the pledge of produce, to enable them to hold over the produce for a better market. There are at present 120 marketing societies and it is proposed to organise 30 more societies during the Plan period.

The land mortgage banks provide the long-term credit required by the agriculturists. There are now 73 land mortgage banks and it is proposed to start 25 new banks.

It is estimated that the loans hitherto issued by all these agencies amount to only 6 per cent of the annual credit needs of the rural population. The village credit co-operatives have covered 59 per cent of the villages and 28.5 per cent of the rural population (as on

30th June 1955). The Second Five-Year Plan envisages that the co-operative agencies in the rural sector will increase their services three-fold, i.e., they will gradually increase the amount of loans issued by them every year, and in the final year they will issue about Rs. 15 crores against Rs. 5 crores now issued by them. Seventy-five per cent of the villages and 50 per cent of the population would have been covered by that time and the credit supplied by them will be about 20 per cent of the total credit needs of the rural sector. The increased credit facilities thus made available to the agriculturists by the village credit societies and the land mortgage banks should necessarily lead to increased production as most of these loans will be issued for productive purposes such as purchase of seeds, manure or for meeting other cultivation expenses, improvement to lands, etc. The loans issued by the marketing societies and the other facilities provided by them such as the processing and sale of agricultural produce will have the effect of increasing production, as the increased prices, which the agriculturists are enabled to get for their produce, will provide an incentive to them to intensify their methods of production. In other words "better business" will lead to "better farming" and vice versa.

Apart from credit and other marketing aids to the agriculturists, the plan also envisages the organization of farming societies. Fifteen such societies are proposed to be formed, three of the collective farming type and the remaining twelve of the tenant farming type. These new farming societies are expected to bring under the plough about 7,000 acres of lands.

Dairying is mostly a subsidiary occupation for the agriculturists. An increase in the production of milk and milk products, besides augmenting the income of the agriculturists, provides nutritive food, and thereby contributes to the health of the nation. There are now 540 milk supply co-operatives in the State. The plan envisages the formation of 150 additional milk co-operatives. The present production is 40,000 Madras Measures per day. It is proposed to increase it by 50 per cent, i.e., to 60,000 Madras Measures per day in the course of the next five years.

There are now 1,576 jaggery manufacturing co-operative societies which produce about 28 lakhs maunds of jaggery per annum. The Second Five-Year Plan envisages an increase in their production by 2 lakhs maunds. Thus the total production will be 30 lakhs maunds in the final year of the Plan. The quality of palm jaggery is proposed to be improved by adopting improved methods of production and appliances.

In the field of handloom weaving, there are now 1.32 lakhs of looms within the co-operative fold. This is now roughly 25 per cent of the total number of looms within the co-operative fold. This is proposed to be increased to 2.62 lakhs which will be 50 per cent

of the total number of looms in the State. By the societies taking over the marketing of the cloth produced by the members and thus enabling them to be fully employed in production, production of handloom cloth will register a considerable increase.

In the field of housing, 5,000 tenements are proposed to be built through workers' co-operative societies under the industrial housing schemes; besides, 2,660 new houses under the urban housing schemes and 6,000 houses under the rural housing schemes are proposed to be built. One thousand five hundred houses will be constructed under the auspices of the weavers' co-operatives. Thus in all about 15,000 houses will be built in the next 5 years. By providing better homes to the people and increasing their comforts, the housing co-operatives will indirectly contribute to increasing production in various directions.

(ii) Increasing employment potential.

339. The various Co-operative Schemes included in the Second Five-Year Plan will increase the employment potential in the State. It is estimated that 2,300 skilled workers and 4,200 unskilled workers will be provided with work during the plan period for the construction phase, and that nearly 1,800 persons will be employed for technical work connected with the implementation of the schemes. In addition, the increase in credit and marketing facilities and subsidiary occupations such as dairying, farming, etc., to the agricultural population will provide them and their families fuller employment. It is estimated that co-operative farming societies envisaged in the plan will enable 750 landless persons to settle on the lands with their families and eke out a living. In the field of handloom weaving, the plan envisages that an additional 1.50 lakhs of looms will be brought within the co-operative fold in the next five years. Thus about 8 lakhs of weavers within the co-operative fold will be having more or less regular employment and means of maintaining themselves and their families. It is needless to say that agriculture will be diversified and intensified as a result of the provision of Rs. 15 crores every year as loans and better marketing facilities and will therefore provide more and fuller employment to large sections of agricultural population.

(iii) Social justice.

340. Co-operation is essentially a socio-economic movement. Distributive justice is the distinguishing hall mark of co-operation and hence it can be truly said that the achievement of social justice is the major purpose of the co-operative movement. Looking at the various schemes in the Second Five-Year Plan, it can be said that there are various ways in which this objective is sought to be realized. When the credit facilities to the agriculturists are increased by the co-operative agencies, it means considerable addition to their

income as the rates of interest charged by co-operatives are actually much less than those charged by the private money-lenders. Besides, the expansion of co-operative credit will also have a salutary effect indirectly on the money-lenders also by bringing about a reduction in the lending rates. In other words, money-lenders will be "co-operatised" to some extent. Further, the agriculturists will be increasingly emancipated from the virtual economic bondage, in which many of them find themselves, on account of their indebtedness to private money-lenders who are also traders, resulting in better prices for their produce. Co-operative sale of agricultural produce will similarly serve to transfer a part of the income, now derived by middlemen to the agriculturists. In the field of handloom weaving, increasing numbers of weavers will reap the full benefits of their labour as and when they are admitted into the co-operative fold. The provision of housing facilities will minimise possibilities of exploitation by landlords by way of exorbitant rents, etc., to an extent. By providing lands to landless labourers through farming societies, their conditions will be bettered. With the expected increase in the turnover by milk co-operatives, the producers of milk will get a better deal.

(iv) Development of Cottage Industries.

341. Co-operatives can play a vital part in the economic regeneration of our country through the expansion and development of cottage industries particularly handloom weaving, palm gur manufacture, etc. So far as handloom industry is concerned, liberal provision has been made for securing the admission into societies of large numbers of weavers by the grant of loans for taking share capital, provision of working capital, supply of appliances free or at concessional rates, opening of depots and emporia, payment of rebate to consumers on their purchases, etc. Regarding palm gur industry, provision has been made for popularizing the adoption of improved methods of manufacture, encouragement of ancillary industries, etc. Regarding the other cottage industries, the Industries Department has made necessary provision.

Broadly speaking, there are three sectors of economic activities in any country—private, co-operative and State. Recent trends in most of the countries including ours have been in the direction of increasing the sphere of co-operative and State sectors. While the State can usefully take over large-scale industries, Commercial Banking, etc., the co-operatives are eminently suited to play a vital role in the agricultural and cottage industries which are decentralised in the nature of things and are operated by people of limited means. We are glad to note that in the formulation of the co-operative schemes under the Second Five-Year Plan, this aspect has been well recognized. Co-operation, as is well known, has many advantages. It combines the advantages of both the public and private management. It inculcates among the members certain

salutary virtues such as self-help, mutual help, thrift, democratic way of life, etc., and recognises human and ethical values. This sector is more in conformity with our national objectives of socialistic structure which is but co-operative commonwealth.

A statement showing the provision made for expenditure on the various co-operative schemes, in the Second Five-Year Plan is given below:—

Name.	Total cost for five years. RUPEES IN LAKHS.
1 Development of Integrated Rural Credit	95.50
2 Development of Co-operative Marketing	207.28
3 Co-operative farming	17.97
4 Co-operative education and training	24.84
5 Milk Supply Salvage farms and Cattle breeding ..	35.95
6 Handloom weaving	400.01
7 Palmgur Industry	17.98
8 Housing schemes	395.41
Total ..	1,194.94

NOTE.—The above figures are subject to revision as the schemes have not yet been finalized.

Statement showing details of the estimated cost by way of loans, subsidy, etc., of the co-operative schemes.

Name of the scheme.	Total cost for five years.	Cost on start.	Loan.	Subsidy.
(RUPEES IN LAKHS)				
1 Development of Integrated Rural Credit.	95.50	33.38	..	62.12
2 Development of co-operative marketing.	207.28	18.63	101.33	87.32
3 Co-operative farming	17.97	1.98	4.13	11.86
4 Co-operative education and training.	24.84	9.11	..	15.73
5 Milk supply, salvage farms and cattle breeding.	35.95	5.80	20.71	9.44
6 Handloom	400.01	15.36	186.12	198.53
7 Palmgur Industry	17.98	17.00	..	0.98
8 Housing schemes	395.41	19.70	335.34	40.27
Total ..	1,194.94	120.96	647.63	426.35

Statement showing the targets proposed to be reached in the Second Five-Year Plan.

Name of the scheme.	Particulars of schemes.	Present position (as on 30th June 1955).	Targets proposed to be reached by the end of the Plan period.
1. Development of Integrated Rural credit.	(i) Percentage of villages to be covered by societies.	59 per cent.	75 per cent.
	(ii) Percentage of population to be served by societies.	21 per cent.	50 per cent.
	(iii) Rural credit to be supplied by all co-operative agencies per annum.	Rs. 5 crores	Rs. 15 crores.
	(iv) Percentage of credit to total credit needs.	6 per cent.	21 per cent.
	(v) Number of large sized societies and rural banks.	25	425
	(vi) Number of Land Mortgage Banks.	73	98
	(vii) Total amount of loans issued per year by land mortgage banks.	Rs. 37.40 lakhs.	Rs. 100 lakhs.
		[This amount is included in item (iii).]	
	(viii) Out of (vii) total amount of loans issued per year for productive purposes.	Rs. 5.39 lakhs.	Rs. 40 lakhs.
2. Development of Co-operative Marketing.	(i) Number of marketing societies.	120	150
	(ii) Number of District Marketing societies.	..	15
	(iii) Number of State Marketing Society.	..	1
	(iv) Number of new godowns to be constructed by marketing organisations during the Plan period.	56	147
	(v) Number of new godowns to be constructed by large sized and rural credit societies during the Plan period.	77	377
	(vi) Processing plants to be established—		
	(a) Hand pounding units.	..	15
	(b) Groundnut decorticators.	..	20
	(c) Cotton ginning factories.	..	20
	(vii) Processing Societies—		
	(a) Sugar factories	..	2
	(b) Sago manufacturing factories.	..	5
	(c) Spinning Mill	..	1
	(viii) Volume of produce marketed.	1 per cent of the marketable surplus.	10 per cent of the marketable surplus.
3. Co-operative Farming.	(i) Number of societies to be established.	24	39
	(ii) Number of colonists to be settled.	1,389	2,163
	(iii) Extent of land to be brought under cultivation.	8,245 acres.	15,069 acres

Statement showing the targets proposed to be reached in the Second Five-year Plan.

Name of the scheme.	Particulars of scheme.	Present position (as on 30th June 1955).	Targets proposed to be reached by the end of the Plan period.
4. Co-operative Training.	(i) Number of training institutes.	3	4
	(ii) Number of candidates to be trained at the mofussil institutes per annum.	300	640
	(iii) Number of candidates to be trained at the Central Co-operative Institute) which will be converted into a college) per annum.	89	200
	(iv) Number of Panchayatdars to be trained in the Plan period.	..	9,000 (for all the five years.)
5. Milk supply	(i) Number of Milk Supply Unions and Societies.	581	731
	(ii) Production of milk per day.	40,000 Madras measures.	60,000 Madras measures.
6. Handloom Weaving.	Number of looms in the Co-operative fold.	1,32 lakhs.	2.82 lakhs
	Number of housing colonies on a subsidised basis.	..	15
	Number of houses to be built.	..	1,500
7. Palmgur	Production of palmgur (in lakhs maunds).	28.98	30
8. Housing	Number of new Industrial Housing Societies to be organized.	..	25
	Number of houses	..	5,000
	Number of rural housing societies.	27	267
	Number of houses	16	6,016
	Number of urban housing societies.	171	196
	Number of houses	6,671	9,331

342. We should think that on the whole, the Second Five-Year Plan of the Co-operative Movement has been drawn up with a sense of realism. The targets aimed at as regards rural credit, marketing of agricultural produce and handloom industry are indeed bold, though not unattainable, if the State extends the assistance provided for in the plan in full measure and if the co-operatives play their part. On the credit side the total amount of loans to be issued by the co-operatives is proposed to be increased threefold, while on the marketing side the total volume of produce to be handled by the co-operatives is proposed to be increased ten fold in the course of five years. It is therefore imperative that the State assistance provided for in the Second Five-Year Plan should not be whittled down.

343. We learn that the annual subsidy towards the cost of the additional supervisors to be engaged by the Central Banks is proposed to be reduced by 1/3 in each of the second and third years with the result that in the fourth year the Central Banks will have to meet the full cost of the additional staff. The supervisors are the primary field workers and an adequate number of them and of the right type should necessarily be engaged by the Central Banks for successfully implementing the schemes of integrated credit and marketing. We are sure, that nothing else will contribute to the success of the schemes, as much as this one measure. Unfortunately many central banks are not in a position and will not be in a position to meet the cost of such additional staff within the time limit envisaged. We suggest that the cost of the additional supervisors may be fully met for 3 years at least, if need be by effecting economies in the State assistance in other directions.

344. We also understand that it is proposed to reduce the proportion of subsidy provided for the construction of godowns by the rural credit co-operatives and marketing societies. At present 50 per cent of the cost of godowns is granted as subsidy to the rural credit societies and marketing societies, subject to the limits of Rs. 5,000 and Rs. 7,500 respectively. Even with this help, it has not been possible to persuade a large number of societies to go in for construction of godowns. The reasons are that the societies find it difficult to secure adequate income to repay the loan instalments. The importance of a net work of godowns in stabilising the prices of agricultural produce can hardly be exaggerated. Without such storage facilities, it will be well nigh impossible to secure the ten fold increase in respect of co-operative marketing. Hence, we feel that it will be singularly unfortunate if the present facilities in this regard are in any way curtailed. Indeed, there is a strong case for liberalization of the concessions. We therefore recommend that the scale of subsidy provided for in the plan, i.e., 50 per cent of the cost of the godowns may not be reduced.

345. With regard to handloom weaving, the number of looms which are now within the co-operative field is proposed to be doubled in the course of the next five years. Though this is relatively a high target, we feel that it must be capable of fulfilment considering the large amounts of loans and subsidies provided for the development of this industry on co-operative lines. Here also we would like to emphasise that the scales of State assistance should not be in any way be curtailed.

346. We would like to make a few suggestions of a general nature with regard to Planning in Co-operation. (a) Before implementing any scheme, conditions necessary for its success should be created. Special efforts should be made to evoke and foster qualities needed for effectively implementing the scheme, among the persons, charged with the responsibility of working the scheme. The persons proposed to be benefited by the scheme

should also be educated properly on the role to be played by them. It is particularly important that the proper relationship between the society and its members should be clearly brought home to the members. (b) Arrangements should be made to evaluate the results of the scheme at every stage, before embarking on further expansion so that possible errors may be avoided and work carried on right lines. (c) Above all the success of planning should be judged by the enthusiasm of the people and their willingness to participate to the required degree in the successful implementation of the schemes and not by the quantum of moneys spent. The criterion for success now-a-days seems to be the amount of expenditure incurred out of the allotments, whereas it is really essential to judge success by the measure of actual achievements. If achievements are not commensurate with cost and efforts or if it is found that it is impossible to achieve beneficial results through certain schemes, there should be no hesitation in giving up the scheme at any stage.

347. *Co-operation and Community Development Programmes.*—Community Development Programme includes the Community Projects, Community Development blocks, and National Extension Service areas. There were 4 Community Project areas, 24 Community Development Blocks and 28 National Extension Service Blocks as on 30th June 1955, in Madras State covering 76 lakhs, out of 200 lakhs of rural population. The First Five-Year Plan envisaged the covering of one-fourth of the rural population by the end of the plan period, and the Second Five-Year Plan is expected to cover the entire rural population.

The schemes under Community Development Programme aim at all-round rural betterment, including increased production, agricultural and otherwise. The central idea is that the people should arrange to provide themselves with the common amenities such as wells, roads, schools, radios, etc., needed by them through their own joint endeavour, with the assistance of the State. Financial and technical improvement of the economic conditions of the people by "better farming" and various subsidiary activities and development of cottage industries, is also another important aim. These objectives are sought to be achieved through a special staff who will concentrate on these tasks and who will also co-ordinate the activities of the various Departments towards those ends.

Co-operative organizations are people's organizations and are therefore eminently suited to serve as agencies for carrying out the above purposes. It is for this reason, that the planners have recommended that in all aspects of Community Development, the services of co-operative organizations should be utilized to the maximum possible extent. They have advocated the formation of new co-operative societies and strengthening of existing societies in order to bring every family in the area under the beneficent influence of the movement as one of the aims of the Community Development Programme. To stimulate co-operative development in each area, a Senior Inspector has been appointed as Extension Officer for co-operation to work directly under the control of the

head of the Block, etc. Generally speaking, they have been attending to the organization of new credit societies and occasionally, cottage industries societies.

348. *Part played by co-operatives in the Community Development areas during 1954-55.*—Three thousand six hundred and sixty-nine co-operative societies of different types functioned in the areas covered by Community Development Programmes. These societies consisted of credit organizations, consumers' stores, weavers' co-operatives, milk supply societies, etc. One thousand five hundred and forty-nine rural credit societies in these areas advanced loans to the tune of Rs. 156.25 lakhs to their members and 366 societies undertook non-credit activities. For instance, five village societies executed road works; three societies took up construction of culverts and bridges; 15 societies dug wells for the benefit of the rural population, two societies constructed community halls, five societies erected school buildings, reading rooms, etc., and one society put up a building for installation of radio set. The value of the various items of work undertaken by the societies is estimated at Rs. 80,000. The stores sold goods to the value of Rs. 83.71 lakhs. The weavers' co-operative societies produced cloth worth Rs. 64.71 lakhs and sold cloth worth Rs. 74.15 lakhs. The milk supply societies issued loans to the members for purchase of milch animals to the extent of Rs. 1.77 lakhs.

During our visit to Erode, we had occasion to examine the progress made by co-operative societies in the Lower Bhavani Project area, before and after the introduction of the project scheme (1952 and 1955). This project area covers 213 villages. During the 3 years after the introduction of the scheme, the total number of village credit societies had increased by 3, their membership by 470 and their share capital by Rs. 18,531. The number of weavers' societies increased by 5 their membership by 950 and their share capital by Rs. 23,740. The number of Harijan societies was 15 throughout, but their membership fell from 468 to 416. We think that greater attention should be paid to the way in which the Extension Officers for Co-operation do their work at present. It does not appear that in practice their services are effectively utilised. Both the Co-operative and the Community Project and National Extension Scheme administrations should see to it that they do their job more effectively and usefully.

349. *Issue of Takkavi loans in the community development areas.*—Takkavi loans are issued directly to the agriculturists by the Government in the area covered by community development schemes on a larger and more liberal basis. We have recommended in Chapters 5 and 10 that the issue of direct loans to agriculturists by Government might better be stopped. The co-operatives cannot play their part fully and usefully in these development areas, if

direct loans are continued to be given by the Government. The Government must be said to be working at cross purposes. On the one hand they want to strengthen the co-operatives so that they may eventually play their part in catering to the economic needs of the people. On the other hand, they give various types of loans directly to the people, thus retarding the growth of the co-operatives. We would, therefore recommend that direct loans by Government in these areas may be stopped except in times of distress or for special reasons.

We may herein explain the imperative need to devote more attention to the development of co-operatives in the extension area, etc. Broadly speaking the aims of rural development are two fold. One is to provide common amenities in the sphere of sanitation, education, communication, etc., and the other is to lay a sound foundation for the continued economic development of the regions concerned and the people inhabiting them. Our impression is that as far as the first aim is concerned the achievements are considerable. As regards the second object, the results cannot be said to be up to expectations. This aim can be expected to be realized fully when there is a live organization of the people in the village which will continually strive for the economic regeneration of the people. The need for such an organization is universally accepted, particularly in the context of conditions prevailing in our country. Such an organization cannot be other than the co-operatives and especially the multipurpose village societies. The progress of these societies may truly be said to be a measure of the progress in the attainment of the second objective mentioned above. This aspect does not seem to have received adequate recognition in practice. Hence, we feel that if the National Extension Service is to confer real and lasting economic benefits and help to raise the standards of living of the people, particularly those in the sub-marginal state, the co-operatives, should be developed to the utmost. We therefore suggest that the National Extension Service Administration may reorientate their policies and programmes in practice towards this end.

CHAPTER 24.

AMENDMENTS TO THE MADRAS CO-OPERATIVE SOCIETIES ACT AND RULES.

We propose to consider the amendments required for the Madras Co-operative Societies Act under three heads:—(A) Amendments proposed in the Draft Bill pending before the Government, (B) Amendments suggested by the Registrar to implement the scheme of State participation, etc., (C) Amendments that will become necessary, if our recommendations are accepted.

Part A.

Sections.

Amendments proposed in the draft Bill.

In the Draft Bill, an explanatory note has been given indicating the reasons for each amendment. We do not, therefore, feel it necessary to repeat the same here in respect of amendments with which we agree.

2

We agree with the definition of the words "credit society," "non-credit society," and "Supervising unions." We would, however, suggest that instead of the first two definitions coming as clauses (bb) and (dd), they may come as (g) and (h). The clauses (g) and (h) of the present section may be relettered as (j) and (k). We suggest this change as it would be more appropriate to incorporate these definitions after the definition of the word "registered society" appearing in the present clause (f).

4

The amendment to this section given in the Draft Bill has to be modified in the light of further changes proposed by the Registrar. This section is, therefore dealt with in Part B. The amendment as given in the Draft Bill is not, therefore, recommended.

5

The amendment to this section makes it necessary to get a resolution passed by a majority of not less than three-fourths of the members present at a general meeting to change the liability of a society. In the future set up, it is proposed to start large sized societies, with limited or gurantee liability. The proposed amendment will not facilitate change of liability; on the other hand it will make a change of liability more difficult. There are already sufficient safeguards in the section, such as prior sanction of the Registrar, notice to all members and creditors and option to members and depositors to withdraw their shares or deposits, if they are unwilling for the change of liability. The amendment requiring a three-fourths majority for the change of liability is not therefore necessary.

6

To the amendment to Section 6, a further addition has been made by the Registrar. It has therefore, been dealt with in Part B.

7

Under the existing section, a society can be registered only with persons who reside in the same town

Sections.

Amendments proposed in the draft Bill.

or village or in the same group of villages. In societies such as Land Mortgage Banks, such a residential qualification is unnecessary.

The present section also requires that the persons seeking registration of a society should be members of the same "tribe," "caste". Such a requirement is opposed to co-operative principles.

We recommend the amendment in the form given in the Draft Bill.

8

The amendment proposed in the Draft Bill is consequential to the latter part of the amendment to section 7. We recommend the amendment.

10

In addition to the amendment proposed in the Draft Bill to this section, we are suggesting further amendments. This section is therefore dealt with in Part C. The form of the amendment given in the Draft Bill need not therefore be adopted.

12

In addition to the amendments proposed in the Draft Bill to this section, we are suggesting further amendments. This section is therefore dealt with in Part C. The form of the amendment given in the Draft Bill need not therefore be adopted.

13

The amendments proposed to section 13 (a) and (b) in the Draft Bill are recommended, for the reasons given in the explanatory note therein. The Registrar has proposed an addition as section 13 (c) which is dealt with in Part B.

14

Under the present section, the persons who have signed the application to register a society may elect a committee to manage the affairs of the society for a period of 3 months from the date of registration. The Registrar may extend the period of the Committee if he considers it desirable. The Draft Bill provides for an amendment which seeks to limit the period for which the Registrar can give extension, to 3 months. We do not consider this amendment necessary.

15 & 16

The amendments proposed in the Draft Bill to sections 15 and 16 are recommended by us, for the reasons given in the explanatory note therein.

17

Under the existing section 17, the transfer of the share or interest of a member in the capital of a registered society shall be subject to such

Sections:

Amendments proposed in the draft Bill,

conditions as to maximum holding as may be prescribed by the Act or Rules. The section, however, prescribes certain specific conditions for the transfer of shares, etc., in the case of unlimited liability societies.

The amendments proposed in the Draft Bill seek to prescribe certain conditions for transfer of shares in the case of limited liability societies and financing banks. We are of the view that such an elaborate amendment is not necessary. We recommend the amendment given in Appendix 25 which will meet the purpose of the amendment proposed in the Draft Bill.

- 19 The amendment proposed in the Draft Bill is rather elaborate. The purpose of this amendment can be achieved by a few verbal changes to the existing section. We have given the form of amendment in Appendix 25. The amendment proposed to section 19 in the Draft Bill is not, therefore, recommended.
- 21 The main object of the amendment proposed to section 21 in the Draft Bill is with a view to convert the proir claim of the society referred to therein into a first charge subject to certain conditions. The Registrar has proposed further amendments to this section. We are dealing with this section in Part B.
- 22 & 23 We recommend the amendments proposed to sections 22 and 23 in the Draft Bill for the reasons stated therein.
- 24 The draft amendment proposed to section 24 prescribes the mode of transfer of share capital, etc., on the death of a member. The need for this amendment is not apparent. The existing section may continue.
- 25 The amendment proposed to section 25 has to be modified. The Registrar has suggested an additional amendment to this section. We are therefore dealing with it in Part B.
- 28 The amendment proposed in the Draft Bill provides for the compulsory recovery by the employer of the loan instalments due to society from the members who are employees. We recommend the proposed amendment subject to a modification that the provision shall not apply to persons employed in the Indian Railways. There is a

Sections.

Amendments proposed in the draft Bill,

similar exemption for railways in the Bombay Co-operative Societies Act also. There are separate societies composed of railway employees and the railways now deduct the dues of such members from the salary of the staff. If other types of co-operative societies in a town or city with some railway men as members get authority from such members and ask for recovery, there will be a lot of inconvenience to the railway administration. Therefore, the exemption is sought for. The Registrar has also agreed to making this provision.

The form of amendment is given in Appendix 25.

- 30 The important point in the amendment is that the contributory orders passed by the liquidators under section 47 need not be stamped. This clause is intended to place the existing practice on a statutory basis. We recommend the amendment proposed in the Draft Bill.
- 34 The amendment proposed to section 34 in the Draft Bill is recommended. The Registrar has suggested an additional amendment. Hence this is dealt with in Part B.
- 35 (A) The need for this amendment is not apparent. The reason given in the explanatory note is not germane to the amendment. We do not recommend this.
- 36 The amendment to section 36 as given in the Draft Bill has been amplified further by the Registrar. This is considered in Part B. Hence the amendment as given in the Draft Bill is not recommended.
- 36 (A) This is a new provision suggested in the Draft Bill for the establishment of provident fund in societies for the benefit of the employees. We recommend the amendment subject to the addition of the following words at the end of the proposed sub-section (3) of section 36 (A) :—
“in the event of liquidation.”
- 38 The amendment proposed in the Draft Bill is recommended subject to the following condition :—
In sub-clause (c) (ii) between the words “Registrar” and the words “shall have power to call the meeting himself,” the following words shall be added :—
“or the person authorized by him under sub-section (i) ”.

- Sections. Amendments proposed in the draft Bill.
- 39 Section 39 deals with the inspection of societies by the Registrar. The proposed amendment lays down that the Registrar may make an order directing "the society" which was inspected, to take such action as may be specified in the order to remedy the defects within the time specified therein. We recommend the proposed amendment with the following addition:—
For the words "the society", appearing in sub-section, (4), the words "an officer of the society" may be substituted.
The object of the suggestion is that in case a necessity arises to take action for an offence under section 52, it must be possible to trace the offence to the person concerned.
- 40, 41 & 43. The amendments proposed in the Draft Bill to sections 40, 41 and 43 are recommended for the reasons stated therein.
- 44 The amendment to section 44 in the Draft Bill provides for the winding up of the society before its dissolution. The Registrar expressed the view that there was no practical necessity for such an amendment. We do not therefore, recommend the amendment as given in the Draft Bill.
However, the provision for the delivery of the order of dissolution by a messenger as suggested in the Draft Bill may remain. Hence we suggest the addition of the following words at the end of the existing sub-section (1) of section 44:—
"or by messenger for delivery in person".
- 44 (A) This is a new section suggested in the Draft Bill. It prohibits the alienation of property by any member from the date of order of "winding up" up to 15 days after the order of "winding up" takes effect. Though we have stated that the provision for winding up is not necessary, it is desirable to retain the prohibition, against alienation. The prohibition may be from the date of the order of dissolution up to 60 days from the date on which the order of dissolution takes effect. With this view we have suggested an amendment in Appendix 25.
- 45 & 46 In view of our remarks against the amendment proposed to section 44 in the Draft Bill the existing sections 45 and 46 may remain as they are.

- Sections. Amendments proposed in the draft Bill.
- 47 The amendment given in the Draft Bill empowers the liquidator to determine not only the contribution to be made by the members, etc., but also to determine the contributaries. The explanatory note in the Draft Bill states that the reason for this addition is that some civil courts have held that the liquidator has no power to decide whether a person was or was not a member of the society. We think that there is no harm in the civil court deciding this issue. We do not therefore recommend this part of the proposed amendment.
The amendment proposed in the Draft Bill empowers the liquidator to make a compromise with any creditor of the society, etc. There is no objection to this addition. The amendment as finally recommended by us is given in the Appendix No. 25.
- 48 The amendment proposed in the Draft Bill lays down that no suit or legal proceeding shall lie or be proceeded with against the liquidator or against any member of the society on any matter touching the affairs of the society except by leave of the Registrar and subject to such terms as he may impose. We are in agreement with the principle of the amendment. The amendment as suggested in the Draft Bill may be accepted omitting the proviso in the amendment as it is suggested on the assumption that there will be a "winding up" stage before the dissolution of the society.
- 49 The amendment proposed to the Draft Bill is recommended for the reasons given in the explanatory note therein.
- 49 (A) This is a new section provided in the Draft Bill. We recommend its acceptance for the reasons given in the explanatory note.
- 51 In addition to the amendments proposed to section 51 in the Draft Bill we are suggesting some amendments. Hence this is dealt with in Part C.
- 51 (A) & (B). The amendments proposed in the Draft Bill are recommended for the reasons given in the explanatory note therein.
- 52 & 54 The amendments proposed in the Draft Bill are recommended for the reasons given in the explanatory note therein.

Sections.	Amendments proposed in the draft Bill.
57	In addition to the amendments suggested in the Draft Bill, a few more amendments have been suggested by the Registrar. Hence the matter is dealt with in Part B.
57 (A)	The amendment proposed to this section in the Draft Bill is recommended for the reasons given in the explanatory note therein.
57 (D)	This is a new section proposed in the Draft Bill. It is recommended for the reasons given in the explanatory note therein.
60 (A)	The amendment suggested in the Draft Bill has to be amplified in the light of our recommendations. Hence it is dealt with in Part C.
63	The amendment proposed in the Draft Bill is recommended for the reason given therein.
65	The amendments proposed in the Draft Bill are recommended for the reasons given therein. However a few verbal changes to the proposed sub-clauses (gg) and (hh) have been suggested by the Co-operative Advisory Council. With the changes suggested by the Advisory Council, the amendments may be accepted. The form of the amendments to sub-clauses (gg) and (hh) are given in Appendix 25.

Part B.

Sections.	Amendments suggested by the Registrar.
4	(i) Under the existing section, rural credit societies can be formed only with unlimited liability, unless the Government directs otherwise. In the future set up, large sized village credit societies have to be formed in large numbers on the basis of limited or guaranteed liability. It is necessary to empower the Registrar to permit the registration of rural credit societies with limited liability, with a view to avoid delay in their formation. (ii) Under the scheme of State partnership, the State Government will take shares in the State Co-operative Bank, the latter will take shares in the Central banks and the Central banks will take shares in the rural credit societies. As the Government, State Co-operative Bank and the Central Banks invest in such shares only with a view to lend a helping hand to the institutions concerned, it is considered proper that they

Sections.	Amendments suggested by the Registrar.
	should be exempted from the operation of unlimited liability or liability by guarantee. Section 4 is, therefore, to be amplified incorporating such an exemption. (iii) The present section does not exclude the partnership firms and joint stock companies from organizing themselves into co-operatives or joining co-operatives as members. Partnership and joint stock concerns are primarily for earning profits for their shareholders, whereas co-operatives stand for service. The proposed amendment provides for such exclusion. The form of the amendment recommended by us is given in Appendix 25.
6	In the Draft Bill, an amendment has been proposed, enabling a person to take shares in a credit society up to Rs. 1,000 and up to Rs. 5,000 in a non-credit society. For the reasons given in the explanatory note, we recommend the amendment proposed in the Draft Bill. The restrictions mentioned above need not apply to the State Government which will have to take shares for large amounts in societies under the scheme of State partnership. The form of amendment to section 6 is given in Appendix 25.
13 (c)	Under the scheme of reorganization of village credit societies, large sized societies have to be formed in large numbers. This will necessitate the amalgamation of two or more societies into one. The procedure for amalgamation prescribed in section 13 (b) will not meet the situation where societies are not willing to amalgamate of their own accord. It is therefore necessary to empower the Registrar to bring about amalgamation after consulting the Central bank concerned. The representatives of the Central Banks and the State Co-operative Bank who met on 17th December 1955 have agreed to this. We recommend the amendment suggested by the Registrar, in this regard. The form of the amendment is given in Appendix 25.
21	The Registrar has proposed an amendment to section 21 providing for a first charge on the crops or other agricultural produce, cattle, agricultural or industrial implements under certain conditions and also upon the land purchased or redeemed

Sections.

Amendments suggested by the Registrar.

by a member in whole or in part from any loan taken from a society. We do not consider that a first charge should be created on the last item referred to therein, i.e., land purchased or redeemed by a member. The society may very well get a mortgage on the land in question in its favour when it issues a loan for its purchase or redemption. As it is proposed to issue loans on a large scale to landless tenants, etc., on the security of their anticipated crops, it is necessary to provide for effective legislation to safeguard the funds of the societies. We give the form of amendment as recommended by us in Appendix 25.

25

In the Draft Bill, an amendment has been suggested to make it clear that the liability of a past member or the estate of a deceased member for the debts of a society will continue for a period of two years from the date of his ceasing to be a member or date of death or till the affairs of the society were finally "wound up" in case an order of "winding up" was passed in the meanwhile. This was based on a provision for "winding up" suggested for incorporation in section 44 of the Draft Bill. As this Committee has decided that it is not necessary to introduce the provision for "winding up" in section 44, the proposed amendment requires some verbal alteration.

Under the scheme of State partnership both the State Government and the financing bank will be taking shares in the society. As their investment in shares is chiefly with a view to help the societies it is considered that their liability should not be retained for a period of two years after they have ceased to be members. The Registrar has, therefore, suggested an amendment exempting the State Government and the financing bank from the operations of section 25. We recommend the amendment.

31

The amendment proposed by the Registrar provides that a registered society shall allot to Government such number of shares as may be required by the latter and on such terms and conditions as may be specified by it (Government), if in the opinion of the State Government, it is necessary to take shares in the interests of the society.

It is desirable that the scheme of State participation in share capital is implemented with the willing consent of the societies concerned. Hence the amendment to section 31 is not recommended.

Sections.

Amendments suggested by the Registrar.

34

The amendment proposed in the Draft Bill amplifies the existing section 34 so as to make it possible for societies to invest their funds in the shares, bonds or debentures issued by a society with limited liability. In addition to the above, the Registrar has suggested that a provision should be made, permitting investment of funds by one society in another society with unlimited liability with the general or special sanction of the Registrar. This is primarily with a view to enable the Central Banks to take shares in the unlimited liability credit societies under the scheme of State partnership.

The form of amendment to be adopted is given in Appendix 25.

35

The contents of the proviso to section 35 have been incorporated in section 36 and the latter has been made more comprehensive. The amendment as recommended is given in Appendix 25.

36

The amendment to section 36 provides for compulsory contribution of $7\frac{1}{2}$ per cent of the net profits to a common good fund by societies other than village credit societies; further it lays down that a part of the contribution not exceeding 50 per cent, as may be fixed by the Registrar, shall be payable to a society or societies doing co-operative propaganda in the State. In Chapter 20, paragraph 290, we have pointed out the need for such an amendment. The amendment as proposed by the Registrar is recommended.

We have made a further provision for payment of bonus to non-members in a stores society in the light of our recommendation in Chapter 14, paragraph 221.

The form of amendment as finally recommended is given in Appendix 25.

57 (1) &
(2)

The amendments suggested in the Draft Bill are recommended for the reasons given in the explanatory note therein.

57 (3)

The Registrar has suggested a further addition to the effect that the State Government may require a society to modify or amend any policy adopted by it in any matter relating to its business, if in the opinion of the Government such policy is detrimental to the interests of the members, or the creditors or is not conducive to the objects of

Sections.

Amendments suggested by the Registrar.

such society. In our view this is a very sweeping amendment. Hence we do not recommend it. There are other ways open to the Registrar administratively and statutorily to bring about the desired changes in the policies of the societies.

57 AA This is a new section suggested by the Registrar with a view to provide a speedy process of recovery in "crop" loans. The amendment will be helpful to make the first charge on the crops created by section 21 more effective. The amendment is recommended.

57 (C) The present section provides for the operation of section 57 (A) and 57 (B) in the State of Orissa. The Registrar has suggested its extension to Mysore, Kerala or Andhra. It is necessary in view of the fact that these are all neighbouring States. The amendment as given in Appendix 25 is recommended.

57 (E) This is a new section suggested by the conference of the Deputy Registrars held in 1955. This section protects the Registrar and his subordinates from prosecution or other legal proceedings in respect of acts done by them in good faith, under this Act. It is understood that there have been instances in the past when the Registrar and the Deputy Registrars have been impleaded as parties in Civil Courts in the appeals filed against decisions given under section 51. It is necessary to give the protection contemplated and the amendment is recommended.

Part C.

Sections.

Amendments suggested by the Committee.

In paragraph 35 of Chapter 3, we have recommended the constitution of a State Co-operative Development Board. Necessary legislation may be undertaken to constitute such a Board.

2 The existing clause (g) may be amplified in the form given in Appendix 25 as new clause 2 (j). This amplification has become necessary in view of the latest judgment of the High Court holding that the Deputy Registrar cannot be deemed to be "Registrar" as defined in the existing section 2 (g).

10 All the amendments proposed in the Draft Bill to this section may be adopted for the reasons given in the explanatory note therein.

Sections.

Amendments suggested by the committee.

Under the present section, the Registrar will have to register a society if it has complied with the provisions of the Co-operative Societies Act and the rules and if its by-laws are not contrary to the Act or rules. It may be necessary for the Registrar to refuse registration even if the by-laws are not contrary to the Act and rules, if some of the by-laws are opposed to co-operative principles and it will not be possible to enumerate all such principles in the Act and rules. It is, therefore, necessary to give discretion to the Registrar in the section itself to refuse registration of societies.

The form of amendment to section 10 is given in Appendix 25.

12 All the amendments proposed in the Draft Bill to this section may be adopted for the reasons given in the explanatory note therein.

The reasons given for the amendment proposed by us to section 10 hold good in the case of section 12 also which deals with the registration of amendment to by-laws. The Registrar should have discretion to refuse the registration of an amendment to by-laws if it is not in accordance with the co-operative principles or if it is not in the interests of the society.

The form of amendment to section 12 recommended by us is given in Appendix 25.

21 (A) This is a new section suggested by us. This enables the borrowers in societies to create a charge on their lands by a written declaration filed with the society. The section is generally on the lines of section 24-AA of the Bombay Co-operative Societies Act. We have given reasons for this new section in paragraph 62 of Chapter 5.

The form of amendment is given in Appendix 25.

51 The amendments proposed in the Draft Bill are recommended for the reasons given in the explanatory note given therein.

In paragraph 320 of Chapter 21 we have suggested the desirability of empowering the Registrar to order stay of proceedings or to transfer the references from the file of one Deputy Registrar to another. We have, therefore, suggested the incorporation of two new sub-sections 51 (6) and 51 (7) (vide Appendix 25).

Sections.

Amendments suggested by the Committee.

In paragraph 320 of Chapter 21, we have also made a few suggestions such as the exclusion of the jurisdiction of the Industrial Tribunal over disputes between the societies and their employees. We recommend that suitable amendments may be made to implement the suggestion in consultation with the Legal Department of the Government, as it might involve the amendment of the Industrial Disputes Act also.

53

The present section 53 prescribes punishment to a member who contravenes the provision of section 21 by fraudulantly disposing of the property over which there is prior claim, etc. According to the amendment now suggested to section 21 (in Part B) a member is required not to dispose of the property subject to the first charge without the consent of the society and to deposit the produce in a place specified by the society if so required by it. Section 53 has therefore to be amended so as to make the violation of any provision of section 21 an offence. With this view we have suggested an amendment to this section in Appendix 25.

60 A

In Chapter 6, paragraph 78, we have suggested that the Registrar must be empowered to direct the constitution of representative general bodies in the case of societies which have membership of over 1,000 and area of operations extending over a taluk. We suggest an amendment, in Appendix 25.

AMENDMENTS SUGGESTED TO THE RULES FRAMED UNDER THE MADRAS CO-OPERATIVE SOCIETIES ACT.

We give below a list of amendments necessary for the rules framed under the Co-operative Societies Act :—

Rule VIII-A.—In paragraph 114 of our report we have stated that in order to secure elasticity in the working of the Central Banks in the context of the increased funds proposed to be made available in future for the issue of medium-term loans, the restriction imposed on the maximum amount of loans that can be issued for periods exceeding three but not exceeding five years, may be removed. The second proviso to rule VIII-A may, therefore, be deleted with a view to secure this object.

In the same paragraph we have stated that the objects specified in the rule VIII-A for which loans for more than three years could be issued are not exhaustive. The rule may be amended enabling the Registrar to include other objects as well.

Rule VIII-B.—In paragraph 88 of our report we have pointed out the necessity to restrain the tendency to overborrow on the part of the members of employees' credit societies. A new rule may be made as rule VIII-B, restricting the maximum amount of pay security loan which a member can take, to 25 per cent of his basic pay, and limiting the total amount of other loans which a member can borrow to five times his basic pay and dearness allowance.

Rule X (A).—Under the existing rule, no registered society shall admit members or transfer shares within 30 days prior to the date of its annual general meeting. The spirit of the rule is that persons should not be admitted to membership on the eve of a general body meeting held for election of directors. The rule may be modified that the restriction on admission, etc., prior to a general meeting applies only in the case of a general meeting convened for the conduct of election.

Rule XII (a).—In paragraph 86 of our report, we have stated that it is desirable for urban banks to appropriate one-third of their net profits to reserve fund until their reserve fund and other reserves equal their paid-up share capital; and thereafter one-fourth of their net profits to reserve fund. Rule XII (a) may be suitably modified for this purpose.

In paragraph 146 of our report we have suggested that the maximum amount of dividend on share capital that may be paid by the State Co-operative Bank may be reduced from 9 per cent to 6 per cent. Rule XII (a) may be suitably amended for this purpose.

Rule XIII-B.—Under the existing rule, no society is allowed to use its premises for any purpose other than co-operative activities. As exemption from Government has to be obtained in every deserving case in which this rule has to be relaxed, the rule may be modified so as to permit the use of the premises of a society for any business other than co-operative activities, with the previous permission of the Registrar.

Rule XV.—In paragraph 320 of our report, we have stated that the period of limitation for claims under section 51 (i) (c) may be increased from two to three years from the date on which the act or omission with reference to which the dispute arose took place. Rule XV may be suitably amended for this purpose.

Rule XVIII-A.—Under this rule the paid employee of a financing bank cannot be a member of a society which is financed by the former. This is a hardship on the credit societies composed exclusively of the staff of the financing banks. The rule may be amended exempting credit societies composed exclusively of the employees of a financing bank from the operation of this rule.

This rule prescribes a number of disqualifications for membership. The disqualifications cannot however be enforced unless a society prefers an arbitration reference. It is therefore

necessary to empower the Registrar *suo moto* to direct the removal of any person from membership of a society if in his opinion such a person is disqualified to be a member under this rule.

Rule XVIII-C.—In paragraph 68 of our report we have pointed out the necessity to provide for an appeal to the Executive Committee of Central Bank by a person who has been refused admission from membership or who has been expelled from membership in a village credit society. A new provision may be introduced as rule XVIII (c) providing for such appeal to the Executive Committee of the Central Bank.

Rule XXV-A.—This rule empowers the Registrar to extend the term of office of the committee of a society, if for any reason, it fails to arrange for the election of a new committee. There may be instances in which the society may convene a general meeting for the election of directors, but the meeting may not be held for reasons such as want of quorum, etc. The rule may be amplified empowering the Registrar to extend the term of the committee in cases where for any reason the election is not held.

Rule XXVI.—The present rule empowers the Registrar to fix the proportion of the individual members to the society members on the committee of a financing bank, the proportion of individual members who shall hold fixed deposits to the total individual members, etc. It also empowers him to fix the minimum amount of deposits or shares to be held by individual members. The rule may be modified exempting the nominees of the Government on the State Co-operative Bank, and the nominees of the State Co-operative Bank on the Committees of Central Banks from the scope of this rule.

Rule XXVI-A.—A new rule may be added as rule XXVI-A empowering the Registrar to prescribe the proportion of directors who shall hold fixed deposits to the total number of directors of an urban bank with a working capital of Rs. 1 lakh and more and to fix the minimum amount of deposits to be held by them (vide paragraph 76 of our report).

Rule XXVII.—The existing rule prescribes a number of disqualifications for a member of the committee of a society. Provision may be made empowering the Registrar to direct *suo moto* the removal of a member of a committee who becomes disqualified under this rule.

Clause (f) of sub-rule (1) and clause (f) of sub-rule (2) under rule XXVII may be amplified, so as to make it clear that a person shall not be eligible to be a member or continue to be a member of the committee of a financing bank, if the society from which he comes as a representative is in default to the financing bank, in respect of any loan or loans taken by it for a period exceeding three months. (For reasons vide paragraph 107 of our report.)

It has been brought to our notice that there are some instances in which the paid employee of a society is a director in

another society. Though this may not contravene the restriction imposed by rule XXVII (1) (d) and (2) (d), it may be still undesirable in some cases to allow a paid employee of a society to become a director in another society. The rule may be suitably amended permitting the paid employee of a society to become a director in any other society, only with the previous permission of the employing society and the Registrar.

XXVII-AA.—A new rule XXVII-AA may be made constituting a committee consisting of the President of the State Co-operative Bank, Registrar and the President of one of the Central Banks for the purpose of disposing of appeals against suspension, removal, etc., inflicted by the Central Banks on their Secretaries and Executive Officers. (For reasons vide paragraph 132 of our report.)

Rule XXIX.—This rule lays down that an officer of a society who appears as a legal practitioner against it or any other society, etc., shall be deemed to have vacated his office under certain conditions. It is desirable to invest the Registrar with power to enforce this disqualification *suo moto*.

AMENDMENTS SUGGESTED TO THE MADRAS CO-OPERATIVE LAND MORTGAGE BANKS ACT.

Under section 16 of the Madras Land Mortgage Banks Act, 1934, the sale officer is empowered to distribute the sale-proceeds in payment of cost, charge, etc. The sale officer is also empowered under section 17 to issue a sale certificate to the purchaser. In the conference of Deputy Registrars held in 1955, it was suggested that both these functions should be discharged by the Registrar of the district (i.e., Deputy Registrar). As these are important functions, they must be discharged by a responsible officer. So we agree with this suggestion. Sections 16 and 17 may, therefore, be suitably amended.

In paragraph 152 of Chapter 10 we have suggested that in respect of loans issued by the Land Mortgage Banks for land improvement purposes, a preferential claim should be assigned to the Land Mortgage Banks on the lines of the *preferential claim to Government provided for in* section 7 (1) of the Land Improvement Loans Act, 1883. We desire that the land mortgage banks should enjoy all the rights and privileges enjoyed by the Government under the Land Improvement Loans Act, 1883, in respect of loans granted for land improvement. A new section 28 (A) may be made providing for this preferential claim.

CHAPTER 25.

CONCLUSION.

350. In preparing the report we have been greatly assisted by the knowledge of the working of the many societies we have visited, by the evidence of witnesses and representations of institutions and

above all, by the valuable reports of the expert committees, the most important and the latest of which is the one by the Rural Credit Survey Committee. Our report covers the working of the co-operative movement in the Madras State since 1940. We have made certain suggestions and recommendations which we think will prove of advantage in the new set-up envisaged by the Second Five-Year Plan.

351. The Co-operative Movement came into existence nearly a hundred years ago, and in India it was organized and developed during the last fifty years. Among the great world movements of the nineteenth century, it has survived the fluctuations of political and economic changes, and continued to expand in every country, proving its inherent virtues to confer on men of limited means the blessings of common and united effort, based on the moral virtues of the individuals. In India, its progress and achievements have been variously assessed but no one doubts that it is still the only hope of our rural population to raise them from their present state of poverty and insecurity to a decent standard of living and culture. Agricultural co-operation has brought about an economic revolution in countries like Denmark, Ireland and the Netherlands, and rural co-operatives in Japan have brought about a similar revolution in the sphere of cottage industries. We may confidently hope to see that similar results are achieved in the years to come in our country.

352. The movement enters upon a new era after the attainment of Independence, as indicated by the declaration of the Nation's goal to establish "a Co-operative Commonwealth". That these words are not empty slogans are now clearly demonstrated by the execution of the First Five-Year Plan and the beginning of the Second, more ambitious in scope, in which there is provision for a planned expansion of the co-operative movement. "The object of this programme is the setting up of co-operative village management as the goal of reorganization for the village economy" in the words of the report of the Second Five-Year Plan. The specific aims of the programme of the expansion are (1) to increase agricultural production through co-operative farming, (2) to bring every family in the village as a member of at least one co-operative society, and (3) to make every family creditworthy. There are good grounds for the hope that the co-operative movement is entering upon a new era in our country. The State till now had adhered rigidly to the passive role of "friend, philosopher and guide" but now it has decided on active partnership. We have welcomed this principal recommendation of the Rural Credit Survey Committee as modified by the Patna Congress and the State Ministers' Conference at Delhi and we have recommended its application in our State. State participation in finance and management may vary at different levels and in different states, but there is no doubt that there is going to be a new direction which, it is reasonable to hope, will speed up the progress of the societies, both for the expansion of agriculture and

of cottage industries. One of the limiting factors to the expansion of the movement till now was the lack of adequate finance and it was a common criticism that co-operative credit did not touch even the fringe of the problem of rural indebtedness. It will be conceded that the new scheme of full finance which is to be the policy for the future will go a long way to solve the problem of rural indebtedness and thus remove the barrier to the progress of agriculture.

353. The Second Five-Year Plan provides a sum of Rs. 12 crores for co-operative expansion in our State, spread over a period of five years. This does not take account of the loans proposed to be issued every year in the rural sector which will be Rs. 15 crores in the final year of the plan. Seventy-five per cent of the villages and 50 per cent of the population are expected to be covered by the year 1960-61.

354. There is also a second reason for the hope now entertained that the co-operative movement will become a powerful agency of rural reconstruction. There is a new awakening among the people and a desire to improve their lot through State help, brought about by the various schemes under Community Development and National Extension Schemes. In this sphere, co-operation has a vital role to play under the Second Five-Year Plan and we hope the Government will in practice make a fuller use of the department in the working of the Community Development and National Extension Schemes.

355. With a view to bring about an improvement in the working of the movement we have suggested the separation of audit from administration, mainly to tone up the working of the societies and to raise the standard of conduct on the part of officials and the non-officials jointly engaged in the working of the movement. Advisedly, we have not recommended the complete separation of these two branches but proposed a compromise which will safeguard the prospects of the audit staff working in the department, while making audit independent and effective.

356. The success of the entire plan and the programme of expansion in our State depends, in our opinion, principally upon the State Government whose initiative and responsibility should in no way be diminished by the interference of any outside authority. With this end in view, we are recommending the establishment of the State Co-operative Development Board in Chapter 3 which will have the responsibility to initiate and plan and develop the movement in our State under the guidance of the Minister-in-charge. This body will have to translate the programme of the Second Five-Year Plan into a phased pattern of gradual expansion and bringing about the required response from the public. The activities of the body will not be confined to the administration of the schemes connected with the Second Five-Year Plan alone, but it will be a permanent statutory body planning and developing the movement.

357. Public response is perhaps the most important condition of success for a movement based essentially on the ethical qualities of its members. The movement can succeed only in the measure in which the individuals composing it bring into play the virtues and qualities so necessary for success. We have every hope that there will be an adequate and cheerful response from the people of this State to build up the new order animated by a new hope and a new faith.

358. Before we conclude, we would desire to acknowledge the assistance we have received from many quarters. Our thanks are due to the institutions and individuals, Heads of Departments of Agriculture, Industries, Harijan Welfare Department and Development Commissioner for their valuable replies. We must express our gratitude to the co-operators of all the districts we visited for the unfailing courtesy shown by them and the assistance they gave us in our study of the problems of the movement. We are greatly indebted to the co-operators and other public men who served as co-opted members of this Committee, in the districts visited by us, and to the witnesses who tendered oral evidence before us. Our thanks are due to the Presidents of the State Co-operative Bank, Central Land Mortgage Bank, State Co-operative Union, and State Handloom Weavers' Society, who without any reserve placed their knowledge and experience at the disposal of the Committee. We are sorry in this connexion, that we had not been able to visit many other co-operative institutions, which we would have visited, if we had more time. We are deeply grateful to the Registrar Sri A. Palaniappa Mudaliar for his valuable aid and guidance throughout the proceedings. The Committee places on record its great sense of appreciation of the ability and earnestness with which Sri V. K. Appandarajan, Secretary of the Committee has been doing the work. We shall be failing in our duty if we do not acknowledge gratefully the help given to us by Sri S. Nithyanandham, Joint Registrar in our deliberations and in the drafting of our report. We also like to place on record our appreciations of the sincere, earnest and willing work rendered by the Manager, Superintendents and the typists of the Committee's office.

(Signed) T. M. NARAYANASWAMY PILLAI.
(„) T. M. CHINNIAH PILLAI.
(„) P. NATESAN.
(„) A. PALANIAPPA MUDALIAR.*
(„) P. VASU MENON.
(„) B. VENKATARATNAM.

V. K. APPANDARAJAN—Secretary.

* I sign the report subject to the understanding that in my examination of the recommendations in my official capacity, I may be obliged to take views different from those contained in the report.

(Sd.) A. PALANIAPPA MUDALIAR.

We, the members of the Committee, desire to place on record our great debt of gratitude to our Chairman for the trouble he has taken in guiding our deliberations to a successful end. We are fully conscious of the earnest and the wholehearted manner in which he has worked during the entire period of our Committee has been functioning. His wide experience in several spheres of public service he was called upon to undertake in the past, and his prior active association with the co-operative institutions in his own district have been of immense help in our correct appraisal of the present working of the movement in the State and in the matter of our coming to proper conclusions regarding its future set up. In spite of his having been called upon to take up the office of the Vice-Chancellor of the Annamalai University after he was appointed as our Chairman, he gave us the same amount of guidance and direction as he did at the start of our work. We wish to express our deep appreciation of the unfailing courtesy coupled with the spirit of compromise which the Chairman showed throughout our deliberations. He was, in fact, the embodiment of the co-operative spirit which is the ideal of the future pattern of our socialistic State.

(Signed) T. M. CHINNIAH PILLAI.

(„) B. VENKATARATNAM.

(„) M. SHIVA RAO.

(„) P. VASU MENON.

(„) R. BALAKRISHNA.

(„) P. NATESAN.

(„) A. PALANIAPPA MUDALIAR.

To

The Chairman,
Committee on Co-operation.

Sir,

I could not be present on 12th April 1956 at Chidambaram to sign the report.

I am however in agreement with the report.

M. SHIVA RAO,
Member,
Committee on Co-operation.

To

The Chairman,
Committee on Co-operation.

Sir,

I could not be present on 12th April 1956 at Chidambaram to sign the report.

I am however in agreement with the report.

R. BALAKRISHNA,
Member,
Committee on Co-operation.

CHAPTER 26. SUMMARY OF RECOMMENDATIONS.

CHAPTER 3.

Recommendations of the Rural Credit Survey Committee.

Recommendation number.	Paragraph number.
1 The State, apart from investing token amounts as share capital in the State Co-operative Bank and the Central Banks, need not compel them to receive share capital irrespective of their wishes ..	33
2 If and when the State Co-operative Bank and the Central Banks are in a position to retire the share capital of the Government, they must have the option to do so. State partnership need not continue indefinitely ..	33
3 The village credit societies should be permitted to advance out of the State derived capital, loans to their members, in necessary, and only in necessary cases, towards part of the share capital to be paid by them, in relation to the loans required by them ..	33
4 So far as the share capital of the primary societies which is channelled through the apex and the central banks is concerned, the State should be eligible only for such dividend as is declared by the primary societies which ultimately receive the State's share capital. If the total of such dividend received from all societies in a	

Recommendation number.	Paragraph number.
year is in excess of the amount payable to the Reserve Bank in that year, the excess may be added on to the State Co-operative Development Fund	33
5 The State's share capital invested in the primary societies may be dividend free for a period of five years	33
6 In the event of loss of State's share capital invested through the Central Bank in the primaries, it is not fair that the central bank should be called upon to make good the loss; for to do so might impair the financial stability of the central bank which has merely passed on the money to the village credit societies	33
7 The recommendations of the Rural Credit Survey Committee regarding the direct investment of State's share capital in the primary marketing societies, establishment of large-sized societies with limited liability, issue of loans on the security of anticipated crops, integration of credit and marketing, administration of societies by trained personnel, are endorsed generally. So far as Land Mortgage Banking system is concerned, the scheme of State partnership is not necessary	33
8 The National Co-operative Development Fund and the National Warehousing Development Fund should be administered solely by the State Government, instead of by a Central Board. The Central Board should have the power of merely allocating the share of these funds for this State on the basis of its population. A State Co-operative Development Board analogous to the National Co-operative Development and Warehousing Board may be set up in the State with the Minister in charge of Co-operation as the Chairman. The members of the Board may be the representatives of the Apex Co-operative institutions, village credit societies, marketing societies, one or two eminent non-official co-operators, a representative each of the Board of Revenue and Finance	

Recommendation number.		Paragraph number.
	Department, Director of Agriculture, Director of Animal Husbandry, Chief Engineer (Buildings), and Registrar of Co-operative Societies as Member Secretary of the Board. When such a Board is constituted, the present Co-operative Advisory Council may be abolished ..	35
CHAPTER 5.		
<i>Village Credit Societies.</i>		
9	The reorganization of the village credit societies into large-sized units is recommended	54
10	In determining the area of a large-sized society, the over-riding consideration should be, generally, the possibility of developing the loan transactions of the institution within a reasonable time so as to make it possible for it to have a loan business of at least Rs. 2 lakhs eventually and to realize the other objectives for which its transformation was effected.	55
11	Such of the existing societies as have scope for developing their transactions on the above lines may be left undisturbed ..	55
12	Section 13 of the Co-operative Societies Act, which prescribes the procedure for amalgamation, may be amended providing for an element of compulsion to be vested in the Registrar	55
13	Instead of continuing as separate agencies for the issue of medium-term loans the rural banks should function as large-sized primary societies	56
14	The central banks, and the Department should ensure that no discrimination is made against men of small means and members residing outside the headquarters of large-sized societies	57
15	Tenants should be provided with cultivation finance by loans by the village credit societies	58

Recommendation number.		Paragraph number.
16	There is need for the institution of a Guarantee and Relief Fund, out of which possible losses arising from the issue of loans to tenants may be made good ..	58
17	Section 21 of the Co-operative Societies Act may be amended, creating a first charge on the crops, etc., instead of merely "priority" as at present and making the charge effective and enforceable easily and quickly	58
18	The purpose in view will be served if the rural credit co-operatives are able to supply 50 per cent of the credit needs of the rural population. This objective may be achieved in the course of about 15 years ..	59
19	When borrowers are unable to pay the dues on account of causes beyond their control such as drought, cyclone, etc., extension should be granted. Fresh finance should not be denied to them especially for cultivation purposes and purchase of domestic necessities	60
20	The extended period should synchronize with the period of the next harvest	60
21	Even though the village societies are in overdue to the central banks, they may be granted loans by the central banks for financing new members and non-defaulting members, provided the societies concerned have taken action to realize the overdues in the members' loans	60
22	Provision may be made in the Co-operative Societies Act for the creation of a charge on immovable property by a declaration made by the borrower (i.e., without mortgaging the same)	62
23	The grant of takkavi loans by the Government may be discontinued. They may be given through the credit societies by placing necessary funds at the disposal of the Registrar	63
24	The collection of dues in members' loans should receive equal attention with the collection of dues in loans due by the societies to the central banks	64

Recommendation number.	Paragraph number.
25 Penal interest collected from members of village credit societies on the overdues instalments may be limited to 25 per cent of the usual rate of interest	64
26 The State Co-operative Bank may consider the desirability of effecting in due course a further reduction of $\frac{1}{4}$ per cent in the rate of interest charged by it on loans to central banks for financing agricultural operations and marketing of crops	65
27 When the central banks are not in a position to effect a reduction in the interest charged by them, on the loans to village credit societies, corresponding to the reduction effected by the State Co-operative Bank, the savings accruing from the increased margin available to them, consequent on the reduction in the rate of the State Co-operative Bank, may be passed on to the village credit societies	65
28 The central banks should at the same time aim at lending to village societies at 4 per cent in due course and work purposively towards that end	65
29 The maximum remuneration permissible for scriptory work to a panchayatdar under by law No. 30 might well be reduced	65
30 The suggestion that the Reserve Bank should lend directly to the central bank is not supported	65
31 The suggestion that the central banks should get all their credit requirements from the Reserve Bank and not go in for deposits at higher rates of interest is not desirable	65
32 There is not much scope at present for reducing the ultimate rate of interest to the borrower from $6\frac{1}{4}$ per cent	65
33 Sustained efforts should be made to popularize the system of chit funds and home-safe deposits	66
34 The share capital of a member should not be allowed to be adjusted to the balance of his loan; but the outstanding loan should	

Recommendation number.	Paragraph number.
be collected in full. When a next loan is taken, fresh share capital should be collected. This process may go on till the share capital of a member reaches at least Rs. 50.	66
35 Unlimited liability may be replaced by guarantee liability in the large-sized societies of the future. The liability of the existing societies may be left undisturbed till they are transformed into or merged with the large-sized societies. Section 4 of the Co-operative Societies Act may be suitably amended permitting the registration of village credit societies with limited liability also	67
36 There should be a provision for appeal against the decisions of the panchayat rejecting admission to membership. The appeal should be to the Executive Committee of the Central Bank	68
37 There should be a provision for appeal against the decision of the general body expelling a person from membership. The appeal should be to the Executive Committee of the Central Bank	68
38 The system of electing panchayatdars in ordinary rural credit societies annually may continue. For large-sized societies however the period of the panchayat may be three years	69
39 General body meetings should be held in the presence of an official of the central bank or an office-bearer of the union after giving due notice to all the members	69
40 Large-sized societies will be eminently suited, to take up other activities in addition to credit such as joint purchase and distribution of the agricultural and domestic requirements, etc. They may undertake running of demonstration plots	69
CHAPTER 6.	
<i>Non-Agricultural Credit Societies.</i>	
41 The Registrar may be empowered by the rules to fix the number of directors in urban banks who shall hold fixed deposits and	

Recommendation number.	Paragraph number.
the minimum amount of fixed deposits to be held by them. This rule may be made applicable only to big urban banks—with a working capital of Rs. 1 lakh and more	76
42 To ensure that members of an urban bank residing in the several wards of its area of operations are given reasonable facilities to exercise their voting power, polling booths may be opened at convenient centres (and not merely in the office of the bank) ..	77
43 Provision for representative general body should be made in societies having more than 1,000 members and area extending over a taluk. The Registrar must be empowered by rule to direct the constitution of such representative assemblies ..	78
44 Urban banks should not normally lend for periods exceeding 5 years. Where, however, the surplus long-term resources of any urban bank justify the grant of such loans, it can move the Registrar for relaxation of the relevant rule. It is not desirable to permit such relaxation in places where house mortgage banks are functioning	79
45 Renewal of jewel loans after collecting interest should not be permitted ..	80
46 There is no objection to urban banks issuing loans on the pledge of agricultural produce with a view to help their agriculturist members	81
47 Penal interest charged by the urban banks may be kept at a rate which is only 25 per cent above their normal lending rates ..	82
48 Urban banks may issue loans to non-members on the security of their deposits and central land mortgage bank debentures. But discounting of cheques should be restricted to members only	83
49 Urban banks may be allowed to take 90 per cent of the market value of Government securities instead of 80 per cent for	

Recommendation number.	Paragraph number.
purposes of fluid resources. They may be permitted to take 80 per cent of the value of the Central Land Mortgage Bank debentures for this purpose.	84
50 The urban banks may run chit funds with a view to develop habits of thrift among people of limited means	85
51 Rule XII (a) may be amended making it obligatory for the urban banks to carry one-third of the net profits to the reserve fund till their reserve fund and other reserves equal their paid-up share capital and thereafter one-fourth of their net profits to the reserve fund	86
52 It is desirable to associate the heads of offices with the management of employees' credit societies	87
53 Government may advise the heads of offices to agree to function as ex-officio presidents. ..	87
54 It is highly necessary that the maximum of the pay security loan which a member can take from an employees' society is limited to 25 per cent of the basic pay of the employee	88
55 The individual maximum borrowing power in an employees' society may be limited to five times the basic pay and dearness allowance of a member	88
56 Provision should be made in the Madras Co-operative Societies Act to make it mandatory on the part of the employers to recover the loan instalments due to societies from their employees	89
57 The Employees' societies may be permitted to allow withdrawals from thrift deposits of members for the purpose of paying premia in respect of all life policies ..	90
58 The continuance of the system of joint purchase and distribution in employees' societies is recommended subject to proper accounting, etc.	91

CHAPTER 7.

Societies for Harijans and other Backward Communities.

Recommendation number.		Paragraph number.
59	The policy should be not to start separate societies for Harijans and other backward classes	93
60	Membership of the existing societies may be thrown open to all classes of people in their area of operations. But such re-organization of these societies should not be allowed to operate as a bar against special State help, if any, in force or intended. The only criterion should be whether these societies serve large numbers of the communities eligible for State help	93
61	Existing societies for Harijans need be allowed to function as separate entities only when they are working successfully and where otherwise the Harijans will not get credit facilities easily or adequately	93
62	Harijan societies should be affiliated to supervising unions for purposes of supervision. Government may distribute as subsidy to the Central Banks, the amounts now spent on the special staff for supervision which will become unnecessary, so that the Central banks can strengthen their supervisory staff	93
63	The suggestion that Government should finance the Harijan societies is not supported. A scheme of Government finance would encourage the demand for the formation of separate societies. The financing of Harijan credit societies should be continued to be done by the Central banks	94
64	Central banks should make special efforts to secure admission of Harijans in the common societies	94
65	Annually a week may be observed and celebrated as the Harijan Admission Week during which period concentrated efforts should be made by the co-operators to secure the admission of Harijans in the common co-operatives	94

Recommendation number.		Paragraph number.
66	The Central Bank, Madurai, should take up the financing of Kallar societies. Government may give a guarantee to the Central bank in respect of the loans issued to these societies up to an overall limit of 20 per cent of the loans issued by the Central bank and 50 per cent in the case of individual societies for a period of ten years	95
67	Government may give a subsidy to the Central bank to enable it to maintain supervisory staff at the rate of one for 10 societies for supervising the Kallar societies, for a period of ten years	95
68	The services of Co-operative Housing societies may be utilized by the Government for the construction of houses for Harijans on subsidised basis, if they come forward to undertake this work	96
CHAPTER 8		
<i>Central Banks.</i>		
69	Individual members in central banks need not be eliminated	105
70	The present system of electing individual directors may be continued	105
71	Fixation of a share qualification for the Directors of central banks, may be left to the discretion of the central banks. The minimum deposit qualification of the directors who have to hold fixed deposits may be not less than Rs. 2,000	106
72	The present system of representation to societies affiliated to Supervising Unions on the Board of Managements of central banks may continue	107
73	It is desirable to lay down that delegates of societies which are overdue to the central banks for a period of more than 3 months are not eligible for election as directors of the bank or for continuance as directors	107
74	The present system of electing one representative for each supervising union	

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Recommendation number.		Paragraph number.
	irrespective of its size may continue ; but the supervising unions should be re-organized on a rational basis	107
75	The following types of societies may each be given separate representation on the Board of Management of the central bank if the number in each category is at least 25 :— (1) Weavers societies. (2) Stores societies (3) Jaggery and other cottage industries societies. (4) Marketing societies and (5) Milk supply societies	108
76	Where the number in each class exceeds 25 the representative may be elected separately by themselves. Otherwise two or more classes of societies may be combined for this purpose to suit local conditions ..	108
77	Opening of branches by central banks is not recommended as a policy to be pursued necessarily by them. The central banks should make use of urban banks, rural banks and large sized societies proposed to be formed, in an increasing measure to facilitate remittance of moneys by the several credit societies	110
78	There is no justification for recommending Government subsidy for the opening of branches by the central banks	110
79	The normal maximum borrowing power of the central banks may be raised from 10 to 12 times their paid up share capital plus reserve fund. It is not necessary to have an additional borrowing power exclusively for marketing societies as at present. (To the extent of this enhancement, the need for Government taking share capital indirectly in the central banks will be obviated) ..	111
80	Government may permit local bodies to invest their fixed deposits in central banks without any limit	112
81	Regarding current account, each local body may be permitted to invest up to Rs. 25,000 in a central bank instead of the present limit of Rs. 10,000	112
82	There is no practical need to abolish the distinction between 'inside' and 'outside' liabilities for purposes of maintaining fluid resources	113

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Recommendation number.		Paragraph number.
83	Only the amount withdrawable readily from a savings bank account should be taken into account for purposes of fluid resources	113
84	Regarding postal cash certificates, the amount that will be realized on their encashment on a particular date, which is noted on the reverse of these certificates, may be reckoned for this purpose	113
85	The second proviso to Rule VIII-A fixing a limit of 50 per cent for the issue of loans exceeding 3 years out of the total loans that can be issued for periods exceeding one year may be deleted	114
86	Rule VIII-A may be amended enabling the Registrar to include other objects also for which loans for more than 3 years could be issued	114
87	The total loan amount given by the central bank to a village credit society may be limited to 15 times the share capital invested by the latter in the former	115
88	The Executive Committees of central banks may meet twice a month with a view to eliminate delay in the sanction of loans ..	115
89	The system of forecast loans which is now in force to a limited extent may be introduced extensively	115
90	The supervisors should verify the borrowers regarding disbursement of loans independently of the office bearers	115
91	Regarding the grant of extension, the limit of 30 days from the due date fixed for the receipt of application in the central bank may not be strictly insisted upon. It is enough if the application is received in the central bank in time for the Executive Committee to take a decision	115
92	When an extension is granted to the society, the period may be fixed with reference to the period of the next harvest in the area of the society	115

Recommendation number.	Paragraph number.
93 The amount lent by the central banks to the urban banks should be limited to 50 per cent of the amounts lent by the latter to their members	116
94 It is necessary for the central banks to arrange for the periodical verification of the securities in jewel loans and commodity loans issued by the urban banks. A test verification of the loans other than these loans also may be arranged by the central banks.	116
95 The relationship between share capital invested in the central banks by the non-agricultural societies and loans to be issued by the central banks may be similar to what has been recommended for the village credit societies	116
96 The borrowing power of a marketing society may be fixed at 50 times its paid up share capital plus the reserve fund and one fourth of its paid up share capital should be invested in the central banks.	117
97 It is necessary that the central banks arrange for a physical verification of the stock in the weavers societies once in a half year (preferably in the intervals between departmental verifications at the end of each half year)	118
98 The cess fund should be channelled through the State Co-operative Bank and not directly through the central banks to the weavers societies as suggested by some representatives of Weaver's Co-operative Societies.	118
99 The State Government may agree to bear 50 per cent of the loss, arising out of the non-recovery of the loans issued to weavers societies, subject to a maximum of 5 per cent of the total loans sanctioned by the Government of India. (The remaining 50 per cent of the loss subject to a similar limit has been agreed to be borne by the Government of India)	118
100 The State Government may guarantee the loans issued by the central banks to the cottage industries societies	119

Recommendation number.	Paragraph number.
101 The loan applications of societies must be considered by the central banks at their committee meetings and only in exceptionally urgent cases circulation may be resorted to	120
102 Levy of penal interest on overdue instalments due by the societies is not necessary	121
103 Formation of separate central banks for different classes of societies is not desirable	122
104 In view of the need for cheapening the cost of credit to agriculturists, the possibility of reducing the rate of interest on loans issued to village credit societies may be kept in view by the central banks and the position reviewed from time to time	123
105 Central banks should not grant advances on the security of Government Paper except to their regular constituents, i.e., those who keep accounts with them	124
106 Each central bank should appoint a full time Executive Officer with the same status as that of the Secretary, with his duties and responsibilities clearly defined	125
107 Both the Executive Officer and the Secretary should be co-ordinate officers, as far as status is concerned	125
108 The Executive Officer should be invested with powers now conferred on the Secretary under the model by-laws to deal with the field staff and the staff in the administrative section	125
109 The central banks should continue to be in charge of supervision work over the village credit societies	126
110 Ordinarily, central banks need not take over supervision of non-credit societies. However, in respect of any particular type of societies, if the central bank thinks that it can undertake supervision, and the department also feels that this can be allowed without detriment to efficiency, Government may grant subsidy to the central bank as the employment of special staff by the department to that extent will be obviated.	127

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Recommendation Number.		Paragraph Number.
111	The practice of the Deputy Registrars recommending the loan applications of non-credit societies to the central banks, may continue	127
112	The abolition of the Committees of Supervision in central banks is recommended ..	128
113	The minimum and maximum pay of the supervisory staff may be fixed at Rs. 50 and Rs. 90 if the finances of the central banks permit such upgrading	129
114	A certain number of the posts of Supervisors may be converted into higher scale posts (Rs. 90 to Rs. 120)	129
115	The qualifications prescribed for Secretaries, Executive Officers, etc., viz., B.A., B.Com., B.Sc., may be waived with the approval of the Registrar in the case of senior scale supervisors found fit for promotion to these posts	129
116	Certain number of posts of Junior Inspectors may be reserved for supervisors of the central banks	129
117	The central banks may hold half-yearly refresher courses for supervisors for about a week	129
118	The powers of the central bank and the supervising unions with regard to control over supervisors obtaining at present may continue	131
119	A Committee consisting of the president of the State Co-operative Bank, Registrar of Co-operative Societies and one of the presidents of the Central banks elected for this purpose by the Board of Management of the State Co-operative Bank, may be constituted. This Committee will be the appellate authority so far as major punishments such as suspension and dismissal imposed by the central banks (on secretaries and executive officers) are concerned. The same Committee may also arrange for transfers of offices with the concurrence of the banks concerned ..	132
120	The present procedure with regard to the allocation of reserve fund from out of the net profits may continue	133

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Recommendation number.		Paragraph number.
121	The maximum rate of dividend, namely, 5 percent allowed for central banks is reasonable and may continue	134
122	The by-law relating to the distribution of net profits in a central bank may be amended so as to provide for carrying 5 per cent of the net profits necessarily to the bad debt reserve	135
123	Central banks having interest overdues of not more than 2 per cent of the demand may be also brought under "A" class. The principal overdues in respect of an A class bank should not exceed 20 per cent (instead of the present 25 per cent). In the case of B class central banks, the principal overdues should not exceed 40 per cent (instead of the present 50 per cent) ..	136
CHAPTER 9.		
<i>State Co-operative Bank.</i>		
124	The elimination of individual members by adopting special measures in this regard is not recommended	138
125	The State Co-operative Bank should insist on the central banks investing at least a certain percentage of their share capital (say 20 per cent) in the State Co-operative Bank according to a phased programme.	139
126	There is no need for the formation of an Executive Committee	140
127	The provision for plurality of votes may continue but the provision for proxy voting may be abolished	141
128	The State Co-operative Bank may issue loans on Government paper only to their regular constituents	142
129	The State Co-operative Bank need finance only the central banks and the apex co-operative institutions and such of those primary co-operatives as cannot in the opinion of the Registrar be financed adequately by the central banks	143

Recommendation number.		Paragraph number.
130	The maximum rate of dividend which the State Co-operative Bank may pay to the share holders may be reduced from 9 to 6 per cent. There is, however, no objection to the State Co-operative Bank paying a rebate to the central banks on the interest collected from them to compensate for the loss by way of reduced dividend	146
131	The special staff of the State Co-operative bank which will be inspecting the central banks may be given a short course of training in the Agricultural credit department of the Reserve Bank	145
132	The maximum borrowing power of the State Co-operative bank may be raised from 12 to 15 times its paid up share capital plus reserve fund.. ..	147
CHAPTER 10.		
<i>Land Mortgage Banks.</i>		
133	The basis of valuation of the hypotheca may be pre-war value plus 40 per cent instead of pre-war value plus 25 per cent	151
134	In the case of loans given for land improvement, the value adopted should be the anticipated value of the land and not the existing value. The difference between the anticipated value and the existing value should be guaranteed by the Government	151
135	It is not desirable to dispense with any of the existing stages through which a loan application passes before its final sanction and disbursement by the central land mortgage bank	152
136	It is not desirable to lay down a general rule that the scrutiny of the title of the borrower to the hypotheca should be restricted only to a period of 23 years prior to the date of the application and that entries in the resettlement and survey registers may be ignored. Every application has to be judged on its own merits	152

Recommendation number.		Paragraph number.
137	The incorporation of a provision similar to section 7 (1) of the Land Improvement Loans Act, 1883 in the Land Mortgage Banks Act is recommended with a view to facilitate issue of loans for land improvement	152
138	Disbursement of productive loans after a preliminary investigation of title, is not recommended	152
139	An enhancement in the scale of legal advisers' fee is recommended	152
140	There should be one Co-operative Sub-Registrar for every two land mortgage banks. Pending the appointment of staff on this basis, the services of co-operative sub-registrars may be taken temporarily by the primary land mortgage banks when work is heavy and their cost shared equally by the primary bank and the central land mortgage bank	152
141	The provision made in the Second Five-Year Plan for subsidising the appointment of additional supervisors is supported	152
142	In the case of loans issued for land improvement purposes the land mortgage banks may be allowed to fix the payment of the first instalment from the third year of the loan, the interest alone being paid by the borrower till the third year. The total period of the loan should not, however, exceed 20 years. Suitable modifications to the Trust Deed may be made regarding the annual payment towards sinking fund, etc.	153
143	A grant of subsidy of 3 per cent by the Government to meet the difference between the usual lending rate to the ultimate borrower (6½ percent) and the rate to be charged for productive loans (3½ per cent) is recommended	153
144	Intensive and purposive propaganda about the functioning of land mortgage banks should be made in the villages by all the departments of Government—particularly Revenue, Community Projects, National Extension Scheme Administration, Agricultural and Co-operative Departments	153

Recommendation number.		Paragraph number.
145	The central and primary land mortgage banks in the State should plan their working so as to reach the smaller classes of people in a greater measure	154
146	There is no objection to the issue of subsequent loans for productive purposes, but care should be taken to see that such loans are really utilized for productive purposes.	155
147	The entire cost of the Deputy Registrars and Co-operative Sub-Registrars and their staff may be met by the Government to enable the central land mortgage bank to reduce its lending rate by half a per cent. This half per cent is to be passed on to the ultimate borrower	156
148	The State Government may withdraw from the field of normal financing of agriculturists (both long term and short term) except in times of distress and for special reasons. The cost of the special staff maintained by Government for the issue of land improvement loans may well be given as subsidy to the central land mortgage bank to enable it to reduce its lending rate to the extent possible (and pass on the reduction to the ultimate borrowers through the primary land mortgage banks) ..	157
149	In the case of loans not exceeding Rs. 1,000 full exemption from the payment of registration fee may be given	158
150	The concession of collecting single fee for grant of encumbrance certificates irrespective of the number of owners may be extended to loans exceeding Rs. 5,000 also.	158
151	It will not be possible to link the loans of land mortgage banks to insurance compulsorily. However, the staff connected with the land mortgage banks may do propaganda among the borrowers, for their taking up insurance voluntarily	159
152	Government may take steps by appointing special staff to effect subdivisions of lands in areas where single survey numbers have been given for big blocks with several	

Recommendation number.		Paragraph number.
	owners. This work may be considered as part of the development work in the interests of the expansion of agricultural credit, instead of considering it as part of the work relating to the record of rights ..	160
153	There are a number of untapped villages. The primary land mortgage banks should draw up programmes for reaching such villages	160
154	The tendency to ignore the overdues of members to primary land mortgage banks and to concentrate on clearance of overdues by primary land mortgage banks to central land mortgage bank only is cautioned against	161
155	Penal interest may not be collected on overdue instalments of loans due by primary land mortgage banks to the central land mortgage bank. Penal interest may be collected in respect of overdue instalments of loans due by members to the primary land mortgage banks	161
156	It is safe to go by the banking principle of co-relating the period of lendings with the borrowings till the central land mortgage bank builds up Reserve Fund and other reserves to a considerably larger extent than at present. The issue of loans now for periods shorter than the periods for which the debentures are floated is not recommended	162
157	The State Bank of India may recognise the debentures issued by the central land mortgage bank as good enough security for purposes of loans and advances and also purchase the debentures as part of their investment. The matter may be taken up by the State Government with the Government of India	163
158	The central land mortgage bank may be permitted to purchase its debentures after the expiry of three years from the date of floatation instead of five years as at present.	163

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Recommendation number.		Paragraph number.
159	Rural debentures may be issued for denominations of Rs. 50. To reduce clerical and other work involved in the issue of such debentures interest may be made payable once in a year	163
160	The present method of constituting the Sinking Fund is satisfactory and may be continued.. .. .	164
161	No change is recommended with regard to the maximum borrowing power of the primary land mortgage bank or the individual maximum borrowing power of the member	165
162	Provincialization of supervisors and paid Secretaries of primary land mortgage banks is not recommended	166
163	The central land mortgage bank and the primary land mortgage banks may set apart 10 per cent of their net profits towards a stabilization fund (to be pooled into the central land mortgage bank), to give advances to the borrowers of the primary land mortgage banks to meet their obligations in times of distress	167
164	The maximum prescribed at present for the rate of dividend in the central land mortgage bank may continue	168

CHAPTER II.

Co-operative Farming Societies.

165	The dry farm run at Neikulam village by the Lalgudi-Sivagnanam Agricultural Co-operative Society (Tiruchirappalli district) may be taken over by the Government itself and run as a demonstration farm	170
166	The existing societies for consolidation of holdings may be liquidated if they have no chances of realizing the object with which they were formed. Where they have prospects of working successfully, Government may liberally aid them by giving the free services of staff and also full concessions in respect of registration charges, etc.	170

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Recommendation number.		Paragraph number.
167	Agricultural improvement societies may be amalgamated with the marketing societies or liquidated	171
168	Separate irrigation societies (including Kudimaramath societies) may be formed only if local village credit societies cannot be entrusted with the work of these societies.	171
169	The Revenue department may effectively help the irrigation societies in the enforcement of recovery of contribution from non-members towards the cost of repairing and maintaining waterways, tanks, etc.	171
170	In each taluk at least half a dozen village credit societies must run demonstration plots. Government may, besides giving technical help through their officers for this purpose, also give liberal subsidy	171
171	Government may themselves reclaim the lands before assigning them to the colonization societies	174
172	In every scheme of co-operative colonization in which cultivation is dependent on monsoon, long-term loans may be given by the Government for sinking of wells	175
173	The colonists in a land colonization society may be given full rights of ownership after a period of 20 years	176
174	Joint farming on a co-operative basis is not likely to be popular and capable of implementation on an extensive scale	179
175	The general future pattern of farming should be in the direction of evolving peasant proprietorship	179
176	There is no objection to the formation of collective farming societies where people come forward to work on such lines and Government may, in such cases, give all the assistance required for the successful working of the societies such as free services of administrative and technical staff, subsidy and loans for the purchase of agricultural implements, bulls, etc. Such experiments may, in the first instance be tried when large blocks of Government lands are assigned to co-operatives for colonization	180

CHAPTER 12.
Marketing Societies.

Recommendation number.		Paragraph number.
177	The limit of individual maximum borrowing power in Marketing Societies may be reduced from 100 times the paidup share capital of a member to 50 times	189
178	It is not desirable for marketing societies to issue cultivation loans or loans on standing crops to their individual members ..	190
179	With a view to effectively work the controlled credit scheme, several suggestions are made	191
180	The present system of having a common marketing society to deal with all commodities grown in its area may continue. But there is no objection to the formation of a separate society at the regional level (i.e., exceeding district limits for particular crops)	192
181	The present policy of allowing marketing societies to make out-right purchase of commodities under certain safeguards may be continued	193
182	In the present conditions there is no scope, generally speaking for the introduction of grading and standardization of agricultural produce except in respect of a few commodities like potatoes. The societies may, however, keep this objective in view ..	194
183	Marketing societies may pay bonus out of net profits to their members on the value of the produce sold by them through the society	195
184	There is no need to transform every central stores into a district marketing federation. Such of these central stores as are able to work usefully may be allowed to continue as such and separate district marketing federations may be started	196
185	The policy should be in the direction of opening branches by the district marketing federations instead of starting new primary marketing societies	196

Recommendation number.		Paragraph number.
186	The District Supply and Marketing Federations may do well to appoint conjointly a representative at the foreign markets to study trend of demand, prices, etc., and to report to them in time, and to be in contact with the merchants at the importing centres	197
187	Export quotas to co-operatives may be increased from 20 per cent to 50 per cent of the total quota allotted to the state.	197
188	There is no ground to suggest that as a general rule, regulated markets should not be established at all places where co-operative marketing societies are in existence. ..	198
189	Where, however, marketing societies have already demonstrated their ability to bring producers and merchants together in their marketing yards and have ensured fair dealings between the two, the establishment of a regulated market is unnecessary. Co-operatives may be exempted from the provision of the Commercial Crops Marketing Act prohibiting sale in notified crops	198
190	It is not the legitimate business of co-operatives to take over the management of regulated markets. The former are mainly concerned with the sale of their members' produce	198
191	The Market Committees may allow the co-operatives to occupy their godowns within the regulated markets and permit them to issue loans on the pledge of produce (whether notified or not)	198
192	There should be no area-wise restriction for construction of godowns by the co-operative societies as suggested by the Rural Credit Survey Committee	199
193	The need for compulsory contributions from members towards their share capital, as recommended by the Rural Credit Survey Committee is agreed	199
194	At least one-third of the members of the present Market Committees or the future advisory committees when the corporations	

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Recommendation number.		Paragraph number.
	take over the regulated markets, may be nominated in consultation with the Registrar. The Deputy Registrar also may be an Ex-officio member of the Committee just as the District Agricultural Officer	199
195	The present restriction on the maximum amount of subsidy admissible towards the cost of construction of godowns may be removed	200
196	Fifty per cent of the rent paid by the Marketing Societies for godowns hired by them may be given as subsidy by the Government	200
97	The financial assistance proposed by the Registrar for the establishment of processing plants and the starting of processing societies is recommended, in view of the large capital outlay required for running these factories and the enormous benefits which will accrue to the agriculturists of the localities concerned	200
98	The provision for State assistance by way of the free services of staff, etc., provided for in the Second Five-Year Plan by the Registrar, is supported in principle ..	200

CHAPTER 13.

Milk Supply Cooperatives.

99	The restriction on the grant of Government loans to milk supply societies which have already availed themselves of such loans for three consecutive years, may be removed. If need be, persons who have obtained Government loans consecutively thrice may be made ineligible for such loans	204
200	The rate of interest on Government loans to members of milk supply societies for purchase of milk animals may be reduced to 3 per cent	204
201	Government may, in deserving cases, give financial assistance for the construction of milking sheds to milk supply societies by way of loans and subsidies in the proportion of 50 : 50.. ..	205

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Recommendation number.		Paragraph number.
202	Liberal financial assistance may be given by Government to big milk supply unions such as those at Coimbatore, Madurai, if they choose to instal the machinery required for bottle washing and filling.	205
203	The Dairy Assistants in the mufassal may test samples of milk at distribution ends to a greater extent. The Unions also should arrange for effective check at the distribution ends by their own supervisory staff	205
204	Government may sanction 50 per cent of the cost of the machinery required for the pasteurisation of milk as subsidy and the remaining 50 per cent as loan repayable in 10 years to the milk supply unions. The cost of technical staff needed for working the pasteurisation plants may be met fully by the Government for a period of 2 years	206
205	With regard to the problem of surplus milk, the suggestion that the members of milk co-operatives should be educated to adopt a programme of spaced calving is not capable of implementation in the village conditions. The suggestion that the issue of loans for purchase of milk animals should be restricted during the surplus season can be adopted. Milk supply co-operatives may also adopt a flexible price policy lowering the prices during the surplus seasons. Regarding the manufacture of milk powder out of surplus milk, it is suggested that an expert committee may be asked to examine fully the economics of such conversion	207
206	Seventy-five per cent of the cost of the stud bulls may be given as subsidy by the Government to milk supply co-operatives (instead of the present 50 per cent).. ..	208
	If any milk supply union comes forward to work the scheme of artificial insemination, it may be allowed with the approval of the Animal Husbandry department and the	

Recommendation number.		Paragraph number.
	services of a Veterinary Assistant Surgeon may be given to the union, free of cost, to work the scheme	208
207	With a view to render prompt and timely veterinary aid against cattle diseases, mobile veterinary units and first aid veterinary posts may be established by the Government for big milk supply unions in the State as in the case of the Madras Milk Supply Union	209
208	The implementation of the schemes regarding salvage of dry animals proposed by the Registrar in the Second Five-Year Plan is recommended	210
209	Milk Supply co-operatives may be exempted from the payment of sales tax at all points. (At present sales tax is levied at the stage of sales to the actual consumers.)	211
210	In places where milk co-operatives work efficiently and can fulfil the contracts satisfactorily, Government institutions may take their requirements of milk, from these institutions, on the recommendation of the local Deputy Registrar without calling for tenders, subject to a ceiling which may well be the retail selling rate of the society. The same procedure may be adopted by the Local Bodies also	212
211	Ban on the production of toned milk is not recommended	213
212	The staff for supervision of milk supply co-operatives may be increased at the rate of one Senior Inspector for every milk supply union and one Senior Inspector for every 16 milk supply societies and one Dairy Assistant for every Deputy Registrar's circle.	214
213	Government may subsidise the cattle breeding societies to the full extent of the cost of the stud bulls and may continue this help for a period of at least 10 years for each society to enable it to replenish the studs periodically	216

Recommendation number.		Paragraph number.
214	Veterinary first aid posts and technical personnel may be provided for the cattle breeding societies	217
215	Government may subsidize fully the loss in raising fodder crops by the cattle breeding societies for a period of three years	218

CHAPTER 14

Co-operative Stores.

216	The Stores societies may be permitted to sell to non-members also for a period of five years	221
217	Bonus may be paid to non-members at half the rate allowed for members. However, bonus to non-members need not be paid in cash, but credited to their accounts till the total accumulates to the value of a share. Payment of such bonus to non-members need be given only in primary stores and not in wholesale stores.	221
218	Credit sales in primary stores may be allowed with circumspection and care; the provisions governing the same may be strictly enforced	222
219	No credit need be allowed by the wholesale stores for the purchase made by primary stores	222
220	Insistence on personal undertaking by a director in the case of credit sales by the primary stores is not quite practicable and may be modified	222
221	The rate of bonus on credit purchases may be 75 per cent of the rate of bonus on cash purchases	222
222	Generally speaking there is no future for the rural stores. Their working may be examined individually and such of those as have definitely no prospects of revival may be liquidated	223
223	Wholesale stores should undertake the opening of retail branches only in areas where there is absolutely no immediate prospect for the successful functioning of the primary stores	226

Recommendation number.		Paragraph number.
224	It is not desirable to entrust supervision of the primary stores to the wholesale stores.	227
225	The Inspectors posted for supervision of stores may be given practical training for about a month in primary and wholesale stores run on sound and successful lines ..	227
226	The supervision over stores may be done by Government free of cost	227
227	In the matter of acceptance of tenders for the supply of diet articles to medical institutions, the concessions allowed to the stores in the matter of supply of articles by stores to jails, may be adopted (i.e., the stores should supply articles at a maximum profit of 5 percent over the cost price including the margin for transport handling charges, etc. The present concession with regard to the supplies made to medical institutions is that their tendered rate should be within the margin of 5 per cent over the lowest valid tender rate).	228
228	The Students' Co-operative Stores should be run as genuine democratic organisations and the student should play an active role in their management	

CHAPTER 15.

Housing Societies.

229	The instalment payable by a borrower in urban housing societies may be fixed with reference to the Government loan alone, treating share capital loan as repayable by adjustment in one lump-sum after the Government loan is discharged. No dividend need be paid on the share capital given as loan	232
230	In urban housing societies Government loans may be allowed to societies up to 5 times their paid up share capital instead of 4 times and to members up to 6 times their paid up share capital instead of 5 times ..	233
231	The rate of interest on Government loans to Housing societies may be 4 per cent ..	234

Recommendation number.		Paragraph number.
232	The half fee concessions in the matter of payment of registration and encumbrance certificate fees may be extended for loans up to Rs. 10,000 issued to borrowers]who belong to low income groups	235
233	It will not be desirable to restrict Government loans in all cases only to persons who do not own any house. However, it is desirable that only one loan is given to a person during his lifetime by Government.	236
234	In the Co-operative Housing colonies where all the amenities except water supply have been provided by the society at its cost, such of the houses in the colony as have been built with Government loan not exceeding Rs. 8,000 in the City and Rs. 5,000 in the mofussal may be exempted from property tax for a period of 2 years from the date on which the house becomes liable to the levy of the property tax ..	237
235	Government timber may be supplied to Housing societies at a price concession of 10 per cent	238
236	Government may continue their present policy of providing the long term finances required by the Housing societies	239
237	So far as House Mortgage Banks are concerned they may be financed by the Nationalised Insurance Corporation (as they were financed hitherto by the Co-operative Insurance Society). A central co-operative house mortgage bank with powers to float long term debentures may be formed	239
238	Government may guarantee the repayment of the principal and interest of the debentures floated by the Central House Mortgage Bank. Government may also provide this organisation with other assistance such as the free services of staff, etc.	239
239	The area of operation of a Rural Housing society may extend up to a Firka ..	241
240	In the case of Rural Housing societies members may be permitted to borrow from the society up to 6 times their paid up share capital (in cases where agricultural land is not offered as collateral security) ..	242

Recommendation number.		Paragraph number.
241	The scheme of subsidized housing proposed in the Second Five-Year Plan for agricultural artisans and labourers may be extended to other rural workers also. However, this help need be given only to persons who own immovable property valued at less than Rs. 1,000	243
242	In Industrial Housing schemes, the workers may be required to contribute only 10 per cent of the cost of the houses, Government meeting the balance as loan and subsidy ..	245
243	The subsidy admissible to workers who organize themselves into co-operatives must be definitely higher than that admissible to employers who undertake the execution of Industrial Housing schemes. The subsidy to the former may be 12½ per cent more than the subsidy given to the latter ..	246
244	In Industrial Housing co-operatives, in the event of death of a member, his heirs need not be asked to quit the house provided they agree to pay the balance of loan regularly. The conveyance may be effected to the heir or nominee at any time after the loan is discharged in full. However, the heirs need have only limited ownership till the expiry of 25 years ..	247
245	In the case of retirement after ten years, the member in an Industrial Housing co-operative may be permitted to pay the prescribed instalments even thereafter and acquire limited ownership after paying the loans due in full at any time thereafter. He will, however, acquire full ownership only after 25 years	247
246	The condition relating to insurance of houses in the Industrial Housing co-operatives may not be insisted	248
247	Government loans may be made available through housing societies for the purchase of house-sites also up to 50 per cent of the cost of the sites on the mortgage of the sites. The loan may be made repayable within a period of seven years	249

Recommendation number.		Paragraph number.
CHAPTER 16.		
<i>Weavers Co-operative Societies.</i>		
248	Government may arrange to survey the extent of indebtedness of the weavers who work under the master weavers and draw a phased programme designed to relieve them of their indebtedness and join as members of the co-operatives	252
249	Weavers societies may issue special advances to their members, limited to a month's wages on festive occasions recoverable in six months	252
250	Looms may be supplied to the loom-less weavers on subsidized basis. Fifty per cent of the cost of the loom may be given as subsidy and the remaining 50 per cent recovered as loan over a period of three years. This aid may be recognized as one of the purposes for which Cess Fund could be utilized	253
251	Financing of weavers societies should be undertaken by the central banks only ..	253
252	An interest-free loan of Rs. 20 lakhs may be advanced to the State Handloom Weavers Society from the Cess Fund to build a buffer stock of yarn. Losses arising in the sale of the buffer stock may be subsidized from the Cess Fund	254
253	Arrangements may be made to set apart a certain number of looms in every society for the production of standard cloth. Special concessions may be shown to weavers undertaking standardized production, by way of small bonus on wages from out of the Cess Fund	255
CHAPTER 17.		
<i>Cottage Industries Societies (other than Handloom Weavers societies).</i>		
254	In selecting cottage industries for organization on co-operative basis, the criterion should be whether the industry has chances of survival, having regard to the competition of factories and the tastes of the consumers	258

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Recommendation number.	Paragraph number.
255	Government may, as a matter of policy, agree to guarantee the repayment of the loans (principal and interest) issued to the cottage industries societies provided the loan is recommended by the department. Government may in deserving cases provide the required share capital and reserve fund to these societies, the former as loan, and the latter as grant
256	Loans for equipment may be given by Government free of interest repayable over long periods not exceeding ten years
257	Government may give subsidy to cottage industries societies based on their production
258	Government may employ technical assistants and depute them to help groups of cottage industries societies
259	Steps may be taken to organize cottage industries emporium for each district with liberal subsidies from the Government
260	Government and local bodies may confine their purchase of articles such as shoes, boots, knives, carpets, cumblies, etc., to the products of cottage industries societies
261	The administrative and statutory control over the working of cottage industries societies may be retransferred to the Co-operative department

CHAPTER 18.

Societies for fishermen.

262	Government may give long-term loans free of interest or at very low rate of interest to the fishermen societies for purchase of craft and tackle, repayable in five to ten years. Such long-term loans may as far as possible be in kind and not in cash
263	Government may subsidize the purchase of yarn by Federations of fishermen societies for a period of five years. Other requisites such as logs, tools, etc., may also be supplied by the Fisheries department on subsidized rates

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Recommendation number.	Paragraph number.
264	Government may assign foreshore or poramboke lands to the fishermen societies to serve as curing yards and drying ground and for construction of sheds, etc.
265	Government may provide facilities such as cold cabinet or insulated boxes in all landing or market centres at nominal rates on hire for the societies to save fish from spoilage
266	Fishermen societies or Marketing Federations of societies may be provided with transport vans with necessary equipment at a subsidized cost by Government recoverable in instalments
267	It is desirable to connect the hamlets of fishermen with the main highways by motorable roads to facilitate quick transport of fish
268	Liberal assistance may be given to Marketing Federations of fishermen societies by way of subsidies and loans and also by way of free services of departmental and technical staff
269	Mechanization of fishing operations by introducing power fishing may be done in stages.
270	One Senior Inspector may be appointed for the supervision of every ten fishermen societies. Big fishermen societies may be given the exclusive services of Inspectors to work as their Secretaries and Managers.
271	Fishermen societies should be placed under the administrative control of the Co-operative department

CHAPTER 19.

Other types of societies.

272	There is no scope for starting cattle insurance societies
273	The prospects of the ex-servicemen workshops stabilizing themselves as economic units may be thoroughly examined and steps taken to wind up the uneconomic ones

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Recommendation number.		Paragraph number.
274	Civilians may be admitted in the co-operative workshops for Ex-servicemen up to 40 per cent of their sanctioned strength ..	281
275	Formation and development of labour contract societies should receive encouragement. The limit of Rs. 2,500 now fixed as the value of the works that may be entrusted to the labour contract societies without tenders may be raised to Rs. 5,000. The technical staff required by them may be given to them free of cost. The administrative staff may be given free of cost for a period of five years	282

CHAPTER 20.

Supervision, Propaganda, Education and Training.

276	Supervising Unions are necessary and should be continued	284
277	It is desirable that only delegates of A and B class societies are chosen as chief office-bearers in the governing body of the supervising unions	284
278	The Executive Committee of the Central Bank may be empowered to nominate to the governing body of each union, a person whose services, in their opinion, will be useful to the Movement. The nominated person need not, however, be eligible for election as a President or Secretary of the union or as director of the central bank ..	284
279	The unions may be re-constituted so as to have 40 to 60 societies and 4 to 5 supervisors in the jurisdiction of each	285
280	Even when the Madras State is reorganized more or less into a Tamil State, the Madras Journal of Co-operation may be continued to be published in English, so as to serve as a media of publicity for people here and abroad	287
281	Government may give a block grant of Rs. 5,000 to the State Co-operative Union and Rs. 1,000 as recurring grant annually to enable it to extend its library service,	

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Recommendation number.		Paragraph number.
	For libraries maintained by the Central Banks, a block grant of Rs. 1,000 and an annual grant of Rs. 300 may be given ..	287
282	Statutory provision may be made for collecting "Educational fund" from out of net profits of societies by the State Co-operative Union. Fifty per cent of the amount so collected should be distributed to the central banks for purposes of Education and Training, propaganda, etc.	290
283	The Tamil Nad Co-operative Federation may be amalgamated with the State Co-operative Union when the area of operations of the latter becomes more or less co-terminus with the Tamil area	291
284	The State Co-operative Union may organize study circles to spread the knowledge of co-operation and connected subjects. Similar study circles may be organized in the districts by the central banks and big urban banks	293
285	With a view to acquaint women with the ideology and methods of the movement, students' stationery stores may be formed in all girls' schools and colleges	294
286	Provision may be made in the by-laws of stores societies, housing societies, big milk supply societies and unions and urban banks for the co-option of women directors to their boards, in certain circumstances ..	294
287	Cottage Industries societies for women may be given liberal State help by way of subsidies for the maintenance of staff, equipment, overhead charges, etc. ..	294
288	The text-books in High Schools and Colleges may well include topics on co-operation suited to the standards of the students ..	295
289	The State Co-operative Union, central banks and big urban banks may well arrange annually for awarding prizes to students in their areas by holding essays, competition and oratorical contests on co-operation ..	295

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Recommendation number.		Paragraph number.
290	Efforts may be made to secure the participation of students in the study circles ..	295
291	The stipend of Rs. 45 per mensem to Junior Inspectors undergoing training in the Central Co-operative Institute may be raised to Rs. 65 per mensem	296
292	The Management of the co-operative college may be entrusted to a Committee consisting of the Vice-Chancellor of the Madras University as the Chairman, Registrar of Co-operative Societies, President of the State Co-operative Bank, Secretary of the State Co-operative Union, Professor of Economics; Madras University, representative of the Central Committee on Co-operative Education and Training and the Principal of the College. The Principal will be the Member-Secretary	297
293	The Principal of the college may be a Joint Registrar of Co-operative Societies or a qualified person with experience in Co-operation with the status of a Joint Registrar	297
294	The staff of the college should be treated as on a vacation basis	297
295	The lecturers in the Central Co-operative Institute and the mufassal institutes who are Senior Inspectors may be replaced by Co-operative Sub-Registrars	297
296	The Madras University may undertake the function of Research and Evaluation in respect of the working of the co-operative societies, and Government may extend to the University the necessary financial assistance	298
297	No change is recommended in the duration of the course in the mufassal training institutes	301
298	The candidates in these training institutes may be taken by the lecturers themselves for practical training to institutions at convenient intervals (if possible on alternate days) in the course of the whole term, instead of reserving practical training to the very end	301

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Recommendation number.		Paragraph number.
299	No change in the minimum educational qualification of candidates for admission into the mofussil training institutes is necessary.	302
300	The medium of instruction in these training institutes should be the regional language.	303
301	The State Co-operative Union may address itself to the task of bringing out suitable text-books in regional languages for this purpose	303
302	The State Co-operative Union may play the part of an Employment Exchange for persons who have had training in the Co-operative Institute	305
303	The schemes included in the Second Five-Year Plan for the training of panchayatdars and members of societies are supported ..	307
CHAPTER 21.		
<i>Set up of the Co-operative Department—Audit and other statutory functions of the Department.</i>		
304	The following modification in the proportion of direct recruitment to promotees is suggested :— Co-operative Sub-Registrars—1 by direct recruitment and 3 by promotion (instead of 2 by direct recruitment and 3 by promotion); Deputy Registrars—1 by direct recruitment and 3 by promotion (instead of 1 by direct recruitment and 2 by promotion);	309
305	The enhancement in the pay scales of the different categories of the staff is supported in principle. It is particularly urged that the minimum pay for the Junior Inspectors and Senior Inspectors may be raised to Rs. 75 and Rs. 100 respectively and the maximum pay of Senior Inspectors to Rs. 140	310
306	Twenty-five per cent of the number of posts of Junior Inspectors may be reserved for supervisors of central banks. The present age limit of 30 years in their case may be raised to 32	310

Recommendation number.	Paragraph number.
307 The other non-official employees of co-operative institutions who have similar qualifications and have served at least five years in co-operative societies may also be made eligible for selection as Junior Inspectors.	310
308 The abolition of the territorial scheme of Inspectors is recommended.	311
309 When Departmental Officers are deputed to serve in co-operative societies the additional remuneration should be limited to 20 per cent of the pay. An officer should not be deputed to the same institution on foreign service ordinarily for more than two years. On no account should a person be on deputation in the same institution for more than three years	312
310 In districts where the number of employees' societies exceeds 30, a post of a Co-operative Sub-Registrar may be sanctioned for supervision of such societies	313
311 A scheme of separation of Audit from Administration on the following lines is recommended :— (i) The entire staff of Junior Inspectors, Senior Inspectors and Co-operative Sub-Registrars should be divided into two : Audit and Administration ; (ii) The auditors in the district should be under a District Co-operative Audit Officer of the grade of a Deputy Registrar. There should be a Chief Audit Officer under the statutory control of the Registrar. He should be a senior officer of the Indian Audit and Accounts Service and not an officer of the Co-operative department ; (iii) Senior Inspectors, Co-operative Sub-Registrars and Deputy Registrars of the Department working in the Audit section should be made eligible for promotion to the posts of Co-operative Sub-Registrars, Deputy Registrars and Joint Registrars arising in the department as a whole	316

Recommendation number.	Paragraph number.
312 The number of agricultural credit societies in charge of each auditor may be reduced from 50 to 45. The number of marketing societies, weavers' societies and milk supply societies in charge of an auditor may be reduced from 25 to 20	317
313 No modification in the basis or scale of levy of audit fees is recommended	318
314 Audit unions may be abolished	319
315 The Industrial Disputes Act may be suitably amended excluding from its scope disputes touching the business of co-operatives societies arising between the societies and its employees. Section 51 of the Co-operative Societies Act may be also amplified to bar all references by the parties concerned to the civil courts in respect of disciplinary cases against employees. The period of limitation for claims under section 51 (1) (c) may be raised from 2 to 3 years from the date on which the act or omission, etc., took place	320
316 Statutory provision may be made empowering the Registrar to transfer arbitration references entertained by the Deputy Registrars from one Deputy Registrar to another	320
317 Statutory provision empowering the Registrar to order stay of arbitration proceedings may be made	320
318 Provision may be made in the Co-operative Societies Act empowering the Registrar to determine the liability of the members of the committee for expenditure incurred contrary to the Act, rules, and by-laws, for loss caused due to their negligence, etc.	321
319 Senior Inspectors may be appointed as sale officers instead of Junior Inspectors	324
320 Statutory provision may be made empowering the department to effect delivery of properties in the course of execution proceedings	324

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CHAPTER 22.

Frauds in Co-operative Societies and other miscellaneous subjects.

- 321 In detailing auditors to particular societies, care should be taken to see that competent persons only are deputed to big societies having a variety of transactions and manned by influential persons for a number of years 326
- 322 Auditors should not be frequently changed. They should be in charge of audit of the same institutions normally for a period of three years 326
- 323 Where it is established that the remissness or contributory negligence on the part of auditors has facilitated the perpetration of frauds or their non-detection in time, adequate punishment should be meted out to them. The disposal of the charge relating to such remissness on the part of the auditors should be looked into during inspection of the Deputy Registrars' offices and also other visits to the circles by Registrar and Joint Registrars 326
- 324 The practice of nomination by the Registrar to the committees of societies may be resorted to only where it is absolutely necessary; but the period of nomination need not be extended beyond the first term 335
- 325 Co-operatives may be exempted from the provisions of the Shops and Establishments Act subject to certain conditions which are now imposed by Government for granting temporary exemption 337
- 326 Where the workers have organized themselves into industrial co-operatives, such co-operatives may be exempted from the provisions of the Factories Act except with regard to the provisions relating to the technical aspect concerning machinery, etc. Where such organizations employ non-member workers exceeding 10 in the case of

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- factories working with power, and exceeding 20 in the case of factories without power, such exemption need not be granted 329
- 327 Before applying the provisions of the Employees' Provident Fund Act, 1952, to a co-operative institution, the Registrar of Co-operative Societies may be consulted. 332
- 328 Before applying to any society the provisions of the Employees' State Insurance Act, 1948, the Registrar of Co-operative Societies may be consulted 333
- 329 It is not desirable to allow proprietary concerns, partnerships, joint stock concerns, etc., to form themselves into co-operatives. However, there need be no objection to admitting organizations such as devasthanams, hostels, etc., to membership in the co-operatives which are not profit-seeking institutions 334

CHAPTER 23.

Co-operation and Planning.

- 330 The annual subsidy towards the cost of additional supervisors to be employed by the central banks, as provided for in the Second Five-Year Plan should not be reduced 343
- 331 The assistance provided for the construction of godowns in the Second Five-Year Plan should not be reduced. No ceiling limit need be fixed for the grant of 50 per cent subsidy for the construction of godowns 344
- 332 The scale of assistance provided for the development of handloom in the Second Five-Year Plan should not be curtailed in any manner 345
- 333 Before implementing any scheme, special efforts should be made to evoke and foster local initiative and enthusiasm. Arrangements should be made to evaluate the results of the schemes at every stage. The success of the scheme should be judged by the enthusiasm of the people and their willingness to participate to the required degree in the

Recommendation number.	Paragraph number.
successful implementation of the schemes and not by the quantum of moneys spent	346
334 Greater attention should be paid to the way in which Extension Officers do their work at present ; both the co-operative and the Community Project Administrations should see to it that the Extension Officers do their job more effectively and usefully	348
335 Issue of Takkavi loans in the Community Development areas should be stopped	349

APPENDIX 1.

QUESTIONNAIRE ISSUED BY THE COMMITTEE ON CO-OPERATION
VILLAGE CREDIT SOCIETIES.

1. Do you consider that the present organization of village credit societies is such as to make them economically self-sufficient and enable them to cater to the essential economic needs of the agriculturists? If not, what changes do you suggest with a view to achieve the above objects?

2. To what extent have the village credit societies in the State satisfied the credit needs of the rural population? Are their services in this direction prompt, efficient and adequate? What recommendations do you make to improve the services of these societies?

3. What, in your opinion, are the reasons (i) for the village credit societies not having catered to the entire short and medium term credit needs of their members, (ii) for not having attracted to them all the village families that are in need of credit in their area of operations and (iii) for not having grown in number so as to cover the entire rural areas?

4. What are the factors that stand in the way of extending the membership and activities of the village credit societies? Do you think that one of the obstacles is that admission to membership or grant of loans is influenced by the property qualification of the members? What limits and safeguards do you suggest in extending credit facilities to members who do not own property?

5. To what extent, in your opinion, have the loans issued by the village credit societies reached the village artisans, labourers and other landless people? Do you think that emphasis has been laid more on the security aspect than on the production aspect and repaying capacity?

6. It has been suggested that membership of village credit societies should be open to all persons residing in their area of operations and that a person who is refused admission should have a right of appeal. If you agree, which is the authority to whom the appeal should be preferred?

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7. Are you satisfied with the existing arrangements in the village credit societies, in the matter of obtaining and disbursing loans to their members? Are there avoidable delays? What arrangements do you suggest to ensure that the members get their loans in time?

8. Do you think that there is misapplication of the loans issued to the members by the village credit societies, for example, applying loans issued for productive purposes to non-productive purposes, loans issued for short term and medium term purposes to long term purposes? What arrangements are now in force to watch that the purposes of the loans are fulfilled? What are your suggestions to ensure faithful application of loans to the purposes mentioned in the loan applications?

9. It has been suggested that with a view to extend the benefits of co-operative credit, village credit societies should issue crop loans (i.e.), loans issued in anticipation of crops proposed to be raised either by those owning lands or by lessees or varamdars. What precautions, legislative or otherwise, would you suggest in the working of this system?

10. How far has the system of forecast loans been working successfully in the village credit societies? Do you agree that this system eliminates delay in the disposal of loan applications? What steps do you suggest for popularizing this system of loans?

11. What steps do you suggest for the speedy and systematic recovery of outstandings in the village credit societies? In the light of the recent trend towards a fall in the prices of agricultural produce do you anticipate difficulties in collection? What steps would you suggest to tide over the possible difficulties to the societies and their members?

12. Are you satisfied that the rate of interest charged by the village credit societies is reasonable? How does it compare with the rates at which loans are available to members from other agencies?

13. Are you in favour of village societies issuing loans on gold and silver? If so, under what conditions and with what safeguards?

14. Would you recommend the formation of large sized rural credit societies (otherwise called Rural Banks) on the basis of guarantee liability, to issue medium term loans, produce loans, jewel loans, etc., the existing village societies catering mainly to the short term credit requirements of the members? Have you any suggestions to make regarding the lines on which the Rural Banks should be constituted?

15. In what other fields, besides credit, can the village societies contribute to the economic improvement of the rural population? Do you think they are equipped to carry out this task and if so, to what extent? What recommendations would you make in this regard with particular reference to (i) supplying the consumers' needs of the rural population, (ii) marketing their produce, (iii) maintenance of agricultural machinery and (iv) encouragement of subsidiary occupations? In other words, is it feasible to make these societies function as multi-purpose societies? What stands in the way of the existing multi-purpose societies not undertaking effectively more than one activity?

16. How far in your opinion have the village credit societies promoted thrift among their members and tapped local deposits? To what reasons do you attribute the inadequate progress made by the village societies in attracting rural savings in the shape of deposits?

17. Do you think that the system of attracting rural savings through hundi boxes has been successful? What measures do you suggest for the proper working of the scheme, if, in your opinion, this is one of the effective methods of mobilizing rural savings?

18. In the by-laws of village credit societies there is provision for the running of chit funds. This is primarily with a view to promote thrift and satisfy the contingent needs of the members. Why has this system not been worked out by the societies on a large scale? What steps do you suggest to popularize this system?

19. Do you think that the provision for unlimited liability in the village credit societies has hampered their development by keeping out a section of the people who would otherwise have joined the movement and helped the growth of societies? Do you advocate a change to limited or to guarantee liability with a view to expand the activities of the existing societies and bring into existence new societies? Will this change of liability affect adversely the inflow of deposits and borrowings from financing banks?

20. How has the working of the Madras Indebted Agriculturists (Temporary Relief) Ordinance, 1953, affected the activities of the village credit societies? Has it helped to increase their loan transactions?

21. Have you any suggestions to make with regard to the efficient writing up of the accounts of the society?

22. Is it desirable to make a provision in the by-laws reserving one or more seats on the Panchayat, to depositors?

23. Have you come across instances where the societies have not been useful to their constituents on account of factions? What remedies do you suggest?

24. Do you think that the village credit societies of the State have participated effectively and adequately in the Development Schemes, such as the National Extension Service and the Community Projects? What recommendations do you make to make these societies really useful Agencies of carrying out the purpose and objects of the Development Schemes?

NON-AGRICULTURAL CREDIT SOCIETIES.

25. What are your views about the working of the Urban Banks and Employees' Societies in the State? Have you suggestions to make with regard to their better working?

26. Have you suggestions to make to increase the loan transactions of the Urban Banks in various directions such as surety loans, jewel loans, produce loans and mortgage loans?

27. To what extent could the Urban Banks be permitted to undertake commercial transactions?

28. Have you suggestions to make with regard to the issue of long-term loans by the Urban Banks? How are funds to be mobilized for this purpose?

CO-OPERATIVE CENTRAL BANKS AND THE STATE BANK.

29. Have you any criticism or suggestions to make regarding the Co-operative Financing structure in the State (State Bank and the District Central Banks)?

30. Do you consider it necessary for the Central Banks to open branches in important centres of the district, to facilitate collection and disbursement of loans to village societies and generally to be in closer contact with them? Can the branches function as economic units?

31. Do you consider that the opening of such branches would help to attract more deposits without affecting the inflow of deposits to Co-operative Urban Banks, if any, in the area?

32. Do you consider that the time has come for the elimination of individual representation on the Boards of Management of the Central Banks? Do you think that the abolition of representation to the individuals would undermine the confidence of the investing public and the Central Banks may not be able to attract sufficient deposits at low rates of interest?

33. Do you consider that the conditions under which the State Bank and the Co-operative Central Banks have been permitted by the Government to receive deposits of local bodies are unduly restrictive? Is there a case for relaxation of these conditions and, if so, to what extent?

34. Do you think that the rates of interest paid by the State and the Central Banks on their deposits and other borrowings reasonable?

35. Do you consider that any change is called for in the present standard and form in which the State Bank and the Central Banks are required to maintain fluid resources? Is it desirable to continue the distinction now observed between outside liabilities and inside liabilities?

36. Do you consider that the rates of interest charged by the State Bank to the Central Banks, and by the Central Banks to the affiliated societies, are reasonable? Do you recommend an uniform rate of interest to all the affiliated societies or concessional rates to any class of societies?

37. Do you consider that the margin between the borrowing and the lending rates of the State Bank, and the Central Banks are reasonable? Does the margin require reduction at any stage?

38. Do the Central Banks finance adequately the weavers and other cottage industries societies? What help do the central banks require in this direction? Is a system of Government guarantee of loans issued to such societies desirable and necessary?

39. What are the principles on which loan applications are sanctioned by the State and Central Banks? What tests do they apply to examine the adequacy of security and repaying capacity?

40. Do the Central Banks examine the loan applications of the members of the primary societies also, in scrutinizing the loan applications of the latter? Do you suggest any change in the procedure or principles governing the sanction of loans by the State Bank to the Central Banks and by the Central Banks to the primaries?

41. What is the role played by the supervising unions in the sanction of loans? Do they facilitate quick sanction of loans?

42. What your opinion on the working of rule VIII-A of the rules framed under the Madras Co-operative Societies Act? Do the lending limits prescribed in the rules require any modification and, if so, on what grounds?

43. Do you consider that the practice of Book adjustments is prevalent to any extent in any area of the central bank (i.e.), clearing off old loans by fresh borrowings from the same source?

44. The rate at which the Reserve Bank lends to the State Bank for financing seasonal and agricultural operations and marketing of produce is $1\frac{1}{4}$ per cent. The ultimate borrower gets the loan at $6\frac{1}{4}$ per cent. Do you consider that the margin of $4\frac{1}{4}$ per cent shared by the intermediate financing agencies is too big? Do you think that the margin could be reduced at any stage or that any middle agency eliminated?

45. Do the State Bank and the Central Banks undertake commercial business of any kind, and if so, to what extent? Do you recommend the enlargement or curtailment of commercial business (if any) transacted by these banks?

46. Have you any suggestions to offer regarding the set-up and working of the administrative sections of central banks with special reference to the methods of control and supervision over the field staff, preparation of property statements in village credit societies, collection of dues, securing of loans considered doubtful of recovery, development of the transactions of societies, revival of moribund societies, etc.? Is there any plan or programme of work in respect of the above items and is the progress watched closely and continuously?

47. Do you consider whether the supervision of non-credit societies will be effective if entrusted to central banks? If so, what is your suggestion to meet supervision charges?

48. Do you consider that it is desirable to constitute the services of the Secretaries, Executive Officers and certain other higher officers of central banks on a State basis?

49. Do you think that the basis of classification of Central Banks into A.B.C. requires any change and, if so, on what lines and for what reasons?

50. Do you consider that the continuance of the provision in the rules framed under the Madras Co-operative Societies Act for paying dividend up to 9 per cent per annum to the shareholders of the Madras State Co-operative Bank is justified?

51. Do you consider it necessary to reduce the maximum limit of 5 per cent on dividend paid to the shareholders of the central banks?

LAND MORTGAGE BANKS.

52. Do you consider that the time taken by the land mortgage banks from the date of application for loans to the date of disbursement could be reduced, and, if so, what steps do you suggest? Is it

possible to eliminate any of the several stages through which a loan application passes, if not for all the applications at least for applications for loans below a certain limit?

53. Do you consider that the rate of interest charged to the ultimate borrowers by the primary land mortgage banks as high when compared to the rates at which loans are available to them from other sources including loans under the Agriculturists Loans Act and under the Land Improvement Loans Act?

54. Have you any suggestions to make funds available at a lower rate of interest for land improvement purposes?

55. Is there scope for reducing the margin between the borrowing and the lending rates in the Central Land Mortgage Bank and in the primary land mortgage banks?

56. What measures do you suggest for encouraging loans for land improvement purposes? What are your suggestions for co-ordinating the activities of the land mortgage banks in this direction with those of the Agricultural Department?

57. How far have the land mortgage banks relieved the agriculturists indebtedness? If, in your opinion, the progress in this direction is not adequate, what steps do you suggest to achieve better progress, e.g., starting of more land mortgage banks covering more areas, enlisting more agriculturists, extending more facilities, etc.? What help, financial or otherwise, could be given by the Government and/or the Central Land Mortgage Bank in these matters?

58. Do you think that the grant of loans by Government under the Land Improvement Loans Act should not be encouraged in areas adequately served by the land mortgage banks and that Government should route such loans through the land mortgage banks? If so, what procedure would you suggest to implement this proposal?

59. Do you suggest any change in the basis of valuation of the lands offered as mortgage to the primary land mortgage banks? Do you consider that the limit of loans allowed with reference to valuation requires revision? If so, for what reasons?

60. (a) It is said that the present basis of valuation is too rigid and too low and not helpful to the ryots of dry areas in effecting major improvements to land. Do you suggest a liberalization of the basis and a system of guarantee by the Government against risks involved in the issue of such loans?

(b) You are aware that in this State several dry areas are covered by New Irrigation Projects which will result in increasing the value of the land. To what extent can the land mortgage banks help the ryots in these cases? Would you suggest any liberalization or alteration of the rules relating to the grant of loans with regard to the basis of valuation, period of repayment, rate of interest, etc., to enable the ryots to make the fullest use of the opportunities afforded by the projects?

(c) Will there be any risk to the banks in embarking on a scheme of extensive grant of loans in such cases? Are any safeguards necessary? If so, please indicate.

61. What is the position in respect of the dues from the members to primary land mortgage banks and from the primary land mortgage banks to the central land mortgage banks? Do you consider that the present trend towards a fall in the prices of agricultural produce may affect this position?

62. To what extent are the land mortgage banks in a position to help the borrowers in the scaling down of prior debts? Do you consider that the banks should be given any legal or other facilities for this purpose?

63. The present individual credit limit for loans issued by the primary land mortgage banks is Rs. 15,000. Is there a case for enhancement of this limit to enable the issue of larger loans to groups of persons for the purpose of clearing large tracts, carrying out of land improvement on a large scale, etc., on their joint and several responsibility?

64. How far has the scheme of insurance been adopted in the land mortgage banks to ensure the repayment of the balance outstanding in the event of the death of the borrowers? What are the difficulties in the adoption of the insurance scheme and what remedies do you suggest?

65. What precautions do you suggest to ensure the proper utilization of the loans sanctioned for purposes such as land improvement? Have you any suggestion to improve the precautions taken at present?

66. Do you consider that the fees for registration and encumbrance certificate, and other administrative charges which a borrower has to meet are excessive? Do you consider that any relief is required in this direction?

67. What measures do you suggest to extend the help of the land mortgage banks to the agriculturists of the inam and the zamin areas and the dry tracts?

68. Do you consider that the debentures of the central land mortgage banks have become sufficiently popular in the market? What steps do you suggest to increase its popularity?

69. Do you consider that the present period of repayment in 20 years can be reduced in certain categories of loans, say loans for land improvement, the funds for such loans being raised by the floatation of debentures for shorter periods so that the interest rate might be adjusted to suit the trends of the money market?

70. Do you consider it desirable to constitute the services of the supervisors of land mortgage banks on a State basis?

MARKETING SOCIETIES.

71. What part have the marketing societies in this State played in the marketing of the agriculturists' produce? To what extent have these societies eliminated or minimized the number of middlemen between the producer and consumer or cut down marketing costs? Have you suggestions to offer to improve their services to the agriculturists?

72. To what extent has there been co-ordination of the activities relating to co-operative credit production and marketing? What suggestions would you like to make to the effective linking of credit, production and marketing?

73. What is your opinion on the working of the controlled credit system in this State? How far has the system of marketing panchayatdars in the village credit societies contributed to the success of the controlled credit system? Have you suggestions to make regarding the better working of this scheme?

74. What method of handling and paying for farm products do you advocate for adoption by the marketing societies of the State, —outright purchase and sale, or sale as agent, or payment on the basis of a pool price? If you recommend outright purchase, what safeguards are necessary to minimize risk to the societies arising out of fluctuations in prices?

75. Do you recommend the formation of separate marketing societies for each principal farm product or are you in favour of a single marketing society for undertaking the marketing of all the farm products in its area of operations?

76. What are the various marketing functions which you would recommend for adoption by the marketing societies in the State in respect of the principal agricultural products (assembling, storing, financing, insuring, processing, standardizing, transporting and selling)? To what extent is pooling and grading of produce possible in the present methods of agricultural production? In what ways could Government help in the provision of storage and warehousing facilities, and marketing of produce?

77. Do you recommend the formation of marketing federations (organization of the primary marketing societies)? What functions would you assign to them in the interests of better marketing? To what extent would these federations be of help in developing in internal and external market for the agriculturists' produce? What assistance, financial and otherwise would be required by them?

78. What are your views on the following aspects of the working of marketing societies and marketing federations?—

(a) Area of operations;

(b) borrowing and lending rates and the margin necessary for working expenses with special reference to competition, if any, from commercial banks; and

(c) maximum loan that may be advanced on the pledge of produce to the members and the adequacy of the safeguards now in force.

79. To what extent could the functions of the marketing societies be dovetailed with those of the regulated markets in places where the Madras Commercial Crops Markets Act is in force?

LAND COLONIZATION SOCIETIES AND OTHER SOCIETIES FOR
AGRICULTURAL PRODUCTION.

80. To what extent have the various kinds of co-operative societies participated in the Development Plans of the State relating to agricultural production? Have you any suggestions to offer with a view to associate these societies more effectively in the working of the State Development Plans?

81. What are your views regarding the working of the land colonization societies? What suggestions have you to make for their better working?

82. What are your views regarding the organization of co-operative farming societies? What types of farming societies, you think, would be successful in our State? [Different forms of co-operative farming have been suggested, viz., (i) co-operative better farming societies, (ii) co-operative joint farming societies, (iii) co-operative tenant farming societies and (iv) co-operative collective farming societies.] What are the relative prospects of their successful working with reference to conditions in our State?

83. In the existing sectors of cultivation, how best can better farming be introduced to provide better seeds and manure, and to help in joint sale and other joint efforts? Can the existing multipurpose societies be entrusted with these functions in preference to forming new societies such as agricultural improvement societies, agricultural demonstration societies, etc.?

84. Is there scope for organizing separate co-operative irrigation societies to undertake pumping of water from rivers and other water sources to distribute water to the lands of the members? What attempts were made previously in this direction and with what results?

85. What are your suggestions regarding the better working of other types of agricultural producers' societies such as fruit and vegetable growers' societies, butter and ghee marketing societies, egg production and sale societies and sugarcane growers' societies?

86. Do you consider that there are prospects of introducing crop insurance on a co-operative basis as a means of helping the agriculturists?

CATTLE BREEDING SOCIETIES.

87. How far have the cattle breeding societies been successful in improving the methods of cattle breeding? Have you suggestions to offer regarding their better working? Do you recommend any State assistance to these societies, apart from the premium scheme of the Veterinary Department?

88. Do you consider that there are prospects of introducing cattle insurance on a co-operative basis as a means of helping the agriculturists?

MILK-SUPPLY SOCIETIES.

89. What are your views with regard to the working of the milk-supply unions and societies in the State? Have you suggestions to make for their better working?

90. To what extent have the milk-supply co-operatives helped the agriculturists by providing them with a subsidiary occupation?

91. What is the quantity of reconstituted milk manufactured in the City of Madras? Would the milk unions and societies be able to so increase their production as to eliminate the need for reconstituted milk? To what extent has the manufacture of reconstituted milk affected milk production and deprived the agriculturists of a subsidiary occupation?

92. To what extent have the milk-supply co-operative eliminated the middlemen between the producers and consumers? What further measures are necessary to achieve this and fully?

93. How far have they helped to augment the supply of milk to the consumers in the cities and towns?

94. The co-operative milk-supply organizations do not usually have a uniform level of production all round the year. During the dry season when the animals go dry, production goes down and in the calving season there is surplus of milk. The societies have to lose valuable customers during the dry season due to scarcity of milk. What measures do you suggest to keep up a steady and uniform level of production throughout the year?

95. Government have been encouraging milk co-operatives to supply milk to hospitals, jails, etc., by showing them certain concessions in the acceptance of their rates, in the payment of earnest money and security deposits. What further concessions do you suggest in this regard?

96. In what ways can the State help the formation of salvage societies, at least one for each district to enable members of milk-supply co-operatives to maintain their dry animals economically and to obtain grazing facilities?

97. Are there adequate grazing facilities to the milch animals of the members of milk-supply co-operatives and other multipurpose societies which undertake the collection and disposal of milk? What measures do you suggest to secure this facility?

98. Are these adequate facilities to improve the cattle strain of the members of the milk-supply societies? What are your suggestions in this direction?

99. Do you consider that the supervision exercised over the milk-supply societies is at present adequate? If not what are your suggestions to make it more effective?

100. Do you consider it necessary to empower the Dairy Officer, Madras, and the technical staff of Dairy Assistants with the powers under the Madras Prevention of Food Adulteration Act? If so, for what reasons?

WEAVERS' CO-OPERATIVE SOCIETIES.

101. What are your views about the working of the Madras State Handloom Weavers' Co-operative Society and the Primary Weavers' Societies? Have you suggestions to make regarding their better working?

102. (a) Are the weavers' societies in a position to secure timely and adequate supplies of suitable counts of yarn required for production? What difficulties do they experience in this matter and what remedies do you suggest?

(b) What are your views in particular about the establishment of spinning mills on a co-operative basis?

103. (a) Are the arrangements for marketing of goods produced by the weavers' societies adequate and effective? What suggestions have you to make in this regard with reference to the development of markets within the State, outside the State and outside the country? Do you favour an All-India Organization to promote inter-State marketing and export of handloom goods?

(b) What are your suggestions to improve salesmanship as one of the factors in the development of marketing?

104. What suggestions have you to make with a view to bring the bulk of the handlooms in the State within the co-operative fold?

105. Do you consider that the weavers' co-operatives in the State are adequately financed by the Central Banks? What difficulties do they experience in getting the finances required by them? Do you recommend a system of Government guarantee in respect of loans sanctioned by the Central Banks to these societies?

106. What are your views with regard to the improved technique in production so far adopted by the weavers' co-operatives in matters such as calendering, sizing, warping, bleaching, printing, etc.? Have you suggestions to improve the technique?

107. How far has there been standardization of production in the weavers' co-operative societies and what suggestions have you to make to bring this about in an effective manner?

108. What is your view of the effectiveness of the protection now afforded to the co-operative handloom industry by way of reservation of certain categories of production? Is further protection required, and if so, on what lines?

109. What are your views about the introduction of powerlooms within the co-operative fold? Do you consider that this will affect adversely the position of the handloom industry?

110. Do you consider that the schemes formulated out of the Handloom Development Fund and the Cess Fund touch all the aspects of the handloom industry? Have you any suggestions to make in this regard?

111. Are the executive and supervisory staff of the weavers' co-operative societies adequately trained for their work? What suggestions have you to make for their training so as to make them more efficient?

112. Do you consider it necessary that representation should be given to the State Bank on the Board of Management of the State Handloom Weavers' Co-operative Society?

113. What is your view of the present relationship between the State Handloom Weavers' Society and the primary weavers' societies? Have you got suggestions to improve the services of the former to the latter and to promote the loyalty of the latter to the former?

114. Do you advocate the formation of District Federations of Weavers' Co-operative Societies to serve as supervisory or advisory bodies?

115. What help and facilities, other than those that have already been given by the Central and State Governments, are required for the handloom industry in the co-operative fold?

SOCIETIES FOR COTTAGE AND SMALL-SCALE INDUSTRIES (OTHER THAN WEAVERS' SOCIETIES).

116. What are the various cottage and small-scale industries in the State which could be organized on a co-operative basis?

117. What suggestions do you offer for the promotion of the existing cottage industries societies in the State? What facilities do they require in matters of credit, purchase of raw material, improved machinery and marketing of the products? Please indicate the assistance required of the Government, financial, technical, etc., for the development of these societies.

118. What are the difficulties encountered by the cottage industries societies in the marketing of their products? How can these be overcome? Do you recommend the formation of a Federation of cottage industries societies to undertake the marketing of their products?

119. Have you suggestions by way of reservation of markets for any type of cottage industries products, either permanently or for some time, to enable the industry to stabilize itself in the market?

120. Have you suggestions to make regarding improvement in the quality and the standardizing of production by the cottage industries societies?

121. What suggestions have you to make to promote co-ordination of the activities of the Industries and Co-operative Departments in the organization and development of cottage and small-scale industries on a co-operative basis?

122. In what way could Government help the development of cottage and small-scale industries? Would you recommend a system of Government guarantee for the loans taken by these societies from the Central Banks, and the setting up of a Government Agency to purchase the products manufactured by the societies?

123. In what manner and to what extent could the recommendations of the International Planning Team, Ford Foundation, could be implemented in the State so as to enable the co-operatives to play a vital role in the development of cottage and small-scale industries?

124. In what manner and to what extent could the services of the All-India Village Industries and Khadi Board be availed of for the development of cottage industries on a co-operative basis?

CO-OPERATIVE HOUSING SOCIETIES.

125. Have you any criticism or suggestions to make about the working of the co-operative housing societies in the State and the policy of the Government (both State and Central) in regard to financing them?

126. What suggestions have you to make to extend the benefits of co-operative housing to persons with small income? What changes are required in the financing policy of the Government to extend the scheme so as to reach such persons?

127. Why has rural housing on a co-operative basis made only small progress in the State? What suggestions would you give for the development of rural housing on a co-operative basis?

128. Would you recommend a scheme of subsidized housing to special classes of people, such as agricultural and industrial labourers?

129. What kind of help is required from local bodies and Government in the organization and working of co-operative housing societies?

130. How far has the system of linking loans taken from housing societies with insurance policies been introduced? What suggestions would you make to implement this system on a larger scale?

131. Is there a case for the starting of a Central Co-operative Housing Organization on the lines of the Central Land Mortgage Bank which will float Government guaranteed debentures to finance construction and/or redemption of house mortgages?

132. The Planning Commission has suggested in the First Five-Year Plan the creation of Housing Fund and Housing Boards. Please examine the effect of the above recommendation on co-operative housing.

STORE SOCIETIES.

133. What is your assessment of the present working of the consumers' co-operatives consequent on the abolition of controls? What measures do you suggest for adoption with a view to consolidating the working of these societies?

134. Do you consider that the restriction of sales to members only should be removed and the services of the institutions extended to non-members?

135. To what extent has there been co-operation between the district co-operative wholesale stores and the primary stores societies? What measures would you suggest for ensuring the loyalty of the primaries towards the wholesale stores and for improving the services of the wholesale to the primaries?

136. To what extent have the wholesale stores and the bigger primary stores undertaken production and/or processing activities? What measures would you suggest to implement this suggestion?

137. What, in your opinion, is the future of the rural stores especially those situated in small villages? Can they function as

economic units having regard to the fact that the village credit societies would take away a portion of their business by undertaking the joint purchase and sale of the requirements of the members? What suggestions do you make to make them function as economic units, wherever feasible?

138. Are you satisfied with the existing arrangements with regard to the supervision over the working of the consumers' co-operatives? What improvements do you suggest?

139. What assistance and concessions are, in your opinion, required of the Government to encourage the working of the stores societies, for e.g., contract for supply of the requirements of hospitals, jails, etc.?

140. Is there scope for the District Wholesale Stores functioning as agents for the export of the marketable surplus of the agriculturists' produce in areas where marketing federations are not in existence? On what lines could they undertake this business, consistent with the interests of the producers?

SOCIETIES FOR EX-SERVICEMEN.

141. How far have the Co-operative Land Colonization Societies for Ex-Servicemen provided them with employment and promoted their welfare?

142. Have these societies provided their members with subsidiary occupations and increased their income?

143. Have these societies undertaken activities such as joint purchase of agricultural and industrial requirements, joint sale of produce and the finished product, etc.?

144. What suggestions have you to make to place the working of these societies on a firm footing?

145. Is the working of the co-operative workshops for ex-servicemen satisfactory? Have you suggestions to make to better their working?

146. Have the Co-operative Motor Transport Societies for Ex-Servicemen worked successfully? To what extent have these societies achieved the various objects set out in their bye-laws? What recommendations have you to make to place these societies on a firm footing?

147. Do you favour the admission of civilians to the societies for ex-servicemen to enable them to work more economically and efficiently?

148. Do you suggest any modifications of the present State-aid to the three categories of societies mentioned above with a view to improve their working?

SOCIETIES FOR DEPRESSED CLASSES.

149. How far have the special types of societies organized for the benefit of the Depressed Classes, such as societies for Harijans and Hill-Tribes contributed to satisfy their economic needs? What suggestions have you to make with regard to improving the services of such societies to the Depressed Classes?

150. Have you any suggestions to make regarding a scheme of subsidized housing for Harijans?

151. What are your views about the working of the Leather Workers' Co-operative Societies? What suggestions have you to make with a view to increase their usefulness to their members?

FISHERMEN CO-OPERATIVES.

152. What are your views about the working of the Fishermen Co-operative Societies in the State? What facilities do they require in matters of credit, purchase of fishermen's requisites such as yarn, timber, catamaran logs, hooks, improved machinery, etc.?

153. What are the difficulties encountered by the societies in the marketing of fish and fish products? What suggestions have you to make to develop marketing? What help do they require in matters like curing, canning, transport and cold storage facilities?

154. Is the financing of Co-operative Fishermen Societies by the Co-operative Central Banks adequate and satisfactory? If not what suggestions do you make?

155. What assistance is required of the Government, financial and technical, for the development of these societies?

156. Are the existing arrangements for the supervision of these societies satisfactory? Have you any suggestions to make in this respect?

157. Have you any further suggestions to make regarding the lines on which co-operative effort could help the Depressed Classes in various spheres?

CO-OPERATIVE INSURANCE SOCIETIES.

158. What are your views about the working of the Co-operative Life Insurance Society in our State? What suggestions have you to make for its better working and development of business with particular reference to the following points?—

(a) Attracting insurance on the lives of Government servants under the Compulsory Pension-cum-Provident Fund Insurance Scheme.

(b) Attracting insurance on the lives of agriculturists, artisans, persons of limited means and others in rural areas. (Please examine the feasibility of the multi-purpose societies serving as agents for this purpose.)

(c) Attracting life insurance on the lives of factory workers and wage-earners in urban and semi-urban areas.

159. What facilities are required for the remittance of premia by deduction from salaries at source, by diversion of Provident Fund, thrift deposits, etc., of Government servants and other salaried workers?

160. What measures do you suggest for intensifying the Scheme of Life Insurance in areas covered by the Community Projects and National Extension Schemes?

161. What are your views with regard to the working of Co-operative Fire and General Insurance Society? Have you suggestions for its better working with reference to the following points?—

(a) Insistence on all co-operative institutions insuring their stocks with the Co-operative Fire and General Insurance Society.

(b) Insistence on the societies taking out insurance policies for the full market value of their stocks instead of only to the extent of the loans taken by them on the security of their stocks.

162. Do you recommend a unification or a federation of all co-operative insurance societies in India?

AUDIT.

163. Is the existing system of audit of co-operative institutions satisfactory? Do you recommend any change in the system and if so for what reasons?

164. What are your views about the separation of Audit from Administration? What is the line of division, you favour?

165. What is your view about the number of societies included in the jurisdiction of an auditor at present? With reference to the kind of societies and their transactions, is the number of institutions fixed for an auditor, calculated to achieve progress and efficiency in audit? Do you recommend any change and if so on what basis?

166. How has the system of admitting private audit in the case of some co-operative institutions worked?

167. Is the working of audit unions satisfactory? Do you recommend the continuance of this system?

168. Do you consider that any change in the scale of audit fees levied at present is called for? If so, on what basis?

PROPAGANDA AND TRAINING.

169. What recommendations do you make to carry out—

(a) propaganda; and

(b) education and training among the members and office-bearers of the societies, particularly societies in the rural areas.

170. Are the existing arrangements for the training for the departmental and non-official staff of the co-operative institutions adequate and satisfactory? What are your suggestions regarding the following aspects?—

(i) Qualifications prescribed for admission to the various co-operative institutes;

(ii) need for a general course of education preceding the professional course; and

(iii) duration of course.

171. (a) What are your views regarding the upgrading of the present Central Co-operative Training Institute at Madras? Would you recommend the formation of a separate section for research and evaluation in the Central Co-operative Training Institute?

(b) How far could the University be availed of in regard to higher co-operative education and research?

172. Have you got suggestions to make regarding the working of the other training institutes in the State?

173. Is the working of Co-operative Supervising Unions satisfactory? Are you in favour of their continuance and if so have you suggestions to improve their working?

174. What are your views regarding the working of the Madras State Co-operative Union? Are its present financial resources adequate? If not what suggestions have you to make?

175. What are your views with regard to the amalgamation of the State Co-operative Union and the Tamil Nad Co-operative Federation?

DEPARTMENTAL STAFF.

176. What suggestion have you to make regarding the adequacy of the present cadres of officers to man the various posts in the Co-operative Department? What recommendations do you make to strengthen and reorganize the existing cadres of officers in the light of the functions which they would be expected to discharge in carrying out the various Development plans sought to be carried out through the Co-operative Movement?

MISCELLANEOUS.

177. Do you consider that proprietary and partnership concerns, and organizations formed on Joint Stock principles should be allowed to join together to form co-operative societies? What are the conditions in which you envisage such a possibility? What safeguards do you suggest, to ensure that a co-operative society composed of such organizations, keeps up to the co-operative ideology?

178. What are your views about the need for and the adequacy of the concessions and privileges granted by the Government to co-operative institutions of various kinds? Do you recommend any modification or enlargement of the concessions and privileges already in force?

179. Do you consider that any amendment or modification to the Madras Co-operative Societies Act and the rules framed thereunder is necessary? If so what are your suggestions in this regard?

180. Do you consider that any amendment or modification to the Madras Co-operative Land Mortgage Banks Act and the rules framed thereunder is necessary? If so what are your suggestions in this regard?

181. Have you any suggestions to make with regard to the speedier winding up of the affairs of the liquidated societies?

182. Is there scope for the formation of Co-operative Transport Societies to help the agriculturists in the transport of their produce? If so please indicate the lines on which such societies should be organized?

183. What are your views about the working of the Producers'-cum-Consumers' Co-operative Societies in the Malabar district. Have you suggestions for their improvement or their reorganization?

184. What are your views about the formation of Co-operative Sugar Factories in the State? What facilities are required for the organization of such societies?

GENERAL.

Part A.

185. How have the various Acts such as the Madras Shops and Establishment Act, the Sales Tax Act, the Factories Act, the Industrial Disputes Act, Employees' Provident Fund Act and the Estates Duty Act affected the working of co-operative societies? Do you consider that any amendment to these Acts is necessary in the interest of the efficient working of co-operative societies?

186. Do you consider that the Industrial Co-operatives require exemption from any or all the provisions of labour laws; if so what exemptions are required and for what reasons?

187. Do you consider that there should be any restriction on the office-bearers of societies continuing in their offices for more than one or specified terms of office?

188. What measures are, in your opinion, necessary to check abuses, such as misappropriation, on the part of office-bearers and employees of societies?

189. Do you think it correct or desirable or feasible to introduce compulsion, either direct or indirect, with a view to extend the membership and activities of co-operative societies? If so, to what extent in what form and in what kinds of societies could the element of compulsion be introduced?

190. By an order of the Government of India issued in the year 1919, a co-operative societies are prohibited from accepting Savings Deposits in excess of the limits prescribed for Post Office Savings accounts for an individual depositor. Do you consider it necessary that this restriction should be removed?

Part B.

191. The Committee of Direction appointed by the Reserve Bank of India has made certain recommendations for the reorganization of the Co-operative Movement, based on State partnership, Co-ordination between credit and marketing and administration through adequately trained personnel. Kindly examine those recommendations and please state—

(i) whether all or any of them could be adopted in this State having regard to the growth of the Movement and the conditions obtaining in this State;

- (ii) what would be the effect of those recommendations on the future growth and working of the Movement in our State; and
- (iii) what modifications are, in your opinion, necessary to all or any of those recommendations?

192. Bearing on the recommendations of the Reserve Bank's Committee, kindly give your replies to the following detailed questions:—

(a) To what extent have the Co-operative Organizations in this State met the credit needs of the agriculturists and helped them in the marketing of their produce? Please indicate the basis of your answer.

(b) Do you agree with the view of the Reserve Bank's Committee that the contribution made by the Co-operative Societies in the above direction is so negligible as to say that the Co-operative Movement has failed?

(c) If the Movement has not brought within its fold the bulk of the rural population what are the causes? Would the adoption of the principle of State partnership, as recommended by the Committee of the Reserve Bank, be a solution?

(d) If there should be State partnership, is the State to be a major partner? Is it desirable to confer on it special and overriding powers to modify any decision of the Boards of Management of societies or to impose its own decisions on the societies?

(e) Do you think that State partnership as recommended by the Committee of the Reserve Bank or in any modified form, is necessary or beneficial in respect of a well developed branch of the Co-operative Movement in the State, such as credit? Do you think that the Movement on the credit side would not develop to the optimum level if there is no such State partnership?

(f) What would be the effect of State partnership on the marketing side of Co-operative Movement? Please examine the suggestions of the Committee in detail.

(g) Do you think it necessary that the appointment of the Chief Executive of the Co-operative State institutions should be subject to the approval of the State Government?

(h) Do you recommend that the Registrar should have a seat on the Directorate of the State Co-operative Bank and that the Registrar's representative in the district should have a seat on the Directorate of the District Co-operative Central Banks?

(i) Do you think that the State Bank should have on its Directorate other nominees such as a representative of the Finance Department and a Banking or Financial Expert, besides the Registrar?

(j) Please state how far the various funds envisaged under the proposals of the Reserve Bank's Committee would help in promoting the development of Co-operative institutions? [The Funds suggested are: (i) The National Agricultural Credit (Long Term Operations) Fund, (ii) The National Agricultural Credit (Stabilization) Fund (both under the Reserve Bank), (iii) the National Agricultural Credit (Relief and Guarantee) Fund (under the control of the Central Minister of Food and Agriculture) and (iv) The National Co-operative Development

Fund and (v) the National Warehousing Fund (both under the control of the National Co-operative Development and Warehousing Board).]

(k) Have you any suggestions regarding an alternative agency (new or existing) that should administer these funds in the interest of the Co-operative institutions?

(l) Do you think that the constitution, structure and the functions of the various bodies suggested by the Committee of the Reserve Bank such as the National Warehousing and Development Board, the All-India Warehousing Corporation, State Warehousing Companies, etc., are designed to promote the interests of the Co-operative institutions engaged in marketing activities?

(m) What are your views on the recommendations of the Reserve Bank's Committee regarding the training of the personnel required for the Co-operative department and the institutions?

APPENDIX 2.

(a) LIST OF INSTITUTIONS VISITED BY THE COMMITTEE.

Madras district.

1. (A) The State Co-operative Bank, Hd.
- (B) The State Co-operative Union, Madras.
- 2 The Co-operative Central Land Mortgage Bank, Madras.
- 3 The Madras State Handloom Weavers' Co-operative Society.

South Arcot district.

- 4 Cuddalore Co-operative Loan and Sale Society, Limited.
- 5 South Arcot District Co-operative Central Bank, Limited.
- 6 Chidambaram Co-operative Paddy Loan and Sale Society, Limited.
- 7 Chidambaram Co-operative Building Society, Limited.

Tanjore district.

- 8 Tanjore District Co-operative Central Bank, Limited.
- 9 The Samiappa Mudaliar Co-operative Institute.
- 10 Tanjore Co-operative Marketing Federation, Limited, Tiruvarur.
- 11 Kumbakonam Co-operative Central Bank, Limited.
- 12 Kumbakonam Metal Workers Co-operative Society, Limited.
- 13 Swamimalai Co-operative Credit Society.
- 14 Aduthurai Co-operative Cotton Marketing Society.
- 15 Mayavaram Co-operative Land Mortgage Bank, Limited.

Tiruchirappalli district.

- 16 Tiruchirappalli District Co-operative Central Bank, Limited.
- 17 Lalgudi Sivagnanam Co-operative Agricultural Improvement Society.
- 18 Siruganur Co-operative Credit Society.
- 19 Pudukkottai Co-operative Central Bank, Limited.

APPENDICES

Madurai district.

- 20 The Madurai District Co-operative Central Bank, Limited.
- 21 Madurai-Ramanathapuram Co-operative Wholesale Stores.
- 22 Othakadai Co-operative Rural Bank, Limited.
- 23 Othakadai Co-operative Supervising Union.
- 24 Madurai Mills Co-operative Stores.
- 25 Madurai Weavers' Co-operative Production and Sale Society.

Ramanathapuram district.

- 26 Ramanathapuram Co-operative Central Bank, Limited.
- 27 Virudhunagar Co-operative Stores.
- 28 Virudhunagar Co-operative Urban Bank, Limited.
- 29 Virudhunagar Co-operative Milk Supply Society, Limited.

Tirunelveli district.

- 30 Tenkasi Co-operative Stores.
- 31 Thenpothai Pot-makers Co-operative Society.
- 32 Pattamadai Fine Mat Weavers Co-operative Society.
- 33 Melacheval Co-operative Rural Bank.
- 34 Tirunelveli District Co-operative Central Bank, Limited.
- 35 Krishnapuram Co-operative Credit Society.
- 36 Pettai Co-operative Oil Society.

North Arcot district.

- 37 Vellore District Co-operative Central Bank, Limited.

Salem district.

- 38 Mallasamudram Co-operative Credit Society.
- 39 Tiruchengode Co-operative Marketing Society, Limited.
- 40 Salem Co-operative Marketing Society, Limited.
- 41 Mettupatti Co-operative Land Colonization Society.
- 42 Salem Co-operative Central Bank, Limited.

Coimbatore district.

- 43 Coimbatore District Co-operative Central Bank, Limited.
- 44 Coimbatore Co-operative Printing Press, Limited.
- 45 Nilgiris Co-operative Marketing Society, Limited (Mettupalayam Branch).
- 46 Gobichettipalayam Co-operative Sale Society, Limited (Tirude Branch).
- 47 Perundurai Sanatorium Co-operative Stores, Limited.

Malabar district.

- 48 Malabar District Co-operative Central Bank, Limited.
- 49 Kozhikode Co-operative Land Mortgage Bank, Limited.

South Kanara district.

- 50 South Kanara Central Co-operative Stores, Limited.

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51 South Kanara Agriculturists Co-operative Marketing Society, Mangalore.

52 South Kanara Co-operative Bee-keeping, Honey Production and Sale Society.

53 South Kanara Sugarcane Growers Co-operative Crop Loan and Sale Society, Limited.

54 Mangalore Municipal Superior Employees Co-operative Society, Limited.

55 South Kanara District Co-operative Fish Marketing Society, Limited.

56 Mangalore Co-operative Land Mortgage Bank, Limited.

57 South Kanara District Palmyra Jaggery Co-operative Marketing Association, Limited.

58 South Kanara District Government Servants Co-operative Society, Limited.

59 South Kanara District Co-operative Advancement Society.

60 South Kanara Co-operative Central Bank, Limited, Mangalore.

61 Mangalore Women's Cottage Industries Societies, Limited.

62 Moodibidri Palmyra Jaggery Manufacturing Co-operative Society, Limited.

63 Bailur Bee-keepers' Co-operative Society.

64 Udupi Co-operative Milk Supply Society, Limited.

65 M.G.M. College Students Co-operative Stores, Limited.

66 Udupi Weavers Co-operative Production and Sale Society, Limited.

67 Udupi Co-operative Town Bank, Limited.

68 Canara Catholic Educational Co-operative Society, Limited.

69 Mangalore Catholic Co-operative Bank, Limited.

70 Puttur Town Bank, Limited.

71 Puttur Women's Cottage Industries Co-operative Society, Limited.

72 Puttur Grain Bank, Limited.

73 Mangalore Weavers' Co-operative Production and Sale Society.

74 Puttur Hostel Co-operative Society, Limited.

75 Mangalore Palm Jaggery Marketing Co-operative Society, Limited.

76 District Board Employees' Co-operative Society, Limited, Mangalore.

77 Mangalore Co-operative Milk Supply Union, Limited.

78 Mangalore Co-operative Stores, Limited.

79 Mangalore Protestant Christian Co-operative Bunyan Factor Society, Limited.

80 Kottachery Co-operative Marketing Society, Limited, Kottachery.

81 Kottachery Co-operative Town Bank, Limited.

82 Kottachery Co-operative Stores, Limited.

83 Ajanur Fishermen's Co-operative Society, Limited.

(b) LIST OF WITNESSES EXAMINED.

South Arcot district.

- 1 Sri T. K. Narayanaswami Naidu, Member, Cuddalore Co-operative House Building Society, Cuddalore.
- 2 Sri R. V. Sundara Reddiar, B.A., B.L., President, Cuddalore Co-operative Land Mortgage Bank, Limited, Cuddalore.
- 3 Prof. V. G. Ramakrishnan, Chidambaram.
- 4 Sri Somasundaram Pillai, President, Rural Co-operative Bank, Kattumannarkoil.

Tanjore district.

- 5 Sri O. N. Ramaswamy Ayyar, Retired Deputy Collector and Deputy Registrar of Co-operative Societies, Tanjore.
- 6 Sri V. S. Thiagaraja Mudaliar, President, Tanjore Co-operative Marketing Federation, Tiruvarur.
- 7 Sri K. T. Rathnasabapathi, President, Kodavasal Co-operative Weavers' Society, Kodavasal.
- 8 Sri K. Narasimha Ayyangar, B.A., B.L., President, Cotton Marketing Society, Aduthurai.
- 9 Sri K. R. M. Singaram Chettiar, President, Co-operative Urban Bank, Kumbakonam.
- 10 Sri C. Ramachandra Ayyar, Secretary, Chandrasekarapuram Co-operative Stores, Chandrasekarapuram P.O.

Tiruchirappalli district.

- 11 Sri G. Chittarambalam, M.L.A., President, Tiruchirappalli Urban Co-operative Stores, Tiruchirappalli.
- 12 Sri T. K. Thillaiavelu, President, Tiruchirappalli Co-operative House Construction Society, Tiruchirappalli.
- 13 Sri N. Rajavelu Thevar, President, Tiruchirappalli-Srirangam Co-operative Milk Supply Union, Tiruchirappalli.
- 14 Sri N. B. Rajagopala Ayyangar, President, Karur Co-operative Marketing Society, Karur.
- 15 Sri P. K. Doraiswamy, Secretary, Kolakkudi Co-operative Stores.

Madurai and Ramanathapuram districts.

- 16 Sri A. Maduraiipuli Goundar, President, Madurai District Co-operative Central Bank, Limited, Madurai.
- 17 Sri T. K. Rama, M.L.A., Madurai.
- 18 Sri P. Allapichai, President, Theni Co-operative Sale Society, Limited.
- 19 Sri T. Narayana Pillai, B.A., B.L., Joint Secretary, Madras State Co-operative Union.
- 20 Sri R. Krishnaswami Naidu, M.L.A., Ramanathapuram district.
- 21 Dr. M. N. Venkatarama Ayyar, President, Melur Urban Bank, Melur.
- 22 Sri P. V. R. V. Radhakrishnan, President, Panchayat Board, Bhatlagundu.
- 23 Sri T. K. Navalar, President, Tirunagar Milk Supply Co-operative Society.

24 Sri V. Alagappan, B.A., B.L., Secretary, Madurai District Central Co-operative Bank, Madurai.

25 Sri S. L. K. Rajagopalan, President, Uthamapalayam Co-operative Land Mortgage Bank, Uthamapalayam.

26 Sri Sadayandi, President, Jakkampatti Ayyappan Weavers Co-operative Society, Periakulam taluk, Madurai district.

Tirunelveli district.

- 27 Sri S. Ramaswamy Konar, B.A., B.L., President, Tirunelveli Co-operative Milk Supply Society, Limited, Tirunelveli.
- 28 Sri S. Subbiah Mudaliar, the Tirunelveli District Co-operative Employees' Association.
- 29 Sri P. Rajagopala Ayyar, Retired Deputy Registrar.
- 30 Sri Veeraraghava Ayyar, Representative of the Palayamkottai House Construction Society, Tirunelveli.
- 31 Sri A. S. Kuppuswami Ayyar, Member, District Cottage Industries Board.

North Arcot district.

- 32 Sri T. S. Bathrajalai Pillai, President, Tiruvannamalai Co-operative Urban Bank, Tiruvannamalai.
- 33 Sri A. B. Thangavelu Mudaliar, retired Deputy Registrar of Co-operative Societies, Nallanna Pillai street, Vellore.
- 34 Sri V. M. Ramaswami Mudaliar, Chief Promoter for the organization of Co-operative Sugar Mills in North Arcot district, Vellore.
- 35 Sri Panchaksharam Chettiar, M.L.A., President, Ranipet Stores, Ranipet.
- 36 Sri W. Veeraraghava Mudaliar, Vice-President, Central Stores, Vellore.
- 37 Sri B. Ranganatha Mudaliar, B.A., B.L., Director, Katpadi Co-operative Township, Katpadi.

Salem district.

- 38 Sri Karuppa Goundar, President, Mallur Co-operative Credit Society, Salem Union.
- 39 Sri Rao Sahib S. Doraiswamy Pillai, Vice-President, Salem Co-operative Central Bank, Limited, Salem.
- 40 Sri P. Manickam Chettiar, President, Tiruchengode Co-operative Land Mortgage Bank, Tiruchengode.
- 41 Sri A. Mariappan, President, Ammapet Handloom Weavers Co-operative Society.
- 42 Sri K. A. Kasi Viswanatha Mudaliar, President, Tiruchengode Handloom Weavers Co-operative Production and Sale Society, Tiruchengode.
- 43 Sri V. Vanchinatha Iyer, President, Swarnapuri Co-operative House Building Society, Salem.
- 44 Sri S. K. Nagaraja Monigar, M.A., President, Kaveripatnam Town Bank, Kaveripatnam.

45 Sri. Rao Bahadur O. Doraiswami Gounder, B.A., President, Krishnagiri Co-operative House Building Society, Krishnagiri, Salem district.

46 Sri R. Veerappa Chettiar, President, Dharmapuri Co-operative Marketing Society, Dharmapuri.

47 Sri H. S. Ramasesha Ayyar, President, Hanumanthapuram Co-operative Rural Credit Society, Hanumanthapuram P.O., Dharmapuri taluk.

48 Sri K. Servaraya Gounder, President, Mecheri Co-operative Rural Housing Society, Macheri P.O.

Coimbatore and Nilgiris districts.

49 Sri M. S. Palaniappa Mudaliar, President, Coimbatore Co-operative Building Society, Coimbatore.

50 Sri K. S. Ramaswamy Gounder, President, Tiruppur Co-operative Urban Bank, Tiruppur.

51 Sri T. R. Sundaram Pillai, B.A., B.L., Director, Coimbatore Co-operative Central Bank, Coimbatore.

52 Sri C. N. Nagappa Gounder, B.A., B.L., Vice-President, Coimbatore Co-operative Milk Supply Union.

53 Sri V. Eswaran Chettiar, B.A., B.L., President, Devanaga Weavers Co-operative Society, Coimbatore.

54 Sri T. V. Sivanandam, M.B.B.S., Director, Coimbatore District Co-operative Central Bank, Coimbatore.

55 Sri R. Ramakrishna Naidu, President, Perianaickenpalayam Co-operative Credit Society.

56 Sri V. C. Subbiah Gounder, President, Rural Co-operative Bank, Thudiyalur.

57 Sri V. Damodaraswamy Naidu, President, Peelamedu Co-operative Land Mortgage Bank, Peelamedu.

58 Sri K. Nanjundiah, Vice-President, Co-operative Central Bank, Limited, Ootacamund.

59 Sri Varadaraja Iyengar, President, Mallipalayam Co-operative Stores, Mallipalayam.

60 Sri R. Ramachandra Naidu, B.A., President, Alathi Vachinampalayam Land Colonization Society, Mettupalayam.

61 Sri K. K. Subbanna Gounder, President, Gobichettipalayam Co-operative Sale Society, Gobichettipalayam.

62 Sri S. K. Chinnappa Gounder, Vice-President, the Coimbatore District Co-operative Central Bank, Limited.

63 Sri M. Chikkiah Naicker, President, Erode Co-operative Urban Bank, Limited, Erode.

64 Sri R. K. Venkataswamy Naicker, President, the Erode Co-operative House Mortgage Bank, Limited, Erode.

65 Sri Yousuff Mohideen Ansari Sahib, Secretary, Dharapuram Co-operative Union, Limited, Dharapuram.

Malabar district.

66 Sri T. K. Menon, B.A., G.D.A., F.C.A., President, Malabar Wholesale Co-operative Stores, Kozhikode.

67 Sri V. K. Eradi, B.A., B.L., Advocate, Kozhikode.

68 Sri M. Mukundan, President, Malabar District Sale Society, Kozhikode.

69 Sri T. H. Narayana Kurup, Secretary, Badagara Co-operative Stores, Badagara.

70 Sri S. Satyanarayana Iyer, Milk Supply Union, Kozhikode.

71 Sri V. K. Nair, Director, Malabar Co-operative Wholesale Stores, Kozhikode.

South Kanara district.

72 Sri K. B. Jinaraja Hedge, B.Sc., LL.B., Vice-President, South Kanara Co-operative Marketing Society, Mangalore.

73 Sri A. M. Monterio, B.A., L.T., President, South Kanara Central Co-operative Bank, Limited, Mangalore.

74 Sri K. J. Ballal, B.A., B.L., President, Udipi Co-operative Union.

75 Sri M. C. Nambiar, President, Kolathur Co-operative Marketing Society, Limited, Kanhangad, Kasaragod taluk.

(c) LIST OF PERSONS WHO WERE CO-OPTED TO THE COMMITTEE AS LOCAL MEMBERS.

South Arcot district.

*1 Sri W. Seetharama Reddiar, B.A., B.L., President, South Arcot Co-operative Central Bank, Limited, Cuddalore.

2 Sri R. Kanakasabai Pillai, President, Chidambaram Co-operative Building Society, and Vice-President, South Arcot Co-operative Central Bank, Limited, Cuddalore.

3 Prof. S. V. Ayyar, Head of the Department of Economics, Annamalai University, Chidambaram.

*4 Sri K. Aranganathan, M.B.A., Palapatti P.O. (via) Gingee, South Arcot district.

Tanjore district.

5 Sri A. Krishnaswamy Vandayar, President, Tanjore Co-operative Central Bank, Limited.

6 Sri S. Ramalingaswamy, B.A., B.L., Vice-President, Tanjore Co-operative Central Bank.

7 Sri S. Swayamprakasam, M.L.A., Advocate, Selvamnagar, Tanjore.

8 Sri N. S. Ramalingam, B.A., DIP. POL. & PUB. ADM., President, Kumbakonam Co-operative Central Bank, Limited.

Tiruchirappalli district.

9 Sri T. S. Muthukumaraswami Pillai, President, Tiruchirappalli Co-operative Central Bank, Limited.

10 Sri M. Kalyanasundaram, M.L.A., President, South Indian Railway Labour Union, Labour Union Grounds, Golden Rock, Tiruchirappalli.

11 Sri A. Hirudayaswami Reddiar, M.A., Professor of Economics, St. Joseph's College, Tiruchirappalli.

Madurai and Ramanathapuram districts.

- 12 Sri V. Pasupathi, Palayam House, Tallakulam, Madurai.
 18 Sri K. Rajaram Naidu, M.L.A., Thirumangalam.
 14 Sri R. Nagulswamy Naidu, President, Ramnad District Co-operative Central Bank, Limited.
 15 Sri V. V. Ramaswamy Nadar, M.L.A., Virudhunagar.

Tirunelveli district.

- 16 Sri M. D. T. Kumaraswami Mudaliar, President, Tinnevely Co-operative Central Bank, Limited, Tirunelveli.
 17 Sri A. P. C. Veerabhagu, President, Co-operative Central Stores, Tirunelveli.

North Arcot district.

- 18 Sri B. Bakthavatsulu Naidu, M.L.A., President, Vellore Co-operative Central Bank, Limited, Vellore.
 *19 Sri M. S. Seshachala Ayyar, Tiruvannamalai.
 *20 Sri P. Rajagopala Naidu, B.Sc., B.L., M.P., President, Co-operative Central Stores, Vellore.

Salem district.

- 21 Sri K. S. Subramania Gounder, President, Salem Co-operative Central Bank, Limited, Salem.
 22 Sri D. Krishnamurthy Gounder, M.L.A., Thogarapalli.

Coimbatore and Nilgiris districts.

- 23 Sri C. S. Rethnasabapathi Mudaliar, President, Coimbatore Co-operative Central Bank, Limited.
 24 Sri V. K. Palanisamy Gounder, M.L.A., President, Pollachi Co-operative Land Mortgage Bank, Limited.
 25 Sri R. Venkatasamy Naidu, B.Sc. (Tech.) Manchester, President, Co-operative Wholesale Stores, Coimbatore.
 *26 Sri T. B. Lingam, President, Co-operative Central Bank, Nilgiris.
 27 Sri H. B. Ari Gouder, B.A., M.L.A., President, Nilgiris Co-operative Marketing Society, Ootacamund.

Malabar district.

- 28 Sri P. Govinda Menon, B.A., B.L., President, Malabar District Co-operative Central Bank, Limited, Kozhikode.
 29 Dr. K. B. Menon, M.L.A., Tirthala Malabar district.

South Kanara district.

- 30 Sri S. Narasappiah, B.A., B.L., M.L.C., President, South Kanara Central Co-operative Wholesale Stores, Limited, Mangalore.
 31 Sri A. Anantha Pai, M.L.A., Mukunda Nivas, Udipi.

* These members did not participate in the discussion.

APPENDIX 3.

STATEMENT SHOWING THE PROGRESS IN THE NUMBER OF VILLAGE CREDIT SOCIETIES AND MEMBERSHIP FROM 1939-40 TO 1954-55.

Year.	Number of societies.	Number of members in lakhs.	Average membership per society.
<i>Composite Madras State.</i>			
1939-40	11,097	6.00	54
1940-41	10,993	6.10	56
1941-42	10,904	6.33	58
1942-43	10,893	6.28	58
1943-44	10,821	6.28	58
1944-45	10,792	6.37	59
1945-46	10,877	6.66	61
1946-47	11,375	7.59	67
1947-48	12,056	8.44	70
1948-49	13,740	10.48	76
1949-50	15,348	11.91	78
1950-51	16,330	13.58	83
1951-52	16,727	14.63	87
1952-53	17,201	15.37	89
<i>Residuary State.</i>			
1952-53	10,151	9.30	92
1953-54	10,295	9.81	95
1954-55	10,489	10.12	96

APPENDIX 4.

STATEMENT SHOWING THE PROGRESS IN SHARE CAPITAL OF VILLAGE CREDIT SOCIETIES FROM 1939-40 TO 1954-55.

Year.	Paid-up share capital.	Average per society.	Average per member.
	(RS. IN LAKHS.)	RS.	RS.
<i>Composite State.</i>			
1939-40	54.89	494.6	9.1
1940-41	54.30	493.9	8.9
1941-42	54.43	496.4	8.6
1942-43	53.76	493.5	8.6
1943-44	54.11	500.0	8.6
1944-45	52.07	482.5	8.2
1945-46	59.22	544.5	8.9
1946-47	80.06	703.8	10.6
1947-48	98.47	816.8	11.7
1948-49	128.05	932.0	12.2
1949-50	140.45	915.1	11.8
1950-51	168.79	1,033.6	12.4
1951-52	193.23	1,155.2	12.7
1952-53	209.30	1,216.3	12.6
<i>Residuary State.</i>			
1952-53	123.83	1,220.4	12.3
1953-54	130.20	1,264.7	12.8
1954-55	140.75	1,343	12.9

APPENDIX 5.

STATEMENT SHOWING THE LOANS ISSUED AND OUTSTANDING AGAINST MEMBERS IN VILLAGE CREDIT SOCIETIES DURING THE YEARS 1939-40 TO 1954-55.

Year.	Loans issued. (RUPEES IN LAKHS.)	Average per member. RS.	Loan out-standing. (RUPEES IN LAKHS.)	Average per member. RS.
<i>Composite State.</i>				
1939-40	147.29	25	354.15	59
1940-41	144.72	24	330.95	54
1941-42	175.77	28	324.69	51
1942-43	167.18	27	278.08	44
1943-44	167.18	27	260.76	43
1944-45	189.67	29	272.58	43
1945-46	265.85	37	327.65	49
1946-47	347.16	46	444.58	58
1947-48	440.01	52	555.94	66
1948-49	496.10	46	659.12	63
1949-50	644.00	54	831.62	69
1950-51	765.29	56	964.38	71
1951-52	732.66	51	1,079.27	72
1952-53	709.58	46	1,124.55	73
<i>Residuary State.</i>				
1952-53	375.48	40	634.06	66
1953-54	350.03	36	600.58	61
1954-55	435.00	43	664.16	65

APPENDIX 6.

STATEMENT SHOWING THE EXTENT OF LOANS ISSUED BY VILLAGE CREDIT SOCIETIES FOR PRODUCTIVE AND NON-PRODUCTIVE PURPOSES DURING THE YEARS 1944-45 TO 1954-55.

Year.	Loans issued for productive purposes.		Loans issued for discharge of prior debts.		Loans issued for non-productive purposes.	
	Amount (Rs. in lakhs).	Percentage to total loans issued.	Amount (Rs. in lakhs).	Percentage to total loans issued.	Amount (Rs. in lakhs).	Percentage to total loans issued.
(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Composite State.</i>						
1944-45	174.45	91.97	12.71	6.70	2.51	1.33
1945-46	242.37	91.17	20.63	7.76	2.85	1.57
1946-47	329.63	94.96	15.51	4.47	2.00	0.57
1947-48	414.70	94.23	23.60	5.37	1.71	0.40
1948-49	489.23	94.76	23.59	4.75	2.63	0.49
1949-50	613.57	95.27	26.05	4.15	3.78	0.58
1950-51	733.45	95.84	23.29	3.69	3.55	0.57
1951-52	692.63	94.56	23.74	3.92	11.09	1.53
1952-53	663.69	94.24	21.86	3.10	3.73	0.56
<i>Residuary State.</i>						
1952-53	369.73	96.96	9.35	2.63	1.90	0.55
1953-54	338.75	96.77	9.53	2.74	1.70	0.51
1954-55	420.18	96.60	12.47	2.10	1.25	0.30

APPENDIX 7.

STATEMENT SHOWING THE POSITION OF OVERDUES IN THE LOANS DUE BY MEMBERS TO VILLAGE CREDIT SOCIETIES UNDER LONG-TERM AND SHORT-TERM PRINCIPAL (1939-40 TO 1954-55).

Year.	Out of the principal					
	Long term			Short term.		
	Demand.	Balance.	Percentage.	Demand.	Balance.	Percentage.
(RUPEES IN LAKHS.)						
<i>Composite State.</i>						
1939-40	154.31	105.85	68.59	141.58	57.36	40.51
1940-41	151.30	98.67	65.21	153.17	56.34	36.78
1941-42	134.53	81.28	60.42	159.21	51.68	32.46
1942-43	121.80	61.96	50.86	167.28	40.20	24.02
1943-44	100.78	50.99	50.60	153.95	39.53	25.68
1944-45	86.98	42.55	48.92	152.10	34.62	22.76
1945-46	85.31	37.55	44.02	167.60	36.01	21.49
1946-47	87.94	36.98	42.05	202.56	44.50	21.97
1947-48	101.74	40.60	43.83	230.61	58.33	25.29
1948-49	130.32	53.04	40.69	359.30	68.82	19.15
1949-50	151.83	55.63	36.64	425.42	87.10	20.47
1950-51	164.49	62.39	37.93	573.48	118.56	20.67
1951-52	176.82	77.41	43.78	698.22	135.61	19.56
1952-53	195.71	94.50	48.29	770.96	228.79	29.68
<i>Residuary State.</i>						
1951-52	140.73	56.62	40.26	286.52	64.60	22.55
1952-53	156.17	71.84	46.02	333.39	85.24	25.58
1953-54	167.49	77.33	46.17	351.14	95.48	27.05
1954-55	184.77	95.80	51.87	380.89	100.20	26.31

APPENDIX 7 (a).

STATEMENT SHOWING THE POSITION OF OVERDUES UNDER ARREAR INTEREST AND CURRENT INTEREST IN RESPECT OF LOANS DUE BY MEMBERS TO VILLAGE CREDIT SOCIETIES (1939-40 TO 1954-55).

Year.	Out of arrear interest.			Out of current interest.		
	Demand.	Balance.	Percentage.	Demand.	Balance.	Percentage.
	(RUPEES IN LAKHS.)					
	Composite State.					
1939-40	42.29	33.33	76.42	25.12	10.75	42.78
1940-41	39.86	30.66	76.94	24.09	10.63	44.10
1941-42	39.15	29.35	74.97	24.12	8.87	36.79
1942-43	36.40	26.01	71.45	21.40	7.80	36.36

Year.	Out of arrear interest.			Out of current interest.		
	Demand.	Balance.	Percentage.	Demand.	Balance.	Percentage.
	(RUPEES IN LAKHS.)					
Composite State—cont.						
1943-44	31.19	23.19	74.35	18.15	6.46	35.59
1944-45	28.01	21.37	76.30	17.70	5.78	32.66
1945-46	25.20	19.39	76.94	18.39	5.63	30.61
1946-47	23.19	18.12	78.13	22.08	5.63	25.55
1947-48	22.06	16.41	74.42	28.86	6.98	24.19
1948-49	23.63	16.04	67.88	37.17	8.50	22.87
1949-50	24.31	15.01	61.74	44.23	9.83	22.23
1950-51	24.82	14.56	58.66	53.09	11.19	21.07
1951-52	28.61	15.99	55.89	64.29	16.00	24.90
1952-53	32.33	16.77	51.87	72.45	20.86	28.80
Residuary State.						
1951-52	16.94	10.56	62.27	35.22	7.85	22.28
1952-53	18.88	10.66	56.48	39.53	11.96	30.26
1953-54	24.81	12.65	50.94	44.62	11.48	25.73
1954-55	25.97	12.59	39.41	43.97	12.37	28.13

APPENDIX 8.

STATEMENT SHOWING THE POSITION OF DEPOSITS AND WORKING CAPITAL IN THE VILLAGE CREDIT SOCIETIES (1939-40 TO 1954-55).

Year.	Deposits from		Average deposit		Average working capital		
	Members.	Non-members.	Working capital.	Per society.	Per member.	Per society.	Per member.
	(RS. IN LAKHS.)		RS.	RS.	RS.	RS.	
Composite State.							
1939-40	8.64	17.16	475.34	232.4	1.4	4,284.4	79.3
1940-41	8.00	15.88	454.00	217.2	1.3	4,129.8	74.4
1941-42	9.14	17.81	450.78	245.8	1.4	4,111.4	74.5
1942-43	14.46	22.47	407.17	339.0	2.3	3,737.8	64.8
1943-44	14.02	25.44	394.03	364.6	2.2	3,641.2	53.1
1944-45	15.48	27.61	406.39	399.2	2.4	3,765.6	63.8
1945-46	17.30	31.82	470.35	451.5	2.6	4,324.2	70.6
1946-47	16.72	26.09	596.00	376.3	2.2	5,248.3	78.5
1947-48	18.43	26.98	722.64	376.7	2.1	5,994.0	85.6
1948-49	22.81	29.97	857.05	384.1	2.1	6,237.7	81.7
1949-50	25.04	32.01	999.73	371.7	2.1	6,513.7	83.9
1950-51	40.23	33.41	1,208.02	444.8	2.9	7,397.5	88.9
1951-52	29.20	28.64	1,340.51	345.8	1.9	7,798.8	89.1
1952-53	27.34	29.23	1,377.34	329.4	1.7	8,006.7	89.6
Residuary State.							
1952-53	19.41	19.70	790.53	374.3	1.9	7,787.6	88.5
1953-54	19.34	16.65	765.65	339.8	1.8	7,437.1	79.3
1954-55	19.64	17.34	823.98	353.5	1.9	7,849.9	80.3

APPENDIX 9.

STATEMENT SHOWING THE PROFIT AND LOSS POSITION OF THE VILLAGE CREDIT SOCIETIES FROM 1939-40 TO 1954-55.

Year.	Profit.		Loss.		
	Number of societies.	Amount.	Number of societies.	Amount.	
	(RS. IN LAKHS.)		(RS. IN LAKHS.)		
Composite State.					
1939-40	..	Not available.	4.23	Not available.	20.53
1940-41	..	Do.	5.03	Do.	20.22
1941-42	..	Do.	5.39	Do.	19.89
1942-43	..	Do.	6.33	Do.	17.65
1943-44	..	Do.	5.87	Do.	15.85
1944-45	..	Do.	5.95	Do.	14.88
1945-46	..	Do.	6.62	Do.	12.72
1946-47	..	Do.	8.34	Do.	11.70
1947-48	..	Do.	9.09	Do.	11.66
1948-49	..	7,682	11.84	5,538	11.44
1949-50	..	8,671	14.33	5,918	10.91
1950-51	..	9,017	18.19	5,790	11.63
1951-52	..	9,535	17.73	6,548	15.59
1952-53	..	9,144	17.74	8,144	19.63
Residuary State.					
1952-53	..	5,654	10.59	3,667	8.95
1953-54	..	6,081	12.88	3,893	9.55
1954-55	..	6,290	14.12	3,673	9.52

APPENDIX 10.

COMPARATIVE STATEMENT SHOWING THE PROFIT AND LOSS OF VILLAGE CREDIT SOCIETIES IN MADRAS AND OTHER STATES.

Name of the State.	1953-54	
	Profit.	Loss.
	(RUPEES IN LAKHS.)	
Bombay	31.30	10.40
Madhya Pradesh	4.80	0.80
Punjab	14.20	2.40
Uttar Pradesh	18.76	0.80
West Bengal	2.50	1.20
Madras	12.88	9.55

APPENDIX 11.

STATEMENT SHOWING THE PROGRESS OF THE NON-AGRICULTURAL CREDIT SOCIETIES FROM 1940-41 TO 1954-55.

	Composite State.								
	1940-41.	1941-42.	1942-43.	1943-44.	1944-45.	1945-46.	1946-47.	1947-48.	
1 Number of societies	1,164	1,173	1,170	1,184	1,184	1,185	1,278	1,138	(9)
2 Number of members	3-24	3-27	3-20	3-31	3-38	3-51	3-70	3-93	
3 Paid-up share capital	92-45	96-39	92-30	94-91	103-15	110-89	119-16	131-43	
4 Deposits of members	119-47	123-84	146-23	157-35	172-14	198-88	185-07	218-53	
5 Deposits of non-members	139-76	147-37	172-72	174-53	190-43	230-48	251-04	330-46	
6 Reserve fund	43-40	43-07	46-41	46-72	49-24	51-44	53-96	53-31	
7 Other funds	15-86	14-20	16-53	19-32	20-63	20-85	23-61	19-08	
8 Total working capital	440-04	445-00	492-08	510-87	557-96	629-50	714-15	772-88	
9 Loans due to central banks	28-29	29-17	17-51	17-84	22-34	26-82	33-31	119-04	
10 Loans issued during the year	322-12	204-46	185-47	366-47	450-84	450-84	548-36	670-49	
11 Loans outstanding against members	345-43	341-69	490-07	334-02	334-02	388-10	453-10	566-43	
12 Overhead	64-31	52-87	98-70	42-01	42-01	43-37	43-53	66-33	
13 Percentage of arrears to demand under loans due by members—									
(a) Short-term loans	N.A.	16-35	14-94	14-00	11-19	9-95	9-04	11-03	
(b) Medium-term and long-term loans	N.A.	59-22	61-01	61-40	54-71	60-20	53-51	50-28	
(c) Arrear interest	N.A.	15-87	14-38	13-75	13-85	11-46	13-47	11-10	
(d) Current interest									
14 Total net profit	6-96	7-17	6-69	6-83	6-77	7-42	9-34	9-89	
15 Total net loss	1-26	1-45	1-23	1-29	1-63	1-53	1-38	1-14	

	Composite State—cont.									Residuary State.		
	1943-49.	1949-50.	1950-51.	1951-52.	1952-53.	1952-53.	1953-54.	1954-55.				
1 Number of societies	1,161	1,191	1,217	1,246	1,271	823	841	842				
2 Number of members	4-42	4-83	5-11	5-73	6-38	5-15	6-03	5-98				
3 Paid-up share capital	163-99	184-22	191-98	210-30	213-80	165-73	202-66	200-74				
4 Deposits of members	231-15	296-22	330-27	365-45	365-46	321-20	370-31	423-37				
5 Deposits of non-members	335-72	333-13	360-89	393-83	407-47	305-54	343-07	386-13				
6 Reserve fund	53-37	69-02	65-11	71-79	75-58	56-80	68-21	67-78				
7 Other funds	22-63	24-81	25-59	24-51	38-67	28-35	41-56	31-34				
8 Total working capital	909-15	1,011-96	1,125-07	1,202-17	1,218-15	964-55	1,149-17	1,294-52				
9 Loans due to central banks	107-29	105-43	136-28	126-10	117-17	86-93	123-37	176-04				
10 Loans issued during the year	776-42	868-75	1,027-39	1,061-17	1,065-42	N.A.	1,069-39	1,149-98				
11 Loans outstanding against members	682-37	764-31	872-28	971-86	992-77	N.A.	976-14	922-46				
12 Overhead	82-96	96-48	113-75	142-96	167-44	N.A.	104-17	107-49				
13 Percentage of arrears to demand under loans due by members—												
(a) Short-term loans	8-10	7-65	11-09	13-42	12-65	9-69	10-57	10-37				
(b) Medium-term and long-term loans	15-22	15-18	11-90	12-74	14-34	10-28	10-98	8-49				
(c) Arrear interest	39-24	43-14	45-85	41-67	46-25	39-82	44-83	37-79				
(d) Current interest	11-77	11-48	10-86	12-97	15-84	13-79	11-08	12-46				
14 Total net profit	12-87	15-02	17-14	17-97	17-23	13-96	16-41	15-20				
15 Total net loss	1-06	1-41	1-84	2-01	3-16	1-67	1-33	1-74				

N.A. = Not available.

61-6101
62-6101
63-6101
64-6101
65-6101
66-6101
67-6101
68-6101
69-6101
70-6101

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APPENDIX 12.

STATEMENT SHOWING THE PROGRESS IN THE NUMBER OF CENTRAL BANKS AND THEIR MEMBERSHIP FROM 1940-41 TO 1954-55.

Year.	Average number of central banks.	Number of individual members.	Number of society members.	Number of individuals per bank.	Average number of society members.
<i>Residuary State.</i>					
1940-41	14	2,094	6,711	149	479
1941-42	14	2,058	6,841	147	489
1942-43	14	2,113	7,107	151	507
1943-44	14	2,348	7,496	168	535
1944-45	14	2,317	7,432	165	531
1945-46	15	2,336	7,293	166	496
1946-47	15	2,306	8,366	154	558
1947-48	15	2,252	8,856	150	590
1948-49	15	2,252	9,371	150	625
1949-50	15	2,232	10,221	149	681
1950-51	15	2,187	10,808	146	720
1951-52	15	2,134	11,212	142	741
1952-53	15	2,149	11,481	143	768
1953-54	16	2,212	11,873	138	742
1954-55	16	2,216	12,228	135	764

APPENDIX 13.

STATEMENT SHOWING THE POSITION OF SHARE CAPITAL OF THE INDIVIDUAL AND SOCIETY MEMBERS IN THE CENTRAL BANKS FROM 1940-41 TO 1954-55.

Year.	Number of central banks.	Paid-up share capital of individual members.	Society members.	Total share capital.	Average paid-up share capital per central bank.
<i>(AMOUNT IN LAKHS OF RUPEES.)</i>					
<i>Residuary State.</i>					
1940-41	14	7.00	19.82	26.82	1.91
1941-42	14	6.90	20.04	26.94	1.92
1942-43	14	6.94	20.99	27.93	1.99
1943-44	14	7.31	23.94	31.25	2.23
1944-45	14	8.06	27.54	35.60	2.55
1945-46	15	8.83	23.00	40.83	2.72
1946-47	15	7.23	29.55	46.78	3.12
1947-48	15	6.93	42.83	52.76	3.52
1948-49	15	6.30	50.74	57.04	3.80
1949-50	15	6.83	57.34	62.17	4.21
1950-51	15	7.26	64.84	72.12	4.81
1951-52	15	7.23	71.72	78.95	5.26
1952-53	15	7.21	78.50	85.71	5.71
1953-54	16	8.31	86.07	94.38	5.90
1954-55	16	N.A.	N.A.	96.96	6.06

NA = Not available.

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APPENDIX 14.

STATEMENT SHOWING THE POSITION OF OWNED FUNDS OF THE CENTRAL BANKS FROM 1940-41 TO 1954-55.

Year.	Number of banks.	Share capital.	Reserve fund.	Bad debts reserve.	Other funds.	Owned capital.	Average owned funds per bank.
<i>(AMOUNT IN LAKHS OF RUPEES.)</i>							
<i>Composite State.</i>							
1940-41	30	49.71	35.52	..	* 31.52	116.75	3.89
1941-42	30	50.22	36.69	..	31.85	118.76	3.94
1942-43	30	51.82	37.73	..	28.41	117.96	3.93
1943-44	30	55.90	39.07	..	28.61	123.58	4.12
1944-45	30	62.80	40.68	..	29.85	133.33	4.44
1945-46	30	71.50	42.78	..	30.94	145.22	4.84
1946-47	30	81.54	45.18	..	31.47	158.19	5.27
1947-48	31	91.86	47.79	..	30.21	169.86	5.48
1948-49	31	104.46	52.09	..	33.54	190.08	6.13
1949-50	31	117.91	57.87	15.65	23.57	214.50	6.92
1950-51	31	136.57	63.88	17.35	26.44	244.24	7.88
1951-52	31	151.05	70.41	18.29	33.57	273.32	8.82
1952-53	31	162.88	78.14	20.00	36.18	297.15	9.54
<i>Residuary State.</i>							
1952-53	15	85.71	49.76	10.46	23.04	168.97	11.26
1953-54	16	94.88	53.68	10.65	25.25	183.84	11.48
1954-55	16	96.86	56.79	10.45	26.71	190.81	11.93

* The figures for bad debts reserve from 1940-41 to 1948-49 had been included in other funds.

APPENDIX 14 (a).

STATEMENT SHOWING THE PROPORTION OF OWNED FUNDS TO THE TOTAL WORKING CAPITAL AND TO THE BORROWED CAPITAL IN RESPECT OF THE CENTRAL BANKS FROM 1940-41 TO 1954-55.

Year.	Total working capital.	Average total working capital.	Percentage of owned capital to the working capital.	Bor. rowed capital.	Proportion of owned capital to every Rs. 100 of borrowed capital.
<i>(AMOUNT IN LAKHS OF RUPEES.)</i>					
<i>Composite State.</i>					
1940-41	595.10	19.84	19.60	478.35	24.40
1941-42	614.02	20.47	19.20	495.73	24.00
1942-43	673.16	22.44	17.50	555.19	21.20
1943-44	750.54	25.02	16.40	626.96	19.71
1944-45	850.33	28.38	15.50	717.20	18.60
1945-46	997.52	33.25	14.50	852.30	17.04
1946-47	1,384.26	46.14	11.40	1,226.07	12.90
1947-48	1,406.96	46.89	12.00	1,287.11	13.70
1948-49	1,744.56	56.28	10.80	1,554.48	12.20
1949-50	1,737.66	56.05	12.40	1,523.16	14.08
1950-51	2,033.51	65.60	12.01	1,789.27	13.08
1951-52	2,185.85	70.51	12.50	1,912.53	14.20
1952-53	2,125.00	68.55	14.00	1,827.85	16.20
<i>Residuary State.</i>					
1952-53	1,268.32	84.55	13.30	1,090.35	15.40
1953-54	1,210.57	75.66	15.00	1,026.73	17.80
1954-55	1,207.12	75.45	15.81	1,016.31	18.77

APPENDIX 15.

STATEMENT SHOWING THE PARTICULARS OF LOANS ISSUED BY THE CENTRAL BANKS TO DIFFERENT TYPES OF SOCIETIES.

Year.	Rural credit societies.				Marketing societies.				Wholesale stores.				Primary stores.			
	Loans.		Cash credit.		Loans.		Cash credit.		Loans.		Cash credit.		Loans.		Cash credit.	
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
	(AMOUNT IN LAKHS OF RUPEES).															
	Composite State.															
1945-46	..	..	234.59	..	..	163.53	..	..	860.43	..	..	308.02	..	..	..	..
1946-47	..	..	333.56	..	..	309.54	..	..	1,540.21	..	..	520.41	..	..	..	..
1947-48	..	..	442.94	..	..	378.59	..	..	1,230.83	..	..	365.70	..	..	..	..
1948-49	..	..	554.93	..	..	382.02	..	..	1,516.32	..	..	428.84	..	..	..	..
1949-50	..	..	801.00	..	..	478.56	..	..	1,510.38	..	..	428.80	..	..	..	..
1950-51	..	..	818.17	..	..	439.45	..	..	1,099.97	..	..	428.80	..	..	..	..
1951-52	..	..	818.17	..	..	439.45	..	..	1,099.97	..	..	428.80	..	..	..	..
1952-53	..	..	801.70	..	..	305.36	..	..	860.43	..	..	308.02	..	..	..	..
1953-54	..	..	315.82	..	..	130.95	..	..	194.28	..	..	119.29	..	..	..	..
1954-55	..	..	417.52	..	..	134.40	..	..	97.66	..	..	57.21	..	..	..	..
	Residuary State.															
1945-46	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1946-47	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1947-48	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1948-49	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1949-50	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1950-51	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1951-52	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1952-53	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1953-54	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1954-55	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Grand total of.															
	Other types of societies.															
	Composite State.															
1945-46	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1946-47	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1947-48	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1948-49	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1949-50	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1950-51	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1951-52	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1952-53	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1953-54	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1954-55	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Grand total of.															
	Residuary State.															
1945-46	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1946-47	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1947-48	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1948-49	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1949-50	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1950-51	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1951-52	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1952-53	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1953-54	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1954-55	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

APPENDIX 16.

STATEMENT SHOWING THE PERCENTAGE OF OVERDUES TO DEMAND IN RESPECT OF THE LOANS DUE TO THE CENTRAL BANKS FROM 1940-41 TO 1954-55.

Year.	(1)	Percentage of balance to demand under principal.	Percentage of balance to demand under interest.	
			Arrear.	Current.
		(2)	(3)	(4)
RUPEES IN LAKHS.				
Composite State.				
1940-41	..	30.03	35.25	7.38
1941-42	..	26.75	47.22	6.85
1942-43	..	18.44	49.58	4.66
1943-44	..	13.88	61.22	1.53
1944-45	..	6.99	45.82	0.70
1945-46	..	6.22	51.69	0.48
1946-47	..	5.20	77.57	0.82
1947-48	..	5.05	73.66	0.52
1948-49	..	5.27	71.64	0.26
1949-50	..	5.00	53.42	0.21
1950-51	..	6.07	72.46	0.18
1951-52	..	11.00	79.20	0.40
1952-53	..	13.78	80.89	1.17
Residuary State.				
1953-54	..	10.94	Nil.	0.46
1954-55	..	10.76	0.43	0.27

APPENDIX 17.

STATEMENT SHOWING THE PROGRESS OF THE STATE CO-OPERATIVE BANK LIMITED, IN RESPECT OF SHARE CAPITAL DEPOSITS, WORKING CAPITAL, ETC., FROM 1939-40 TO 1954-55.

Year.	Share capital.	Deposits held at the end of the year from			Total deposits.	Reserve fund.	Other funds including bad debt reserve.	Working capital.
		Societies.	Central Banks.	Individuals and other sources.				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(RUPEES IN LAKHS).								
Composite State.								
1939-40	6.66	..	65.85	141.82	207.17	18.25	11.45	264.91
1940-41	6.67	..	83.03	159.43	241.40	19.00	12.82	279.45
1941-42	6.70	17.32	89.50	144.67	251.49	19.75	13.67	291.52
1942-43	6.71	23.79	109.84	153.65	292.28	20.25	17.03	336.27
1943-44	6.70	30.39	81.41	149.67	261.47	20.50	20.89	319.87
1944-45	6.82	41.60	88.21	155.54	285.31	21.60	22.41	331.04
1945-46	6.82	41.65	123.71	185.41	350.97	22.50	22.82	408.11
1946-47	6.96	36.60	123.86	258.46	412.42	33.50	13.26	506.18
1947-48	8.99	88.25	93.86	275.44	460.55	35.00	13.62	618.15
1948-49	14.64	73.29	102.25	305.78	546.32	41.50	12.07	655.58
1949-50	18.00	55.83	130.65	283.89	420.87	42.75	10.94	677.37
1950-51	14.87	75.86	140.96	219.94	436.26	43.76	11.40	659.67
1951-52	14.91	77.60	103.87	221.90	402.37	44.75	12.62	601.22
1952-53	17.81	54.24	139.85	220.45	464.54	45.75	14.84	664.11
Residuary State.								
1953-54	11.66	59.23	140.70	180.65	389.58	24.08	14.68	592.72
1954-55	11.65	63.51	132.06	184.74	380.91	26.00	14.22	587.95

APPENDIX 18.

STATEMENT SHOWING THE LOAN TRANSACTIONS OF THE STATE
CO-OPERATIVE BANK FROM 1939-40 TO 1954-55.

Year.	Loans given during the year.		Loans outstanding at the end of the year.	
	Individuals.	Banks and societies.	Individuals.	Banks and societies.
(1)	(2)	(3)	(4)	(5)
(RUPEES IN LAKHS.)				
<i>Composite State.</i>				
1939-40	6.14	113.94	5.11	127.43
1940-41	5.29	136.35	2.97	132.87
1941-42	14.07	140.66	3.35	109.82
1942-43	10.66	63.30	3.08	49.66
1943-44	13.87	161.33	2.10	55.52
1944-45	10.65	162.25	5.12	75.29
1945-46	12.83	143.00	4.51	55.47
1946-47	29.89	430.00	7.63	273.04
1947-48	14.26	439.05	4.42	235.28
1948-49	21.75	752.46	6.57	483.26
1949-50	7.06	844.35	2.04	413.62
1950-51	29.97	780.67	12.38	517.27
1951-52	30.66	981.25	20.16	617.27
1952-53	17.60	871.48	10.70	703.83
<i>Residuary State.</i>				
1953-54	23.18	563.04	8.66	334.07
1954-55	11.53	405.58	6.15	283.53

APPENDIX 19.

STATEMENT SHOWING THE PROGRESS OF THE PRIMARY LAND
MORTGAGE BANKS FROM 1940-41 TO 1954-55.

Years.	Number of banks.	Number of members.	Paid up share capital.	Reserve fund.
(1)	(2)	(3)	(4)	(5)
(RUPEES IN LAKHS.)				
<i>Composite State.</i>				
1940-41	119	65,138	17.16	2.49
1941-42	119	69,158	18.63	3.35
1942-43	119	69,863	19.17	4.26
1943-44	119	73,391	18.66	4.86
1944-45	119	83,684	18.94	5.43
1945-46	119	84,125	20.38	5.61
1946-47	120	89,768	22.61	6.21
1947-48	120	97,969	24.21	6.48
1948-49	119	112,998	27.80	6.86
1949-50	124	122,874	30.78	7.35
1950-51	129	151,459	34.34	8.09
1951-52	130	143,927	37.94	8.67
1952-53	130	158,043	42.93	8.89
<i>Residuary State.</i>				
1953-54	73	88,431	25.72	5.91
1954-55	73	92,670	27.50	6.15

APPENDIX 19—cont.

STATEMENT SHOWING THE PROGRESS OF THE PRIMARY LAND
MORTGAGE BANKS FROM 1940-41 TO 1954-55—cont.

Years.	Borrowings from Central Land Mortgage Bank outstanding at the end of the year.	Loans issued during the year.	Loans due at the end of the year.	Profit.	Loss.
(6)	(7)	(8)	(9)	(10)	
(RUPEES IN LAKHS.)					
<i>Composite State—cont.</i>					
1940-41	240.90	42.17	246.90	1.60	0.20
1941-42	258.63	40.40	263.79	1.58	0.22
1942-43	244.78	24.81	250.59	0.74	0.26
1943-44	225.92	18.31	230.30	1.23	0.23
1944-45	226.69	24.81	228.91	1.11	0.22
1945-46	242.25	41.18	245.23	0.93	0.30
1946-47	264.88	46.96	268.91	0.92	0.28
1947-48	291.41	62.33	300.71	1.13	0.43
1948-49	338.32	75.87	348.93	1.13	0.27
1949-50	388.32	73.82	393.05	1.33	0.26
1950-51	427.69	84.19	452.63	1.92	0.24
1951-52	484.97	82.67	490.43	1.81	0.64
1952-53	551.04	104.36	560.93	2.21	0.78
<i>Residuary State—cont.</i>					
1953-54	329.80	48.07	333.41	1.65	0.30
1954-55	337.46	37.55	347.38	1.42	0.40

APPENDIX 20.

STATEMENT SHOWING THE PROGRESS OF THE CENTRAL LAND
MORTGAGE BANK, LIMITED, FROM 1940-41 TO 1954-55.

Years.	Number of members.		Paid-up share capital.	Reserve fund.	Other funds.	Debenture outstanding (in circulation).
	Individuals.	Banks.				
(1)	(2)	(3)	(4)	(5)	(6)	(7)
(RUPEES IN LAKHS.)						
<i>Composite State</i>						
1940-41	455	119	9.35	2.93	3.03	243.26
1941-42	455	119	9.72	3.90	4.58	273.96
1942-43	466	119	10.43	6.04	5.11	295.29
1943-44	464	119	10.82	7.41	2.97	285.59
1944-45	472	119	11.07	12.23	2.63	302.13
1945-46	503	119	11.29	13.95	3.26	324.80
1946-47	505	120	11.64	15.51	4.62	350.84
1947-48	505	120	11.94	17.29	5.09	342.03
1948-49	505	119	12.38	18.41	5.79	421.73
1949-50	499	124	14.32	19.49	6.34	439.32
1950-51	569	129	17.35	21.00	7.61	508.77
1951-52	576	130	20.48	22.49	8.89	558.48
1952-53	550	130	24.69	23.84	9.68	637.10
<i>Residuary State.</i>						
1953-54	457	*75	15.18	13.99	5.56	389.81
1954-55	331	*75	15.75	14.14	5.64	439.41

*Includes two banks to be affiliated to Mysore Co-operative Land Mortgage Banks.

APPENDIX 20—cont.

STATEMENT SHOWING THE PROGRESS OF THE CENTRAL LAND MORTGAGE BANK, LIMITED, FROM 1940-41 TO 1954-55—cont.

Years.	Loans issued during the year.	Loans due at the end of the year.	Sinking fund in-vestments, Government promissory notes, debentures, deposits, etc.	Other in-vestments including cash and bank balances.	Profit.
	(8)	(9)	(10)	(11)	(12)
(RUPEES IN LAKHS.)					
Composite State—cont.					
1940-41 ..	40.78	241.49	20.76	N.A.	2.41
1941-42 ..	40.32	258.84	33.21	N.A.	1.99
1942-43 ..	23.65	244.64	61.33	N.A.	1.82
1943-44 ..	18.25	227.57	81.56	N.A.	1.06
1944-45 ..	24.77	226.27	101.71	N.A.	2.24
1945-46 ..	42.78	242.38	112.64	N.A.	3.43
1946-47 ..	47.66	265.10	125.90	N.A.	2.75
1947-48 ..	61.55	299.11	76.00	N.A.	2.34
1948-49 ..	77.73	345.72	87.76	N.A.	2.26
1949-50 ..	72.24	388.32	83.40	42.14	3.49
1950-51 ..	82.27	435.25	81.38	47.47	3.60
1951-52 ..	82.84	484.07	98.55	49.99	3.36
1952-53 ..	105.04	551.04	132.57	45.26	3.90
Residuary State—cont.					
1953-54 ..	43.84	329.81	93.57	3.26	1.42
1954-55 ..	37.40	342.97	116.35	29.40	2.37

N.A. = Not available.

APPENDIX 21.

STATEMENT SHOWING THE PROGRESS MADE BY THE CO-OPERATIVE MARKETING SOCIETIES FROM 1940-41 TO 1954-55.

Year.	Number of societies.	Number of members.	Share capital.	Loans issued.	Value of produce marketed.
(RUPEES IN LAKHS.)					
Composite State.					
1940-41 ..	205	0.46	3.84	142.56	46.57
1941-42 ..	214	0.55	5.39	147.07	75.23
1942-43 ..	172	0.16	6.58	196.8	211.15
1943-44 ..	181	0.77	8.71	139.2	91.85
1944-45 ..	181	0.91	10.41	121.3	100.63
1945-46 ..	189	0.96	12.67	118.6	124.69
1946-47 ..	193	1.07	16.14	131.8	143.23
1947-48 ..	192	1.15	18.16	188.2	153.25
1948-49 ..	238	1.59	50.39	144.1	260.25
1949-50 ..	279	1.87	61.41	150.5	304.23
1950-51 ..	274	2.30	66.90	166.2	376.63
1951-52 ..	291	2.37	61.58	147.5	411.47
1952-53 ..	296	2.51	59.89	149.0	364.47
Residuary State.					
1953-54 ..	120	1.24	19.53	44.7	205.13
1954-55 ..	114	1.30	19.73	79.55	218.45

APPENDIX 22.

STATEMENT SHOWING THE PROGRESS IN THE WORKING OF THE CONTROLLED CREDIT SCHEME FROM 1940-41 TO 1954-55.

Year.	Number of marketing societies working the control- led credit scheme.	Number of credit societies through which worked.	Extent of land brought under the scheme (Acres in 1,000s).	Loans disbursed for culti- vation expenses.	Value of produce delivered to the marketing societies.
(RUPEES IN LAKHS.)					
Composite State.					
1940-41 ..	N.A.	918	54.9	10.30	N.A.
1941-42 ..	N.A.	838	54.9	8.61	N.A.
1942-43 ..	N.A.	421	35.3	6.27	N.A.
1943-44 ..	N.A.	428	25.7	5.89	N.A.
1944-45 ..	67	487	24.4	6.03	9.95
1945-46 ..	73	846	32.2	10.65	13.15
1946-47 ..	63	602	44.3	9.32	24.04
1947-48 ..	47	518	27.2	6.80	4.15
1948-49 ..	47	552	35.7	10.01	13.85
1949-50 ..	48	469	28.5	16.00	12.10
1950-51 ..	49	418	18.1	15.67	54.01
1951-52 ..	44	402	21.9	21.40	14.92
1952-53 ..	50	485	28.8	28.40	48.41
Residuary State.					
1953-54 ..	29	296	10.1	11.10	25.32
1954-55 ..	29	342	22.3	20.36	17.76

APPENDIX 23 (a).

STATEMENT SHOWING THE PROGRESS MADE BY THE CO-OPERATIVE WHOLESALE STORES FROM 1940-41 TO 1954-55.

Year.	Number of stores.	Number of members.	Share capital.	Annual sales.
(RUPEES IN LAKHS.)				
Composite State.				
1940-41 ..	N.A.	N.A.	N.A.	N.A.
1941-42 ..	9	N.A.	N.A.	N.A.
1942-43 ..	21	4,841	7.60	80.05
1943-44 ..	21	6,538	16.40	518.83
1944-45 ..	21	N.A.	24.66	963.17
1945-46 ..	21	9,427	29.18	1,266.58
1946-47 ..	22	10,288	33.01	1,945.34
1947-48 ..	22	10,694	34.53	1,827.59
1948-49 ..	23	12,442	36.70	2,513.23
1949-50 ..	24	12,615	36.64	2,833.12
1950-51 ..	24	14,197	36.37	2,017.72
1951-52 ..	24	15,434	35.66	1,924.09
1952-53 ..	24	16,021	34.42	1,171.14
Residuary State.				
1952-53 ..	13	7,368	22.09	796.01
1953-54 ..	13	6,443	21.16	310.01
1954-55 ..	13	6,352	20.54	234.71

N.A. = Not available.

APPENDIX 23 (b).

STATEMENT SHOWING THE PROGRESS MADE IN THE WORKING OF THE PRIMARY CO-OPERATIVE STORES (EXCLUDING THE STUDENTS' STATIONERY STORES) FROM 1939-40 TO 1954-55.

Year.	Number of stores.	Number of members.	Share capital.	Reserve fund.	Annual sales.
<i>Composite State.</i>					
(RUPEES IN LAKHS.)					
1939-40 ..	236	34,400	3.20	2.37	35.62
1940-41 ..	300	54,700	4.71	N.A.	58.33
1941-42 ..	399	71,600	6.43	N.A.	93.46
1942-43 ..	938	2,31,289	23.85	3.35	298.49
1943-44 ..	1,191	3,43,000	43.67	6.93	832.36
1944-45 ..	1,286	4,08,000	59.74	13.61	1,176.86
1945-46 ..	1,346	4,47,000	66.54	21.26	1,357.55
1946-47 ..	1,688	5,73,000	99.67	27.30	1,814.93
1947-48 ..	1,740	5,69,000	105.15	42.49	2,353.76
1948-49 ..	1,764	5,83,000	111.86	53.64	2,307.37
1949-50 ..	1,743	5,79,000	97.02	67.19	2,553.18
1950-51 ..	1,649	5,35,000	99.64	75.12	2,561.63
1951-52 ..	1,591	5,52,000	92.81	86.66	2,383.56
1952-53 ..	1,485	5,55,000	77.91	92.20	1,657.08
<i>Residuary State.</i>					
1952-53 ..	896	3,97,000	59.12	74.09	1,372.29
1953-54 ..	829	3,76,000	56.49	76.28	998.95
1954-55 ..	786	3,64,000	51.85	79.33	682.94

N.A. = Not available.

APPENDIX 24.

STATEMENT SHOWING THE PROGRESS OF COTTAGE INDUSTRIES SOCIETIES (OTHER THAN WEAVERS AND JAGGERY SOCIETIES) AS ON 30TH JUNE 1955.

Name the society.	Number of societies.	Number of members.	Paid-up share capital.	Value of goods produced.	Value of goods sold.
(IN RUPEES). (RUPEES IN LAKHS.)					
1 Carpet weavers ..	1	40	400	0.43	0.01
2 Cumbly Weavers Co-operative Society ..	2	211	8,368	0.43	0.45
3 Mat Weavers Co-operative Society ..	18	969	8,520	0.60	0.75
4 Hand Spinners and Khadi weaving ..	6	906	5,710	0.17	0.11
5 Metal workers ..	17	1,780	71,682	0.72	1.04
6 Leather workers ..	2	188	1,799	0.26	0.81
7 Potters and clay workers co-operative societies.	8	695	11,571	0.40	0.76
8 Coir workers ..	14	1,588	20,245	0.84	3.01
9 Basket makers ..	4	347	4,860	0.25	0.25
10 Toy manufacturers ..	1	23	1,320	0.01	0.01
11 Stone carvers ..	2	121	304	0.00026	0.00026
12 Cottage industries for women—					
(a) Central society ..	1	27	1,065	..	0.30
(b) Others ..	37	3,825	22,241	0.19	0.29
13 Bee-keeping ..	6	743	4,371	0.04	0.04
14 Hand-pounded rice workers co-operative society.	3	150	1,470	..	..
15 Button manufacturers co-operative society.	1	81	201	0.004	0.004
16 Beedi and cigar workers ..	1	98	885	0.04	0.04
17 Salt workers co-operative society ..	3	588	20,340	0.52	0.48
18 Oil producers society ..	4	162	17,403	0.77	3.79
19 Other types of societies ..	29	3,060	33,563	0.32	3.51

APPENDIX 25.

AMENDMENTS PROPOSED TO THE CO-OPERATIVE SOCIETIES ACT (as referred to in Chapter 24).

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2 (j)

"Registrar" means a person appointed to perform the duties of a Registrar of Co-operative Societies under this Act; and includes a person on whom all or any of the powers of the Registrar under this Act have been conferred under section 3.

4

Societies which may be registered.—(1) Subject to the provisions of this Act, a society which has as its object the promotion of the economic interests of its members other than partnership firms and joint stock companies in accordance with co-operative principles or a society established with the object of facilitating the operations of such a society, may be registered under this Act with or without limited liability :

Provided that unless the Registrar by general or special order otherwise directs—

(i) the liability of a society of which a member is a registered society shall be limited, and

(ii) the liability of a society of which the primary object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists, shall be unlimited and the members of such a society shall, on its liquidation, be jointly and severally liable for and in respect of all its obligations.

(2) Where the liability of the members of a registered society is unlimited or limited to a multiple of the share capital subscribed by them, the liability of the State Government or of a financing bank, which has taken shares in such registered society shall be limited to the share capital subscribed by the Government or such financing bank as the case may be.

Restrictions on interest of members of society with limited liability and a share capital.—Where the liability of the members of a society is limited by shares, no member other than a registered society or the State Government shall—

(a) hold more than such portion of the share capital of the society, subject to a maximum of one-fifth as may be prescribed by the rules; or (b) have or claim any interest in the shares of the society exceeding in the case of a credit society one thousand rupees and in the case of a non-credit society five thousand rupees.

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10

Registration.—(1) If the Registrar is satisfied that a society has complied with the provisions of this Act and the rules and that its proposed by-laws are not contrary to the Act or to the rules, or to the co-operative principles and that the society will, in his opinion, work successfully, he may register the society and its by-laws.

(2) Against an order of refusal of registration, an appeal shall lie to the State Government within two months from the date of the issue of the order of refusal by registered post or from the date of delivery of the order by a messenger, as the case may be.

(3) No order passed by the Registrar under sub-section (1) and no order passed by the State Government on an appeal preferred under sub-section (2) shall be called in question in any civil court.

12

In section 12 of the said Act—

After sub-section (1) the following sub-sections shall be added, namely:—

“(2) If the Registrar is satisfied that an amendment of the by-laws is not contrary to this Act or to the rules, and that in his opinion, it is in accordance with co-operative principles and in the interests of the society, he may register the amendment. In case of refusal the reasons therefor should be communicated to the societies concerned.

(3) Any amendment of the by-laws shall take effect from the date on which it is registered provided that where an amendment specifies that it shall take effect from any other date, the amendment shall on registration take effect from the date so specified.”

The present sub-section (3) will be renumbered as (4).

(5) Against an order of refusal of registration, an appeal shall lie to the State Government within two months from the date of the receipt of the order of refusal by registered post or from the date of delivery of the order by a messenger, as the case may be.

(6) No order passed by the Registrar under sub-section (2) and no order passed by the State Government on an appeal preferred under sub-section (5) shall be called in question in any civil court.”

13 (c) Add the following as sub-section (c) under section 13:—

(1) Wherein the opinion of the Registrar, the amalgamation of two or more societies in a particular area is considered necessary or desirable with a view to increase their strength and usefulness, he may, after consulting the financing bank to which the societies are affiliated in the manner prescribed by the rules in this behalf, call

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upon such societies to amalgamate into one registered society within such time as may be specified by him and subject to the procedure prescribed in sub-section (5).

(2) If the societies fail to amalgamate into one registered society within the time specified by the Registrar, he may, after giving the societies an opportunity to be heard, direct the amalgamation of such societies into one registered society.

(3) Every society so directed shall within one month of the receipt of the Registrar's direction referred to in clause (2) above give notice of the direction for amalgamation to all its members and creditors.

(4) Any member or creditor of any of the societies so directed shall notwithstanding any by-law or contract to the contrary have the option of withdrawing his shares, deposits, or loans, as the case may be, within one month of the service of such notice on him and where an application for such withdrawal is made, the society shall refund his shares, deposits or loans as the case may be within such time as the Registrar may direct.

(5) Any member or creditor who does not exercise his option within the period aforesaid shall be deemed to have assented to the amalgamation.

(6) After the claims of the members and creditors, if any, under clause (4) have been met by the societies directed to be amalgamated or after all the members and creditors of such societies have assented to the amalgamation, the Registrar may register the new society under section 10. On such registration the registration of the old societies shall be deemed to have been cancelled. The registration of the new society shall be a sufficient conveyance to vest in it all the assets and liabilities of the original societies without the necessity of any form of conveyance other than that contained in the order of amalgamation.

(7) The directions of the Registrar under clause (2) or any other order passed by him under this sub-section shall not be called in question in any Civil Court.

Restriction of transfer of shares or interest.—(1) The transfer of the share or interest of a member in the capital of a registered society shall be subject to such conditions as may be prescribed in this Act or by the rules or by its by-laws.

Copy of Act, rules and by-laws to be open to inspection.—Every registered society shall keep a copy of this Act and the rules and of its by-laws as well as a register of its members open to inspection free of charge at all reasonable times at the registered address of the society.

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21

First charge of society.—(1) Subject to the prior claim, if any, of the Government in respect of land revenue or any money recoverable as land revenue, any debt or outstanding demand due to a registered society by any member or past or deceased member shall be a first charge.

(i) upon the crops or other agricultural produce of such member, or past or deceased member raised in whole or in part with a loan taken or for raising which the loan was taken from the society by such member or past or deceased member, and

(ii) upon any cattle, fodder for cattle, agricultural or industrial implements for machinery or raw materials for manufacture or any articles manufactured from raw materials or work-shops, godowns or place of business supplied to or purchased by such member or past or deceased member in whole or in part from any loan whether in money or goods, given to him by the society.

(2) No property or interest in property which is subject to a charge in favour of a registered society under sub-section (1) shall be sold or otherwise transferred or converted in any manner without the previous written permission of the society.

(3) Any member or a past member or the legal representative of a deceased member of a registered society shall, if so required, by an officer of the society deposit or entrust custody of such property as is subject to a charge under sub-section (1) at such place and in such manner and within such time as may be specified by the officer in accordance with the rules framed for the purpose till the debt or outstanding demand due to the society is fully paid.

(4) Notwithstanding anything contained in any law, any sale or transfer made in contravention of sub-section (2) shall be void.

(5) The charge created by sub-section (1) in favour of a registered society shall be available against any claim of the Government arising from a loan granted under the Land Improvement Loans Act (XIX of 1883) after the grant of the loan by the society.

21-A

Charge on immovable property of members borrowing loans from certain societies.—Notwithstanding anything contained in this Act or in any other law for the time being in force—

(i) Any person who makes an application to a society of which he is a member for a loan shall, if he owns any land, make a declaration in the form prescribed

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by rules. Such declaration shall state that the applicant thereby creates a charge on the land owned by him and specified therein for the payment of the amount of the loan which the society may make to the member in pursuance of the application and for all future advances, if any, required by him which the society may make to him as such member subject to such maximum as may be determined by the society together with interest on such amount of the loan and advances;

(ii) any person who has borrowed a loan from a society of which he is a member before the date of the coming into force of the Madras Co-operative Societies Act (195), and who owns any land shall, as soon as possible, make a declaration in the form and to the effect referred to in clause (i) and no such person shall, unless and until he has made such declaration, be entitled to exercise any right as a member of the society;

(iii) a declaration made under clause (i) or (ii) may be varied at any time by a member with the consent of the society in favour of which such charge is created;

(iv) no member shall alienate the whole or any part of the land specified in the declaration made under clause (i) or (ii) until the whole amount borrowed by the member together with interest thereon is paid in full:

Provided that standing crops on any such land may be alienated with the previous permission of the society;

(v) a copy of the declaration made under clauses (i) and (ii) shall be sent by registered post by the society to the Sub-Registrar having jurisdiction over the area in which the land is situated for registration;

(vi) any alienation made in contravention of the provisions of clause (iv) shall be void;

(vii) subject to prior claims of the State in respect of land revenue or any money recoverable as land revenue there shall be first charge in favour of the society on the land specified in the declaration made under clause (i) or (ii) for and to the extent of the dues owing by him on account of the loan.

Explanation.—For purposes of this Section, "Society" shall mean any "credit society" the majority

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of whose members are agriculturists and the primary object of which is the provision of credit for its members in cash or in kind or in both ;

25 To section 25 of the said Act, the following shall be added namely :—

" If before the expiry of two years aforesaid, an order for the dissolution of the society has been issued under section 44 or 45 the liability of such past member or of the estate of the deceased member to the debts of the society shall continue till the affairs of the society are finally wound up :

Provided that this section shall not apply to the State Government or a financing bank which has taken shares in such registered society."

28 Add the following under the proposed section at the end :—"(5). Nothing contained in this section shall apply to persons employed in the Indian Railways."

34 Insert the following clause for the proposed clause (c) in the draft Bill :—

" (c) in any shares, bonds, or debentures issued by any other registered society provided that no such investment shall be made in the shares of any society with unlimited liability except with the general or special sanction of the Registrar and subject to such limits as may be prescribed by him from time to time ; or "

35 *Funds not to be divided among the members.*—No part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members ; provided that payment may be made from such funds to a member for work done by him either as Secretary or for scriptory work, on such scale as may be prescribed by the by-laws.

36 Delete the existing section 36 and insert the following :—

Contribution to charitable purposes.—(1) Every registered society shall, after carrying at least one-fourth of its net profits to a reserve fund, after contributing to the audit fund such amount as may be prescribed in the rules and after making provision for payment of dividend on the scale provided in the rules, contribute 7½ per cent of its net profits to a Common Good Fund, provided that it shall not be obligatory on the part of registered credit society the majority of whose members are agriculturists to contribute to such a fund.

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(2) Where after complying with the provisions in sub-section (1) there is a surplus in the net profits of a registered society, payment may be made from such surplus :

(a) to an officer or officers for services rendered by them to the society ;

(b) to employees as bonus in appreciation of their work ;

(c) to members as bonus on the extent of business done by them with it or on the value of the services rendered by such members to the society or on such other basis as may be laid down in the rules and by-laws ; and

(d) to persons who are not members of a co-operative stores on the extent of business done by them with it, subject to such conditions as may be prescribed by the rules or by-laws of such societies.

(3) The Common Good Fund referred to in sub-section (1) shall be spent on any charitable purpose as defined in section 2 of the Charitable Endowments Act, 1890 (Central Act, VI of 1890) :

Provided that in the case of a registered society other than credit society of which the majority of members are agriculturists such portion not exceeding one-half of the contribution to common good fund payable under sub-section (1), as the Registrar may, by a general or special order, fix, shall be payable to a registered society or societies doing co-operative propaganda in the State approved by the Registrar on this behalf.

44—A

Where a society has been ordered to be dissolved under section 44 or 45, no member shall alienate his property movable or immovable from the date of the order of dissolution and until after the expiry of 60 days from the date on which the order of dissolution takes effect. Any alienation of his property made by a member in contravention of this section shall be voidable at the option of the liquidator :

Provided that the provision of this section shall not apply to any member who furnishes adequate security to the satisfaction of the liquidator.

47

No change to the existing section 47 except the following :—

To the existing clause (c) of sub-section (3) add the following :—

" and to make a compromise or an arrangement with any creditor of the society in respect of his

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claims against it, or in consultation with the financing bank with any member of the society in respect of any contribution to be made by him, including a contribution in respect of any debt due from him to the society."

(iv) In sub-section (8) the following shall be added at the end, namely :—

"or from the date of delivery of the order by a messenger, as the case may be."

51

Insert as sub-sections (6) and (7) under section 51.—

(6) The person appointed as Registrar under section 3 or any person on whom all the powers of such Registrar have been conferred in respect of the whole of the State of Madras may, of his own motion or on the application of a party to, the reference, withdraw any reference made under sub-section (i) and may decide himself or refer it to any person subordinate to him or to an arbitrator or arbitrators for disposal.

(7) The person appointed as Registrar under section 3 or any person on whom all the powers of such Registrar have been conferred in respect of the whole of the State of Madras may, of his own motion or on the application of a party to a reference, order the stay of arbitration proceedings pending before any person on whom any but not all the powers of the Registrar have been conferred under section 3 of this Act or before any arbitrator to whom it has been referred for disposal under section 51 (2).

53

Punishment for disposing of properties in contravention of section 21—Any member or past member or the nominee, heir or legal representative of a deceased member contravening the provisions of section 21 shall be punishable with fine not exceeding two hundred rupees.

57

Power of Government and Registrar to call for proceedings and to pass orders thereon :—(1) The State Government or the Registrar may, of its or his own motion or on the application of any party concerned, call for and examine the record of any inquiry or the proceedings of any officer subordinate to such Government or the Registrar, as the case may be, for the purpose of satisfying itself or himself as to the legality or propriety of any decision, award or order passed and as to the regularity of the proceedings of such officer; and if in any case it shall appear to the State Government or the Registrar

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that any decision, award, order or proceedings so called for should be modified, annulled or reversed, the State Government or the Registrar, as the case may be, may pass such order thereon as to it or him may seem fit.

Explanation.—The State Government may exercise the powers conferred on it by this sub-section in respect of orders passed by the Registrar under it.

(2) Every application to the State Government or the Registrar for the revision of any decision, award, order or proceedings under sub-section (1) shall be made within two months from the date of the issue of a copy of the decision, award, order or proceedings to the applicant or from the date of the delivery to him of such decision, award, order or proceedings by a messenger as the case may be.

(3) No order passed by the State Government or Registrar under sub-section (1) shall be called in question in any civil court.

57-AA.

Notwithstanding any thing contained in this Act or any other law, and in addition and without prejudice to any other mode of recovery, the Registrar or any person subordinate to him empowered by the Registrar in this behalf may, subject to such rules as may be prescribed by the State Government on an application from a registered society for the purpose, recover any debt or outstanding demand due to the society by any member, past or deceased member and in respect to which there is a first charge under sub-section (1) of section 21 by sale of the property or goods subject to the charge :

Provided that no sale shall be made under this section, unless the member or past member or the legal representative of the deceased member has been served with a notice of the application to sell and has failed to pay the debt or outstanding demand within seven days from the date of such service.

57-O.

Application of section 57-(A) and 57-(B) and certain rule to societies in Orissa, Mysore, Andhra and Kerala.—The provisions of section 57-A and 57-B and of all rules made under this Act, relating to or in any manner connected with, the recovery of the sums specified in section 57-A shall apply with such modifications, if any, as may be directed by the State Government in regard to the recovery of like sums due to co-operative societies registered or deemed to be registered in the State of Orissa, Mysore, Andhra and Kerala under any law for

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the time being in force in those States, as the case may be, as if such societies has been registered in this State.

57-E

Indemnity.—No suit, prosecution or legal proceedings whatever shall lie against the Registrar or any person subordinate to him or acting on his authority in respect of anything in good faith done or purporting to be done under this Act.

60-A

Constitution of a representative general body.—Notwithstanding anything contained in any of the provisions of the Act, the Registrar may direct a registered society having such number of members and area of operations as may be specified by the rules and subject to such other conditions as may be prescribed therein to constitute a smaller general body to represent the larger body and exercise the powers of the latter body to the extent permitted in the rules and by-laws of the society.

65 (gg)

(gg) Provide for the procedure to be adopted by the Registrar in cases where resistance, obstruction, or evasion takes place to handover the books, documents, securities, cash and other properties of a registered society or of a society the registration of which has been cancelled by the Registrar under section 44 or 45 or the committee of which has been superseded under section 43.

In the proposed sub-clause (hh) of the draft Bill insert the words "and holding custody" in the first sentence of sub-clause (hh) between the words "possession" and "of the books, documents."

DRAFT CONSOLIDATED BILL TO AMEND THE MADRAS CO-OPERATIVE SOCIETIES ACT, 1932 PENDING BEFORE THE GOVERNMENT.

1. (1) This Act may be called the Madras Co-operative Societies Act, 1932.

(2) It extends to the whole of the State of Madras.

2. In this Act, unless there is anything repugnant in the subject or context,—

(a) "by-laws" means the registered by-laws for the time being in force and includes a registered amendment of the by-laws;

(b) "committee" means the governing body of registered society to whom the management of its affairs is entrusted;

(c) "financing bank" means a registered society, the main object of which is to lend money to other registered societies;

(d) "member" includes a person joining in the application for the registration of a society and a person admitted to membership after registration in accordance with the by-laws and any rules;

(e) "officer" includes a president, vice-president, chairman, vice-chairman, secretary, assistant secretary, treasurer, member of committee, and any other person empowered under the rules or the by-laws to give directions in regard to the business of the society;

(f) "registered society" means a society registered or deemed to be registered under this Act;

(g) "Registrar" means a person appointed to perform the duties of a Registrar of Co-operative Societies under this Act; and

(h) "rules" means rules made under this Act.

R.C.O.—29A

2. In section 2 of the said Act— Definitions.

(i) after clause (b), the following clause shall be inserted, namely:—

"(bb) 'credit society' means "By-laws." a registered society, the main object of which is the provision of credit to its members in cash or in kind or in both ;"

(ii) after clause (d), the following clause shall be inserted, namely:—

"(dd) 'non-credit society' "Financing means a society which is not a Bank." credit society ;"

(iii) The word 'and' occurring at the end of clause (g) shall be omitted;

(iv) after clause (h), the following word and clause shall be inserted, namely:—

"and (i) 'supervising "Officer." union' means a registered society, the main object of which is to organise societies and to aid and supervise other registered societies which are its members."

Explanatory Note.

Clause 2.—The introduction of certain new terms in the Act has rendered further definitions "Registered society." necessary.

"Registrar."

"Rules."

Societies which may be registered.

4. Subject to the provisions of this Act, a society which has as its object the promotion of the economic interests of its members in accordance with co-operative principles, or a society, established with the object of facilitating the operations of such a society, may be registered under this Act with or without limited liability :

Provided that unless the Local Government by general or special order otherwise directs—

(i) the liability of a society of which a member is a registered society shall be limited; and

(ii) the liability of a society of which the primary object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists, and of which no member is a registered society, shall be unlimited and the members of such a society shall, on its liquidation be jointly and severally liable for and in respect of all its obligations.

Change of liability.

5. (1) Subject to the proviso to section 4 and to any rules made in this behalf, a registered society may, with the previous sanction of the Registrar, change its liability from limited to unlimited or from unlimited to limited :

Provided that—

(i) the society shall give notice in writing of its intention to change its liability to all its members and creditors ;

3. For the proviso to section 4 of the said Act, the following proviso shall be substituted, namely :—

“ Provided that—

(i) unless the Provincial Government, by general or special order otherwise directs, the liability of a society of which a member is a registered society shall be limited :

(ii) unless the Provincial Government, by general or special order, or in special circumstances the Registrar, otherwise directs, the liability of a society of which the primary object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists, and of which no member is a registered society, shall be unlimited and the members of such a society shall, on its liquidation, be jointly and severally liable for and in respect of all its obligations.”

Explanatory Note.

Clause 3.—There has been a growing body of opinion for the formation of agricultural credit societies on limited liability basis. The amendment vests in the Registrar the power to register such societies in special circumstances or in particular areas where the local conditions justify such a course.

4. In section 5 of the said Act—

(i) In sub-section (1), for the first sentence, the following sentence shall be substituted, namely :—

“ Subject to the proviso to section 4 and to any rules made in this behalf and with the previous sanction of the Registrar, a registered society may, by a resolution passed by a majority of not less than three-fourths of the members present at a general meeting held for the

(ii) any member or creditor shall withstanding any by-law or contract to the contrary, have the option of withdrawing his shares, deposits or loans, as the case may be, within three months of the service of such notice on him and the change shall not take effect until all such claims have been satisfied ; and,

(iii) any member or creditor, who does not exercise his option within the period aforesaid, shall be deemed to have assented to the change.

(2) Notwithstanding anything contained in the proviso to sub-section (1) the change shall take effect at once if all the members and creditors assent thereto.

6. Where the liability of the members of a society is limited by shares, no member other than a registered society shall—

(a) hold more than such portion of the share capital of the society, subject to a maximum of one-fifth as may be prescribed by the rules ; or

(b) have or claim interest in the shares of the society, exceeding one thousand rupees.

7. (1) No society other than a society of which a member is a registered society shall be registered under this Act which does not consist of at least ten persons who have attained the

purpose, change its liability from limited to unlimited or from unlimited to limited ;”

(ii) in the first proviso to the said sub-section, for the words “ its intention to change its liability,” the words “ such resolution ” shall be substituted.

Explanatory Note.

Clause 4.—Amendment (i) is intended to prevent any important changes being made by a bare majority of members brought together for purposes of voting. A three-fourths majority is considered necessary for such purposes.

Amendment (ii) is intended to make it clear that the notice is to be given only after the resolution has been passed.

5. In clause (b) of section 6 of the said Act, for the words “ exceeding one thousand rupees ” the words “ exceeding in the case of a credit society, one thousand rupees and in the case of a non-credit society, five thousand rupees ” shall be substituted.

Explanatory Note.

Clause 5.—Societies like District Co-operative Wholesale Stores, Co-operative Milk Supply Unions and Co-operative Marketing Federations have to collect substantial sums of money as share capital. The existing limit of Rs. 1,000 is not suitable in such cases. A limit of Rs. 10,000 is permitted by the Bombay Co-operative Societies Act in respect of house building societies and it is proposed to adopt a maximum of Rs. 5,000 to start with for all non-credit Societies in this Province.

6. In sub-section (1) of section 7 of the said Act—

(i) in clause (a), after the word “ reside,” the words “ or own immovable property ” shall be inserted.

Restrictions on interest of member of society with limited liability and a share capital.

Conditions of registration.

age of majority and, where the object of the society is the creation of funds to be lent to its members unless such persons—

(a) reside in the same town or village or in the same group of villages; or

(b) save where the Registrar otherwise directs, are members of the same (tribe) class, (caste), or occupation.

(2) The word "limited" shall be the last word in the name of every society with limited liability registered under this Act.

Power of Registrar to decide certain questions.

8. When any question arises whether for the purposes of this Act a person is an agriculturist, or a non-agriculturist, or whether any person is a resident in a town or village or group of villages, or whether two or more villages shall be considered to form a group, or whether any person belongs to any particular tribe, class, caste or occupation, the question shall be decided by the Registrar, whose decision shall be final.

(ii) at the end of the said clause (a), the following proviso shall be added, namely:—

"provided that in the case of societies registered with unlimited liability, the members shall reside in the same village or in the same group of villages."

(iii) in clause (b), the words "tribe and caste" shall be omitted.

Explanatory Note.

Clause 6—Amendment (i).—It has been suggested by the Committee on Co-operation, 1939-40, that residential qualification is not necessary for limited liability societies like Land Mortgage Banks.

Amendment (ii).—This is intended to make it clear that the residential qualification is necessary in the case of societies with unlimited liability.

Amendment (iii).—Caste and tribal distinctions are undesirable and unco-operative. It is proposed to delete these words.

7. In section 8 of the said Act—

(i) the words "tribe" and "caste" shall be omitted;

(ii) The following words shall be added at the end, namely:—

"and shall not be called in question in any civil court."

Explanatory Note.

Clause 7.—Amendment (i).—The words "tribe" and "caste" are omitted in conformity with clause 6.

Amendment (ii).—The jurisdiction of civil courts is specifically barred. This is necessary in order to avoid deadlocks in the affairs of a society resulting from the intervention of civil

courts and the whole object of the Act is to prevent such intervention.

10. If the Registrar is satisfied that a society has complied with the provisions of this Act and the rules and that its proposed by-laws are not contrary to this Act or to the rules, he may register the society and its by-laws. In case of refusal, an appeal shall lie to the local Government within two months from the date of the issue of the order of refusal by registered post.

8. For section 10 of the said Act, the following section shall be substituted:

"10. (1) If the Registrar is satisfied that a society has complied with the provisions of this Act and the rules and that its proposed by-laws are not contrary to the Act or to the rules, he may register the society and its by-laws.

(2) Against an order of refusal of registration, an appeal shall lie to the State Government within two months from the date of the issue of the order of refusal by registered post or from the date of delivery of the order by a messenger, as the case may be.

(3) No order passed by the Registrar under sub-section (1) and no order passed by the State Government on an appeal preferred under sub-section (2) shall be called in question in any civil court."

Explanatory Note.

Clause 8.—Provision has been made for an alternative mode of communication of orders to the party concerned and for shutting out the jurisdiction of civil courts in these matters.

9. In section 12 of the said Act—

(i) In sub-section (2), for the second sentence the following sentence shall be substituted, namely "In case of refusal the reasons the reform should be communicated to the registered society concerned."

(ii) After sub-section (2), the following sub-sections shall be added, namely:—

(3) Any amendment of the by-laws shall take effect from the date on which it is registered

12. (1) No amendment of the by-laws of a registered society shall be valid until the same has been registered under this Act, for which purpose a copy of the amendment shall be forwarded to the Registrar.

(2) If the Registrar is satisfied that any amendment of the by-laws is not contrary to this Act or to the rules, he may register the amendment. In case of refusal an appeal shall lie to the State Government within two

Amendment of the by-laws of registered society.

months from the date of the issue of the order of refusal by registered post.

(3) When the Registrar registers an amendment of the by-laws of a registered society, he shall issue to the society a copy of the amendment certified by him, which shall be conclusive evidence that the same is duly registered.

provided that where an amendment specifies that it should take effect from any other date, the amendment shall on registration take effect from the date so specified. Sub-section (4) is the same as exist-sub-section (3).

(5) Against an order of refusal of registration, an appeal shall lie to the State Government within two months from the date of the receipt of the order of refusal by registered post or from the date of delivery of the order by a messenger, as the case may be.

(6) No order passed by the Registrar under sub-section (2) and no order passed by the State Government on an appeal preferred under sub-section (5) shall be called in question in any civil court.

Explanatory Note.

Clause 9 :—See note on Clause 8.

Provision has also been made for giving adequate opportunities to the societies for appealing against the order of refusal to register amendment and for giving retrospective operation to amendments to by-laws if necessary.

10. In section 13 of the said Act—

Division and amalgamation of societies.

13. (a) (1) Any registered society may, at a meeting of its general body specially called for the purpose of which at least seven clear days' notice shall be given to its members, resolve to divide itself into two or more societies. The resolution (hereinafter in this sub-section referred to as the preliminary resolution) shall contain proposals for the division of the assets and liabilities of the society among the new societies into which it is proposed to divide it and may prescribe the area of operation of, and specify the members who will constitute, each of the new societies.

(2) (i) A copy of the preliminary resolution shall be sent to all the members and creditors of the society.

(ii) Any member of the society may, notwithstanding any by-law to the contrary, by notice given to the society within a period of three months from his receipt of the preliminary resolution, intimate his intention not to become a member of any of the new societies.

(iii) Any creditor of the society may, notwithstanding any agreement to the contrary, by notice given to the society within the said period, intimate his intention to demand a return of the amount due to him.

(3) After the expiry of three months from the receipt of the preliminary resolution by all the members and creditors of the society, a meeting of the general body of the society, of which at least fifteen clear days' notice shall be given to its members, shall be convened for considering the preliminary resolution. If, at such meeting, the preliminary resolution is confirmed by a resolution passed by a majority (of not less than two-thirds of the members present) either without changes or with such changes as, in the opinion of the Registrar, are not material, he may, subject to the provisions of clause (5) and section 10, register the new societies and the by-laws thereof. On such registration the registration of the old society shall be deemed to have been cancelled.

The opinion of the Registrar as to whether the changes made in the preliminary resolution are or are not material shall be final and no appeal shall lie therefrom.

(4) At the meeting referred to in clause (3) provision shall be made by another resolution for

(i) the repayment of the share capital of all the members who have given notice under sub-clause (ii) of clause (2); and

(i) In sub-clause (3) of clause (a) for the words "by a majority of not less than two-thirds of the members present," the words "by three-fourths of the members present not being less than a majority of the members on the rolls of the society" shall be substituted.

(ii) At the end of the said sub-clause (3) of clause (a), the following words shall be added namely :—

"nor shall it be called in question in any civil court."

(ii) the satisfaction of the claims of all the creditors who have given notice under sub-clause (iii) of clause (2):

Provided that no member or creditor shall be entitled to such repayment or satisfaction until the Preliminary resolution is confirmed as provided in clause (3).

(5) If, Within such time as the Registrar considers reasonable, the share capital of the members referred to in clause (4) is not repaid or the claims of the creditors referred to in that clause are not satisfied, the Registrar may refuse to register the new societies.

(6) The registration of the new societies shall be a sufficient conveyance to vest the assets and liabilities of the original society in the new societies in the manner specified in the preliminary resolution as confirmed under clause (3).

(b) (1) Two or more registered societies may, at meetings of their respective general bodies specially called for the purpose of which at least seven clear days' notice shall be given to their respective members, resolve to amalgamate into one society. This resolution is hereinafter in this sub-section referred to as the preliminary resolution.

(2) (i) A copy of the preliminary resolution of each society shall be sent to all the members and creditors thereof.

(ii) Any member of any such society may notwithstanding any by-law to the contrary, by notice given to the society of which he is a member within a period of three months from his receipt of the preliminary resolution, intimate his intention not to become a member of the new society.

(iii) At the end of sub-clause (6) of the said clause (a), the following shall be added namely:—

“and on such registration, the creditors of the original society who have not under sub-clause (iii) of clause (2) intimated their intention to demand a return of the amounts due to them, shall become creditors of the society to whom the liability in respect of the debts has been assigned and the liability of the original society in respect of such debts shall cease.”

(iii) Any creditor of any such society may, notwithstanding any agreement to the contrary, by notice given to the society of which he is a creditor within the said period, intimate his intention to demand a return of the amount due to him.

(3) After the expiry of three months from the receipt of the preliminary resolution by all the members and creditors of all the societies a joint meeting of the members of such societies of which at least fifteen clear days' notice shall be given to them, shall be convened for considering the preliminary resolution. If at such meeting the preliminary resolution is confirmed by a resolution passed by a majority of not less than two-thirds of the members present, either without changes or with such changes as, in the opinion of the Registrar, are not material, he may subject to the provisions of clause (5) and section 10, register the new society and the by-laws thereof. On such registration, the registration of the old societies shall be deemed to have been cancelled.

The opinion of the Registrar as to whether the changes made in the preliminary resolution are or are not material shall be final and no appeal shall lie therefrom.

(4) At the joint meeting referred to in clause (3), provision shall be made by another resolution for—

(i) the repayment of the share capital of all the members who have given notice under sub-clause (ii) of clause (2); and

(ii) the satisfaction of the claims of all creditors who have given notice under sub-clause (iii) of clause (2).

(iv) After sub-clause (6) of the said clause (a), the following sub-clause shall be inserted, namely:—

“(7) If by reason of the transference of the area of operation of any registered society from one district to another, it becomes necessary to divide the society into two or more societies, the Registrar shall call upon the society to hold a meeting within a date to be named by him and the said society shall follow the procedure laid down in clause (a) of section 13.

If the members fail to arrive at an agreement in the matter of the division of the assets and liabilities of the society, the Registrar shall appoint a tribunal of not more than three persons of whom one shall be the representative of the financing bank, to effect a division of the assets and liabilities of the society. The decision of the tribunal shall be given effect to on its approval by the Registrar, except in the case of unanimous decisions which shall be final. No decision under this sub-section shall be called in question in any civil court.

(8) (i) If any portion of the area of operations of a financing bank is for administrative or other reasons transferred to that of another financing bank, the two banks may, by resolution passed at the meetings of their respective general bodies, agree to a division between them of the assets and reserve fund of the bank from which a portion of the area is so transferred and the manner of such division. The agreement shall be given effect to by the Registrar.

(ii) If the banks do not agree, the Registrar shall

decide whether or not a division of the said assets and reserve fund shall be made between them and in cases he decides in favour of a division, he may appoint a tribunal consisting of a representative of each of the banks and a third person nominated by him to decide all points in dispute between the two banks in respect of such division. The decision of the Registrar under this sub-clause shall be final. *The decision of the tribunal shall be given effect to on its approval by the Registrar, except in the case of unanimous decisions which shall be final.* The decision of the Registrar or of the tribunal shall not be called in question in any civil court.

(iii) In a division of the assets and reserve fund under sub-clause (ii) the bank to which the transfer of an area is made, shall be entitled to the face value of the shares held and reserve fund invested by the societies in the area so transferred as well as of the shares held by individuals resident in such area:

Provided that any individual shareholder resident in the area so transferred may ask for and obtain a return of the share capital due to him."

(iv) In sub-clause (3) of clause (b), for the words "by a majority of not less than two-thirds of the members present," the words, "three-fourths of the members present not being less than a majority of the members on the rolls of the society" shall be substituted.

(v) At the end of the said sub-clause (3) of clause (b), the following words shall be added, namely:—

"nor shall it be called in question in any civil court",

Explanatory Note.

Clause 10.—*Amendments (i) and (v).*—The amendments have been recommended by the Committee on Co-operation, 1939-40. Instead of two-thirds of the majority of members present at the meeting, what is required is the consent of three-fourths of the members present not being less than the majority of the members on the rolls of the society.

Amendments (ii) and (vi).—Opportunity is taken to bar the jurisdiction of civil courts.

Amendment (iii).—The amendment is intended to make the position explicit beyond doubt.

Amendment (iv).—It is considered necessary to provide for a division of a society including a Central Bank on account of the transference of its area of operation from one district to another and also for the division of assets in the case of transfer of any portion of the area of operation of a financing bank to that of any other financing bank. In the past, owing to absence of such a provision difficulties were felt in disposing of matters arising out of these circumstances.

14. (1) No member of a registered society shall, save as otherwise provided in sub-section (2), exercise the rights of a member unless or until he has made such payment to the society in respect of membership or acquired such interest in the society as may be prescribed by the rules and by-laws.

(2) In the case of a society registered after the commencement of this Act, the persons who have signed the application to register the society may elect a committee to conduct the affairs of the society for a period

11. In sub-section (2) of sec. Member not tion 14 of the said Act, after the to exercise words "for such further period." rights till the words "not exceeding three months." shall be inserted. due payment made.

Explanatory Note.

Clause 11.—The addition of the words "not exceeding three months" limits the total period to six months during which the original committee could function and after which period the society must elect a fresh committee as provided for in the by-laws.

of three months from the date of registration or for such further period as the Registrar may consider desirable:

Provided that the committee shall cease to function as soon as the members of the society have elected a committee in accordance with its by-laws.

General meetings.

15. (1) The Committee may at any time call a general meeting of the society and shall call such a meeting within one month after receipt of a requisition in writing from the Registrar or from a financing bank to which the society is indebted or from such number of members or proportion of the total number of members as may be specified in the by-laws of the society.

(2) If a general meeting is not called in accordance with such requisition, the Registrar shall have power to call a general meeting of the society himself.

12. For section 15 of the said Act, the following section shall be substituted, namely:—

“ 15. (1) The committee may at any time call a general meeting of the society.

(2) (a) The committee shall call a general meeting of the society within one month of the date of a requisition in that behalf from—

(i) such number of members or proportion of the total number of members as may be specified in the by-laws of the society; or

(ii) the supervising union to which the society is affiliated; or

(iii) the financing bank to which the society is affiliated; or

(iv) the Registrar.

(b) The officer or officers in whom the power of calling meetings of the committee is vested, shall call a meeting of the committee within fifteen days of the date of a requisition in that behalf from—

(i) such number of members or proportion of the total number of members of the committee as may be specified in the by-laws of the society; or

(ii) the supervising union to which the society is affiliated; or

(iii) the financing bank to which the society is affiliated; or

(iv) the Registrar.

(c) The requisition referred to in clauses (a) and (b) must be in writing and signed by the requisitionists specifying the purpose for which the meeting is to be called, and be delivered in person or by registered post at the registered address of the society.

(3) (a) If the committee or the officer or officers of the society refuse or fail to call a meeting in accordance with a requisition under sub-section (2), or if there be no quorum at a meeting so convened, or if in the opinion of the Registrar, there be no committee, officer or officers, competent under the Act, rules or by-laws to call a meeting, or if there be a dispute regarding the competence of the committee, officer or officers to call a meeting, the Registrar shall have power to call the meeting himself.

(b) When the committee has, for any reason, ceased to function as such, the Registrar may, of his own motion or on requisition by the financing bank, call for a general meeting of the society for the purpose of reconstituting or reorganizing the committee.

(4) The following provisions shall apply in regard to every general or committee meeting called under sub-section (3):—

(a) The Registrar shall have power notwithstanding any by-law prescribing the period of notice for the meeting to call the meeting in such manner and at such place and time as he may direct, and specify the matters which shall be discussed at the meeting.

(b) The Registrar shall either preside at the meeting himself or authorize some other person by order in writing to preside at the meeting.

(c) The meeting shall have all the powers of a meeting called under the by-laws of the society.

(d) The Registrar or the person authorized by him to preside at the meeting shall have the power to conduct the meeting even though the number of persons present is less than the quorum prescribed for the meeting by the by-laws of the society; and any resolution passed at the meeting shall be valid notwithstanding that there was no quorum, if the Registrar certifies that it was impossible to secure a quorum and that the resolution is in the interests of the society.

(e) The Registrar shall have power to order that the expenses incurred in calling the meeting shall be paid out of the funds of the society or by such person or persons as, in the opinion of the Registrar, were responsible for the refusal or failure to convene the meeting under sub-section (2).

(f) No civil court shall have jurisdiction to entertain any suit or legal proceeding in respect of the exercise of any of the powers conferred by this section or in respect of matters dealt with or disposed of under this section.

Explanatory Note.

Clause 12.—The existing section gives power to the Registrar to convene only general body meetings. The power is now extended to convene committee meetings and it is also provided that the Registrar or his nominee should preside over such meetings, that even if there be no quorum, the proceedings

will be valid—(this provision already exists in the model by-laws)—that the costs incidental to such meetings should be recovered from the society or persons responsible for the refusal or failure to comply with the requisition and that no civil court shall take cognizance of any matter connected with such meetings. To resolve deadlocks that may arise in the future as they have arisen in the past (e.g., in the case of the Central Bank, Salem, or the Kumbakonam Bank) these provisions are essential.

The committees of many societies are found to be defunct as panchayatdars, owing to default, lose their seats automatically under the rules. In such cases, there is no body on whom the duty of reconstituting a proper committee rests. Provision has therefore been made for the Registrar to take action in such cases either on his own motion or on requisition by the financing bank.

16. (1) No member of any registered society shall have more than one vote in the affairs of the society provided that in the case of an equality of votes the Chairman shall have a casting vote.

(2) A registered society which has invested any part of its funds in the shares of another registered society may appoint any of its members not disqualified for such appointment under any rules prescribed in that behalf to vote in the affairs of such (other) registered society.

13. In section 16 of the said Act—
Voting of members.

(i) To sub-section (1), the following further proviso shall be added, namely:—

“Provided further that at elections held under the Act or the by-laws of the society, a member may vote for as many candidates as there are seats to be filled and that in the event of an equality of votes among rival candidates at an election the choice shall be made by casting lots.”

(ii) After sub-section (2), the following sub-sections shall be added, namely:—

“(3) Save as provided in sub-section (2), no member of a registered society shall vote in the affairs thereof by proxy.”

(4) Where a share of a society is held jointly by more than one person only the person whose name stands first in the share certificate shall have the right to vote.

Explanatory Note.

Clause 13.—The principle of "one member one vote" is not intended to apply to elections, as each member at an election votes for as many candidates as there are seats to be filled.

Voting by proxy is un-co-operative and should be prohibited.

New sub-section (4) follows Section 18 (1-A) of the Bombay Co-operative Societies Act.

14. After sub-section (2) of section 17 of the said Act, the following sub-sections shall be added, namely:—

"(3) In the case of a society registered with limited liability other than a financing bank, a member shall not transfer any share held by him or his interest in the capital of the society or any part thereof except to another member of the society, or to a person whom the society is willing to admit as a member in accordance with its by-laws, or to the society itself, provided that the total amount transferred to the society in any one year does not exceed the limit prescribed by the by-laws of the society.

(4) In the case of a financing bank, no member shall transfer any share held by him or his interest in the capital of the bank or any part thereof except to another member or to a person or registered society whom the bank is willing to admit as a member in accordance with its by-laws, provided that the bank shall buy its own shares from a member who is a registered society when the

Restrictions on transfer of share or interest. 17. (1) The transfer of the share or interest of a member in the capital of a registered society shall be subject to such conditions as to maximum holding as may be prescribed by this Act or by the rules.

(2) In the case of a society registered with unlimited liability a member shall not transfer any share held by him or his interest in the capital of the society or any part thereof unless—

(a) he has held such share or interest for not less than one year; and

(b) the transfer is made to the society or to a member of the society.

registration of such society is cancelled or when such society takes share in another financing bank."

Explanatory Note.

Clause 14.—In the case of primary credit societies with limited liability, no society is permitted to refund more than one-tenth of its paid-up share capital in any one year. In the case of financing banks, the shares are not withdrawable but only transferable, but when an affiliated society is liquidated or when a bank is split up, the share capital held by a primary society is repaid to it. The new sub-sections regularize the practice now followed.

19. Every registered society shall keep a copy of this Act and of the rules governing such society and of its by-laws open to inspection free of charge at all reasonable times at the registered address of the society.

15. (i) Section 19 of the said Act shall be numbered as sub-section (1) of that section.

(ii) In sub-section (1) as so numbered, between the words "by-laws" and "open" the words "as well as a register of its members" shall be inserted.

(iii) After sub-section (1), the following sub-section shall be added, namely:—

"(2) If this Act, or the rules or by-laws aforesaid are amended or any change occurs in the membership of the society, the amendment or change shall be incorporated by the society with the least possible delay in the copy of this Act, or of the rules or by-laws kept under sub-section (1) or in the register referred to therein, as the case may be."

Explanatory Note.

Clause 15.—Sub-rule (6) of rule VII of the rules issued under the Act requires every society with limited liability to prepare and maintain for inspection by members a list of members as on the last day of each co-operative year. It

Prior claim societies,

21. (1) subject to the prior claim, if any, of the Government in respect of land revenue or any money recoverable as land revenue or of a landlord in respect of rent or any money recoverable as rent, a registered society shall be entitled in priority to other creditors to enforce any outstanding demand due to the society from a member or past or deceased member—

(a) in respect of the supply of seed or manure or of the loan of money for the purchase of seed or manure upon the crops or other agricultural produce of such member or person at any time within eighteen months from the date of such supply or loan;

(b) in respect of the supply of cattle, fodder for cattle, agricultural or industrial implements or machinery or raw materials for manufacture, or of the loan of money for the purchase of any of the foregoing things—upon any such things so supplied, or purchased, in whole or in part from any such loan, or on any articles manufactured from raw materials so supplied or purchased.

(2) The priority created by sub-section (1) in favour of a registered society shall be available against any claim of the Government arising from a loan granted under the Land Improvements Loans Act (XIX of 1883), after the grant of loan by the society.

is now proposed to make it obligatory on all societies to maintain such a list up to date, as the failure to maintain such a list has led to election disputes. It is also proposed to require societies to maintain the Act, the rules and their by-laws up to date.

16. In section 21 of the said Act,

(i) For sub-section (1), the following sub-section shall be substituted, namely:—

“(1) Subject to the prior claim, if any, of the Government in respect of land revenue or any money recoverable as land revenue or of a landlord in respect of rent or any money recoverable as rent, any debt or outstanding demand due to a registered society from any member or past member or the estate of a deceased member, shall be a first charge—

(a) if the debt or demand is due in respect of the supply of seed or manure or substances, or appliances, or chemicals for the preservation of produce and prevention of disease of crops, or of the loan of money for the purchase of these articles upon the crops or other agricultural produce raised by the application of the articles so supplied or by the utilisation of loans so granted, within eighteen months from the date of such supply or loan;

(b) if the debt or demand is due in respect of the supply of cattle, fodder for cattle, agricultural or industrial implements or machinery or raw materials for manufacture or of the loan of money for the purchase of any of the foregoing things—upon any such things so supplied or purchased in whole or in part from any such

loan, or upon any articles manufactured from raw materials so supplied or purchased;

(c) if the debt or demand is due in respect of the supply of, or any loan for the purchase of warehouses or business premises, or workshops—upon the things supplied or purchased in whole or in part from any such loan; and

(d) if the debt or demand is due in respect of any loan for the purchase or redemption of land—upon the land purchased or redeemed in whole or in part from any such loan.

(ii) in sub-section (2), for the word “priority” the word “charge” shall be substituted.

Explanatory Note.

Clause 16.—The Townsend Committee on Co-operation, the Central Banking Enquiry Committee, the Twelfth Conference of Registrars of Co-operative Societies and the Reserve Bank of India have all recommended that the prior claim of a society under section 21 of the Act should be converted into a first charge. The amendment proposed gives effect to the recommendations as has already been done in the Bombay, Bihar and Orissa Acts.

The amendment also provides for other credit requirements of the members of a society (in addition to seed, manure and cattle) being classed as productive credit for purposes of creating a charge in favour of the society.

22. A registered society shall have a charge upon the share or interest in the capital and on the deposits of a member or past or deceased member and upon any dividend, bonus or

17. To section 22 of the said Charge and Act, the following proviso shall be added, namely:—

“Provided that no financial interest of a member shall have a charge upon—

profits payable to a member or past member or the estate of a deceased member in respect of any debt due from such member or past member or the estate of such deceased member to the society, and may set off any sum credited or payable to a member or past or deceased member or the estate of a deceased member in or towards payment of any such debt.

(i) any sum invested with it by a registered society out of the provident fund established under section 36-A; or

(ii) any sum invested with it as reserve fund by a registered society or be entitled to set off any such sum towards any debts due from such society.

Explanatory Note.

Clause 17.—Immediately after the registration of a society is cancelled, a few Central Banks have been trying to adjust the reserve fund invested with them towards the debts due by it. The amendment is designed to forbid such adjustment of reserve fund, which should be available for all creditors of the society.

The amendment also provides protection to the Provident Fund instituted for the benefit of the employees of societies.

18. For section 23 of the said Act, the following section shall be substituted, namely:—

"23. Subject to the provisions of section 22, the share or interest of a member in the capital of a registered society or contribution made by members or past members or by the estate or nominees, heirs or legal representatives of deceased members or by any officers or former officers under section 47 or the share or interest of an employee in the provident fund established under section 36-A or such provident fund or the reserve fund of a registered society invested in accordance with the provisions of section 34 shall not be liable to attachment or sale under any decree or order, of a court of justice in respect of any debt or liability incurred by such members, employee or society and neither the

Shares or interest not liable to attachment.

23. Subject to the provisions of section 22, the share or interest of a member in the capital of a registered society shall not be liable to attachment or sale under any decree or order of a Court of Justice in respect of any debt or liability incurred by such member, and neither the Official Assignee under the Presidency Towns Insolvency Act (III of 1909), nor a Receiver under the Provincial Insolvency Act (II of 1920), shall be entitled to or have any claim on such share or interest.

Official Assignee under the Presidency Towns Insolvency Act, 1909, nor a Receiver under the Provincial Insolvency Act, 1920, shall be entitled to, or have any claim on, such share interest, contribution or fund.

Explanatory Note.

Clause 18.—This is consequential on new section 36-A so far as provident fund is concerned. As regards reserve fund the amendment is intended to prevent a single creditor of the society from taking it away without making it available to all the creditors, alike. Regarding contributions under section 47, it is intended to exempt them from attachment by the creditors of contributories.

19. In sub-section (1) of section 24 of the said Act—
Transfer of interest on death of member.

(i) for the words and figures "Subject to the provisions of section 22, a registered society," the following shall be substituted, namely:—

"Subject to the provisions of sections 17 and 22—

(a) a registered society other than a financing bank";

(ii) the following shall be added at the end:—

"and

(b) a financing bank shall on the death of a member transfer his share or interest in the capital to the person nominated in accordance with the rules made in this behalf or if there is no person so nominated, to such person as may appear to the committee or such bank to be the heir or legal representative of the deceased member"; and

(iii) in proviso (ii) for the words "one month", the words "three months" shall be substituted.

Explanatory Note.

Clause 19.—The amendments give effect to the well-established

24. (1) Subject to the provisions of section 22, a registered society may, on the death of a member, transfer his share or interest in the capital to the person nominated in accordance with the rules made in this behalf, or, if there is no person so nominated, to such person as may appear to the committee to be the heir or legal representative of the deceased member, or pay to such nominee, heir or legal representative, as the case may be, a sum representing the value of such member's share or interest as ascertained in accordance with the rules or by-laws:

Provided that—

(i) in the case of a society with unlimited liability, such nominee, heir or legal representative, as the case may be, may require payment by the society of the value of the share or interest of the deceased member ascertained as aforesaid; and

(ii) in the case of a society with limited liability, the society shall transfer the share or interest of the deceased member to such nominee, heir

or legal representative, as the case may be, being qualified in accordance with the rules and by-laws for membership of the society, or on his application within one month of the death of the deceased member to any person specified in the application who is so qualified.

(2) Subject as aforesaid a registered society may pay all other moneys due to the deceased member from the society to such nominee, heir or legal representative, as the case may be.

(3) All transfers and payments made by a registered society in accordance with the provisions of this section shall be valid and effectual against any demand made upon the society by any other person.

liability of
past member
or of the
estate of a
deceased
member.

25. The liability of a past member or of the estate of a deceased member for the debts of a registered society as they existed on the date of his ceasing to be a member or of decease, as the case may be, shall continue for a period of two years from such date.

principle that in the case of a financing bank which takes deposits, no reduction in the share capital should be permitted. The period of one month specified in the proviso (ii) is considered to be too short.

20. To section 25 of the said Act, the following shall be added, namely:—

“If before the expiry of two years aforesaid an order for the winding up of the society has been issued, under section 44 (1) the liability of such past member or of the estate of the deceased member to the debts of the society shall continue till the affairs of the society are finally wound up.”

Explanatory Note.

Clause 20.—The amendment makes it clear that the object of the section is to provide a condition or period of time for the emerging of the liability and not for its enforcement. There should be no limitation for enforcing the liability.

21. After section 27 of the said Act, the following section shall be inserted, namely:—

“28. (1) A member of a registered society may execute an agreement in favour of the

society providing that his employer or the Officer disbursing his salary shall be competent to deduct every month from the salary or wages payable to him, such amount or instalments of amount as may be specified in the agreement and to pay the amount so deducted to the society in satisfaction of any debt or other demand owing by the member to the society.

(2) On the execution of such agreement, the employer or the officer disbursing the salary of the member, shall, if so required by the society by a requisition in writing and so long as such debt or demand or any part of it remains unpaid, make the deduction in accordance with the agreement and pay the amount so deducted to the society. The employer or the officer disbursing the salary shall maintain such registers as may be prescribed by the Government or the Registrar from time to time.

(3) The provisions of this section shall apply to all such agreements of the nature referred to in sub-section (1) as are in force on the date of the enactment of this section.”

(4) The provisions of this section shall apply notwithstanding any law to the contrary for the time being in force.

Explanatory Note.

Clause 21.—This clause is intended to place the existing practice on a statutory basis. Similar provision exists in the Bengal and the Sind Co-operative Societies Acts.

22. For sub-section (2) of section 30 of the said Act, the following section shall be substituted, namely:—

“(2) The Government by notification in the official gazette,

Government by notification in the *Gazette of India* may, in the case of any registered society or class of registered societies, remit the income-tax payable in respect of the profits of the society, or of the dividends or other payments received by the members of the society on account of profits.

(2) The Local Government, by notification in the *Fort St. George Gazette*, may in the case

Power exempt income tax, stamp duty and registration fees.

of any registered society or class of registered societies remit—

(a) the stamp duty with which, under any law for the time being in force, instruments executed by or on behalf of a registered society or by an officer or member and relating to the business of such society or any class of such instruments or decisions, awards or orders of the Registrar or arbitrators under this Act are respectively chargeable; and

(b) any fee payable under the law of registration for the time being in force.

may in the case of any society or class of societies remit—

(a) the stamp duty with which under any law for the time being in force instruments executed by or on behalf of a society or by an officer or member and relating to the business of the society or any class of such instruments or decisions, awards or orders of the Registrar or arbitrators or liquidators under this Act are respectively chargeable; and

(b) any fee payable under the law of registration for the time being in force.

In this sub-section Government in relation to stamp duty means the Government which is the collecting Government for the purpose of the Indian Stamp Act, 1899, and same as aforesaid means the State Government.

Explanatory Note.

Clause 22.—The amendments is based on section 33 of the Bombay Co-operative Societies Act. It also legalises the existing practice under which contribution orders passed by liquidators under section 47 are not required to be stamped.

23. For sub-section (1) of section 34 of the said Act, the following sub-section shall be substituted, namely:—

“(1) Subject to the provisions of sub-section (4) of section 32, a registered society may invest or deposit its funds or a portion thereof—

(a) in the Government Savings Bank, or

(b) in any of the securities specified in section 20 of the Indian Trusts Act, 1882, or

(c) in any shares, bonds, or debentures issued by any other registered society with limited liability, or

(d) in any securities approved in this behalf by the Government, or

Investment of funds.

34. (1) Subject to the provisions of sub-section (4) of section 32, a registered society may invest or deposit its funds

(a) in the Government Savings Bank, or

(b) in any of the securities specified in section 20 of the Indian Trusts Act (II of 1882), or

(c) in the shares or securities of any other registered society, provided that no such investment shall be made in the shares of any society with unlimited liability, or

(d) with any bank or person carrying on the business of banking, approved for this purpose by the Registrar, or

(e) in any other mode permitted by the rules.

(2) Any investments or deposits made before the commencement of this Act which would have been valid if this Act had been in force are hereby ratified and confirmed.

(e) with the general or special sanction of the Registrar, with any other registered society with limited liability, or

(f) with the previous sanction of the Registrar, with any other society with limited liability, the headquarters of which are situated outside the State of Madras and which is registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in Indian Union relating to Co-operative Societies, or

(g) with any bank or person carrying on the business of banking approved for this purpose by the Registrar, or

(h) in any other mode permitted by the rules.”

Explanatory Note.

Clause 23.—The scope of clause (c) of the existing sub-section is enlarged so as to permit investment in bonds or debentures, issued by a registered society with limited liability. The amendment also provides for depositing funds in another registered society situated in this State or outside with the Registrar's permission and also in securities approved by the Government.

35. No part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members:

Provided that payment may be made to a member for work done by him as Secretary or as clerk on such scale as may be prescribed by the by-laws:

Provided also that after at least one-fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits and from any profits of past years available for distribution may be made—

(i) as a bonus to a member for any specific service rendered

24. After section 35 of the said Act, the following section shall be inserted, namely:—

“35-A. A registered society with limited liability shall not have power—

(i) to extinguish or reduce the liability in respect of any of its shares or to cancel or pay off any portion of its paid-up share capital except with the previous permission of the Registrar.

Explanatory Note.

Clause 24.—There are a few cases in which societies are over-capitalized and the need for reduction of share capital is keenly felt.

Funds not to be divided among members.

by him to the society including work done as Secretary or as clerk; and

(ii) among the members to such extent and under such conditions as may be prescribed by the rules or by-laws.

Contribution to charitable purpose. 36. Any registered society may, after one-fourth of the net profits in any year has been carried to a reserve fund, contribute an amount not exceeding 10 per cent of the remaining net profits to any charitable purpose as defined in section 2 of the Charitable Endowments Act (VI of 1890).

The amendment provides for reduction of share capital in such cases with the previous permission of the Registrar.

25. At the end of section 36 of the said Act, the following shall be added, namely:—

“or, subject to any general or special directions issued by the Registrar in this behalf, to any purpose conducive to the promotion of the interests and progress of any registered society or societies.”

Explanatory Note.

Clause 25.—The amendment is intended to widen the scope of the beneficial purpose of this section. The provisions of the Charitable Endowments Act, 1890, are too limited and antiquated to suit the activities of co-operative organizations of the present day.

26. After section 36 of the said Act, the following section shall be inserted, namely:—

“36-A. Any registered society may establish a provident fund for its employees into which shall be paid the contributions made by the employees and by the society, in accordance with such rules as may be prescribed or the by-law made by such society in that behalf.

Provided that—

(1) the contribution of the society to the provident fund hereinafter to be instituted shall be paid with the previous permission of the Registrar;

(2) such provident fund shall not be used in the business of the society but shall be invested in accordance with the provisions of section 34; and

(3) no part of such provident fund shall be considered as an asset of the society.”

Explanatory Note.

Clause 26.—Many central banks and some primary societies have instituted a system of provident fund for the benefit of their employees. The object of this clause is to give protection to this fund. Clause (1) of the proviso will enable the Registrar to examine the financial position of any society and prevent financially weak societies from making contributions to the provident fund out of their general funds. The previous permission of the Registrar is necessary only in the case of provident funds to be instituted hereafter and central banks and other institutions which have already instituted provident funds need not take such permission.

27. In section 38 of the said Act—

38. (1) The Registrar may of his own motion and shall on the request of the Collector, or on the application of a majority of the committee or of not less than one-third of the members, hold an inquiry, or direct some person authorized by him by order in writing in this behalf to hold an inquiry into the constitution, working and financial condition of a registered society.

(2) The Registrar or the person authorized by him under sub-section (1) shall have the following powers, namely:—

(a) He shall, at all reasonable times, have free access to the books, accounts, documents, securities, cash and other properties belonging to or in the custody of the society and may summon any person in possession or responsible for the custody of any such books, accounts, documents, securities,

(i) In sub-section (1), after Inquiry by the words “on the request of the Collector” the following words shall be inserted, namely:—

“or on the request of the financing bank to which the society is affiliated.”

(ii) For clause (c) of sub-section (2), the following clause shall be substituted, namely:—

“(c) (i) He may, notwithstanding any by-law prescribing the period of notice for a general meeting of the society or for a meeting of the committee thereof, require the officers of the society to call a general or committee meeting at such time and place at the headquarters of the society or any branch thereof and to determine such matters as may be directed by him.

(ii) If the officer or officers of the society refuse or fail to

cash or other properties to produce the same at any place at the headquarters of the society or any branch thereof.

(b) He may summon any person who he has reason to believe has knowledge of any of the affairs of the society to appear before him at any place at the headquarters of the society, or any branch thereof and may examine such person on oath.

(c) (i) He may, notwithstanding any rule or by-law prescribing the period of notice for a general meeting of the society, require the officers of the society to call a general meeting at such time and place at the headquarters of the society or any branch thereof and to determine such matters as may be directed by him. If the officers of the society refuse or fail to call such a meeting, he shall have power to call it himself.

(ii) Any meeting called under clause (i) shall have all the powers of a general meeting called under the by-laws of the society and its proceedings shall be regulated by such by-laws.

(3) When an inquiry is made under this section, the Registrar shall communicate the result of the inquiry to the financing bank, if any, to which the society is indebted.

call such a meeting, or if there be no quorum at a meeting so called, or if in the opinion of the Registrar, there be no committee, officer or officers competent under the Act, rules or by-laws to call such meeting, or if there be a dispute regarding the competence of the committee, officer or officers to call such meeting, the Registrar shall have power to call the meeting himself and all the provisions of sub-section (4) of section 15 shall apply to such meeting as if it were a meeting called under sub-section (3) of that section."

(iii) In sub-section (3) for the words 'is indebted', the words 'is affiliated and also to the society concerned' shall be substituted."

(iv) The Registrar may also make an order directing the society or its officers or its financing bank to take such action as may be specified in the order to remedy the defects within the time specified therein.

Explanatory Note.

Clause 27.—Amendment (i) provides for the financing bank also being included among those who may ask the Registrar for 'an enquiry' into the affairs of the society indebted to it.

Amendment (ii).—It is proposed that the Registrar or the person authorized by him in this behalf should have power to require the officers of the society to call also a committee meeting, and where in case of their failure or refusal to call a general or committee meeting, he is obliged to call the meeting himself, the provisions of sub-section (4) of new section 15 should apply to such meeting.

Amendment (iii).—This provides for cases where the society may be affiliated to the financing bank without its being actually

39. (1) The Registrar may, on the application of a creditor of a registered society, inspect or direct some person authorized by him in this behalf by a general or special order in writing to inspect the books of the society and the Registrar or the person so authorized shall have all the powers of the Registrar when holding an inquiry under section 38.

(2) No inspection shall be made or directed under sub-section (1) unless the creditor—

(a) satisfies the Registrar that the debt is a sum then due, and that he has demanded payment thereof and has not received satisfaction within a reasonable time; and

(b) deposits with the Registrar such sum as security for the costs of the proposed inspection as the Registrar may require.

(3) Where an inspection is made under sub-section (1), the Registrar shall communicate the results of such inspection to the creditor and to the financing bank, if any, to which the society is indebted.

40. A financing bank shall have the right to inspect the books of any registered society which is indebted to it. The inspection may be made either by an officer of the financing bank or by a member of its paid staff certified by the Registrar as competent to undertake such inspection. The officer or member so inspecting shall at all reasonable times have free access to the books, accounts, documents, securities, cash and other properties belonging to or in the custody of the society and may also call for such information, statements and returns as may

indebted to it at that time and for the result of the enquiry being communicated to the society concerned. *Inspection of books by Registrar.*

(iv) Similar provision contained in section 46-A of the Bombay Co-operative Societies Act.

28. For section 39 of the said Act—

(i) sub-section (3) shall be renumbered as sub-section (4) and the following shall be inserted as sub-section (3), namely:—

(3) The Registrar may also make an order directing the society to take such action as may be specified in the order to remedy the defects within the time specified therein" and

(ii) in sub-section (4) as so renumbered, for the word "indebted" the word "affiliated" shall be substituted.

Explanatory Note.

See note on amendments (iii) and (iv) in clause 27.

29. In section 40 of the said Act, for the second and third sentences, the following sentence shall be substituted, namely:—

"The inspection shall be made by a member of its paid staff certified by the Registrar to be competent to undertake such inspection."

A member of the staff certified by the Registrar shall have all the powers specified in Section 38 (2) (a) (b) and (c).

Costs of
enquiring
and
inspection.

be necessary to ascertain the financial condition of the society and the safety of the sums lent to it by the financing bank.

41. Where an inquiry is held under section 38 or an inspection is made under section 39, the Registrar may after giving the parties an opportunity to be heard, apportion the costs, or such part of the costs, as he may think right.

Explanatory Note.

It is considered that the paid staff of the central bank certified by the Registrar should make the inspection and that they should have the powers specified in section 38 (2) (a), (b) and (c). Honorary officers need not have the power to inspect.

30. In section 41 of the said Act—

(i) for the word 'right', the following words shall be substituted, namely :—

"proper after stating in writing the reasons for such apportionment."

(ii) At the end, the following sentence shall be added, namely :—

"The orders or awards passed by the Registrar under this section shall not be called in question in any civil court."

Explanatory Note.

Clause 30.—Provision is made for stating the reasons in writing where costs are apportioned and for shutting out the jurisdiction of civil courts.

31. In section 43 of the said Act—

(i) in sub-section (1) after the first sentence ending with the words "not exceeding two years" the following sentence shall be inserted, namely :—

"The Registrar may also nominate persons not exceeding five to assist and advise the manager or managers so appointed."

(2) The person or persons so appointed shall, subject to

Supersession
of Com-
mittee.

43. (1) If, in the opinion of the Registrar, the committee of any registered society is not functioning properly, he may, after giving an opportunity to the committee to state its objections, if any, by order in writing dissolve the committee and appoint a suitable person or persons to manage the affairs of the society for a specified period not exceeding two years. The period specified in such order may, at the discretion of the Registrar, be extended from time to time provided that such order shall not remain in force for more than four years in the aggregate.

the control of the Registrar and to such instructions as he may from time to time give, have power to exercise all or any of the functions of the committee or of any officer of the society, and to take all such action as may be required in the interest of the society.

(3) The Registrar may fix the remuneration payable to the persons or person so appointed. The amount of such remuneration and the other costs, if any, incurred in the management of the society, shall be payable from its funds.

(4) The person or persons so appointed shall, at the expiry of the period of his or their appointment, arrange for the constitution of a new committee in accordance with the by-laws of the society.

(5) Before taking any action under sub-section (1) in respect of a financing bank, or in respect of a society indebted to a financing bank, the Registrar shall consult in the former case the Madras Provincial Co-operative Bank, and in the latter case the financing bank concerned, regarding such action.

(6) Nothing in this section shall be deemed to affect the power of the Registrar to cancel the registration of the society under section 44.

44. (1) If the Registrar, after an inquiry, has been held under section 38 or after an inspection has been made under section 39 or section 40 or on receipt of an application made by three-fourths of the members of a registered society, is of opinion that the society ought to be dissolved, he may by order in writing cancel the registration of the society. A copy of the

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(ii) after sub-section (6), the following sub-section shall be added, namely :—

"(7) Nothing done by the Registrar in exercise or intended exercise of the powers conferred on him by this section, shall be called in question in any civil or revenue court. Nothing done by any person appointed by the Registrar under this section manage the affairs of a society shall be called in question in any civil or revenue court to the same extent as is provided for in section 51 (6) in respect of the acts done by the committee of a society."

Explanatory Note.

Clause 31—Amendment (i).—This is intended to legalize the existing practice and make provision for the appointment of an advisory committee to assist the officer or officers appointed to manage the affairs of the society after supersession of its committee.

Amendment (ii).—This is intended to prevent civil courts from interfering in matters relating to supersession of committees of societies.

32. For section 44 of the said Dissolution Act, the following section shall be substituted, namely :—

"44. (1) If the Registrar, after an enquiry, has been held under section 38 or after an inspection has been made under section 39 or section 40 or on receipt of an application made by three-fourths of the members of a registered society, is of opinion

order shall forthwith be communicated to the society by registered post.

(2) Any member of the society may, within two months from the date of the order made under sub-section (1), appeal to the Local Government from such order.

(3) Where no appeal is presented within two months from the making of an order cancelling the registration of the society, the order shall take effect on the expiry of the period.

(4) Where an appeal is presented within two months, the order shall not take effect until it is confirmed by the Local Government and such confirmation is communicated to the society by registered post.

that the society ought to be wound up, or if the number of members in a society has fallen below the statutory minimum prescribed in section 7 (1), he may issue an order directing the society to be wound up. A copy of the order shall forthwith be communicated to the society by registered post or by messenger for delivery in person.

(2) Any member of the society may, within two months from the date of the issue of the order made under sub-section (1) appeal to the State Government from such order except in the case of an order issued for the reason that the number of members has fallen below the statutory minimum.

(3) Where no appeal is presented within the period of two months aforesaid, the order shall take effect on the expiry of that period.

(4) Where an appeal is presented within the period of two months aforesaid, the order shall not take effect until it is confirmed by the Provincial Government and such confirmation is communicated to the society by registered post or by messenger for delivery in person.

(5) Where a society is directed to be wound up under sub-section (1), the Registrar may appoint any person to be liquidator of the society.

(6) The liquidator, notwithstanding that an appeal has been preferred under sub-section (2), shall forthwith take into his custody or under his control all the property, effects and actionable claims to which the society is or appears to be entitled and of all books, records and other documents pertaining to the business thereof so far as may be necessary for the beneficial winding up of the society.

(7) Where a society is directed to be wound up under sub-section (1), the members of the committee of the society shall vacate their offices and while the winding up order remains in force, the general body of the society shall not exercise any powers. The liquidator appointed under sub-section (5) shall have power to exercise all or any of the functions of the general body or of the committee or of any officer of the society.

(8) The liquidator appointed under sub-section (5) shall, subject to the control of the Registrar, have all the powers mentioned in section 47.

(9) The order issued under sub-section (1) directing a society to be wound up shall not remain in force for a period exceeding three years. Nothing in this sub-section shall affect the power of the Registrar to pass an order under sub-section (11) or (12) even after the expiry of the period of three years.

(10) The liquidator shall make a report to the Registrar at any time and in any case before three months of the expiry of the period mentioned in sub-section (9).

(11) The Registrar may at any time cancel an order for the winding up of a society in any case where, in his opinion, the society should continue to exist. On the cancellation of the winding up order, the liquidator shall arrange for the constitution of new committee in accordance with the by-laws of the society. The acts done and the proceedings taken by the liquidator while the winding up order remained in force, shall be binding on the society and such proceedings shall, after the winding up order has been

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cancelled, be continued by the new committee and officers of the society.

(12) The Registrar may, after considering the report of the liquidator under sub-section (10), by order in writing, cancel the registration of the society. The society shall cease to exist as a corporate body from the date of such order. The liquidator appointed under sub-section (5) shall continue to be the liquidator and exercise all the powers mentioned in section 47 until the affairs of the society are completely wound up."

Explanatory Note.

Clause 32.—The amendment provides for the winding up of society before the cancellation of its registration, as recommended, by the Committee on Co-operation, 1939-40. While the Committee's recommendation contemplates the complete winding up of the affairs of the society before its registration is cancelled, it is proposed that the order directing the winding up should not be in force for a period exceeding three years. Where the affairs of a society are not completely wound up within this period, the process of winding up will be continued after the cancellation of registration.

33. After section 44 of the said Act, the following section shall be inserted, namely:—

44-A. "Where a society has been ordered to be wound up under sub-section (1) of section 44, no member shall alienate his property, movable or immovable, from the date of order of winding up and until after the expiry of 15 days from the date on which the order of winding up takes effect. Any alienation of his property made by a member

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in contravention of this section shall be voidable at the option of the liquidator:

Provided that the provisions of this section shall not apply to any member who furnishes adequate security to the satisfaction of the liquidator."

Explanatory Note.

Clause 33.—The amendment gives effect to recommendation 325 of the Committee on Co-operation, 1939-40. The prohibition against alienation will not operate in the case of members furnishing adequate security.

34. Sections 45 and 46 of the said Act shall be omitted. Cancellation of registration of society.

Explanatory Note.

Clause 34.—Sections 45 and 46 are unnecessary in view of the terms of new section 44 proposed.

45. Where it is a condition of the registration of a society that it should consist of at least ten members who have attained the age of majority, the Registrar may, by order in writing, cancel the registration of the society if at any time it is proved to his satisfaction that the number of the members has been reduced to less than ten such members.

46. Where the registration of a society is cancelled, the society shall cease to exist as a corporate body—

(a) in the case of cancellation in accordance with the provisions of section 44, from the date the order of cancellation takes effect;

(b) in the case of cancellation in accordance with the provisions of section 45, from the date of the order.

47. (1) Where the registration of a society is cancelled under section 44 or section 45, the Registrar may appoint any person to be liquidator of the society.

(2) Subject to any rules that may be made under this Act, the whole of the assets of

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Effect of cancellation of registration.

35. In section 47 of the said Winding up Act—

(i) sub-section (1) shall be omitted;

(ii) sub-sections (2) to (8) shall be renumbered as sub-sections (1) to (7), respectively;

(iii) in sub-section, (1) as so renumbered, for the words

the society shall, on the appointment of a liquidator under sub-section (1), vest in such liquidator and he shall have power to realize such assets by sale or otherwise.

(3) Such liquidator shall also have power, subject to the control of the Registrar—

(a) to institute and defend suits and other legal proceedings on behalf of the society by his name of office;

(b) to determine from time to time the contribution to be made or remaining to be made by the members or past members or by the estates or nominees, heirs or legal representatives of deceased members (or by any officers or former officers) to the assets of the society, such contribution including debts due from such members or persons;

(c) to investigate all claims against the society and subject to the provisions of this Act to decide questions of priority arising between claimants;

(d) to pay claims against the society (including interest up to the date of cancellation of registration) according to their respective priorities, if any, in full or rateably, as the assets of the society permit; the surplus, if any, remaining after payment of the claims being applied in payment of interest from the date of such cancellation at a rate fixed by him but not exceeding the contract rate in any case;

(e) to determine by what persons and in what proportions the costs of the liquidation are to be borne;

(f) to give such directions in regard to the collection and distribution of the assets of the society as may appear to him to be necessary for winding up the affairs of the society; and

“ under sub-section (1)”, the words “ under sub-section (5) of section 44 ” shall be substituted;

(iv) in sub-section (2) as so renumbered, clauses (b) to (g) shall be lettered as clauses (c) to (h) respectively, and the following shall be inserted as clause (b), namely:—

“(b) to determine the contributions and also the past members liable to contribute to the assets of the society.”

Explanation.—“Contributory means every person liable to contribute to the assets of the society in the event of its being wound up”;

(v) in clause (c) of the said sub-section (2) as so relettered, for the words “former officers” the words “past officers” shall be substituted and the following shall be added at the end, namely:—

“and for the purposes of this clause and clause (b) to determine whether any person is a member, past member, nominee, heir or legal representative of a deceased member an officer or a past officer of the society.”

(vi) At the end of clause (d) of the said sub-section (2) as so relettered the following shall be added, namely:—

“and to make a compromise or an arrangement with any creditor of the society in respect of his claims against it, or in consultation with the financing Bank, with any member of the society in respect of any contribution to be made by him, including a contribution in respect of any debt due from him to the society.”;

(vii) in sub-section (5) as so renumbered, for the words “save as provided in sub-section (5)”, the words “save as provided in sub-section (4)” shall be substituted; and

(g) to carry on the business of the society so far as may be necessary for the beneficial winding up of the same.

(4) Subject to any rules that may be made under this Act, a liquidator appointed under this section shall, in so far as such powers are necessary for carrying out the purposes of this section have power to summon and enforce the attendance of witnesses and to compel the production of any books, accounts, documents, securities, cash or other properties belonging to or in the custody of the society by the same means and (so far as may be) in the same manner as is provided in the case of a civil court under the Code of Civil Procedure (V of 1908).

(5) Any sum ordered under this section to be recovered as a contribution to the assets of the society or as costs of liquidation may be recovered, on a requisition being made in this behalf to the Collector by the Registrar, in the same manner as arrears of land revenue.

(6) Save as provided in sub-section (5), orders made under this section shall, on application, be enforced by any civil court having local jurisdiction in the same manner as a decree of such court.

(7) When the affairs of the society have been wound up, the liquidator shall deposit the records of the society in such place as the Registrar may direct.

(8) Any person aggrieved by any order of the liquidator may appeal to the Registrar against such order within two months from the date of the issue of the order by registered post.

(viii) in sub-section (7) as so renumbered, the following shall be added at the end, namely:—

“or from the date of delivery of the order by a messenger, as the case may be.”

Explanatory Note.

Clause 35.—Amendment (i).—Sub-section (1) is unnecessary in view of sub-section (5) of section 44.

Amendments (ii), (iii) and (vii) are consequential.

Amendment (iv).—The provision in new clause (b) has been recommended by the Committee on Co-operation, 1939-40.

Amendment (v).—Some civil courts have held that the liquidator has no power to decide whether a person is a member or not. This has now been provided for.

Amendment (vi).—The addition proposed is intended to regularize the existing practice and has been recommended by the Committee on Co-operation, 1939-40.

Amendment (viii).—An alternative mode of communication of the order to the parties has been provided.

Bar of suit
in certain
cases.

48. Save in so far as is expressly provided in this Act, no civil court shall take cognizance of any matter connected with the winding up or dissolution of a society under this Act, and when a liquidator has been appointed no suit or other legal proceeding shall lie or be proceeded with against the society except by leave of the Registrar and subject to such terms as he may impose.

36. For section 48 of the said Act, the following section shall be substituted, namely:—

“48. Save as in so far as is expressly provided in this Act, no civil court shall take cognizance of any matter connected with the winding up or dissolution of a society under this Act and when a liquidator has been appointed, no suit or legal proceeding shall lie or be proceeded with against the liquidator as such or against the society or any member thereof on any matter touching the affairs of the society except by leave of the Registrar and subject to such terms as he may impose:

Provided that where the winding-up order is cancelled, the provisions of this section shall cease to operate so far as the liability of the society and of the members thereof to be sued except by leave of the Registrar is concerned but they shall continue to apply to the person who acted as liquidator.”

Explanatory Note.

Clause 36.—The Amendment amplifies the existing section so that no suit or legal proceeding shall lie or be proceeded with not merely against the society but also against the liquidator and any member of the society except by the leave of the Registrar and subject to such terms as he may impose. If the winding up order is cancelled, the protection of the society and the members thereof, from liability to be sued, except by leave of the Registrar, will cease but the protection of the person who acted as liquidator will continue.

Surcharge. 49. (1) Where in the Course of an audit under section 37 (or an inquiry under section 38 or an inspection under section 39) or

37. In sub-section (1) of section 49 of the said Act, for the words “examine into the conduct of such person or officer

the winding up of a society, it appears that any person who has taken part in the organization or management of the society or any past or present officer of the society has misappropriated or fraudulently retained any money or other property or been guilty of breach of trust in relation to the society, the Registrar may, of his own motion or on the application of the committee or liquidator or, of any creditor or contributory examine into the conduct of such person or officer and make an order requiring him to repay or restore the money or property or any part thereof with interest at such rate as the Registrar thinks just or to contribute such sum to the assets of the society by way of compensation in respect of the misappropriation, fraudulent retainer or breach of trust as the Registrar thinks just.

(2) The order of the Registrar under sub-section (1) shall be final unless it is set aside by the District Court having jurisdiction over the area in which the headquarters of the society are situated or if the headquarters of the society are situated in the City of Madras, by the City Civil Court, on application made by the party aggrieved within three months of the date of receipt of the order by him.

(3) Any sum ordered under this section to be repaid to a society or recovered as a contribution to its assets may be recovered on a requisition being made in this behalf to the Collector by the Registrar in the same manner as arrears of land revenue.

(4) This section shall apply notwithstanding that such person or officer may have incurred criminal liability by this act.

and”, the following words shall be substituted, namely:—

“examine into the conduct of such person or officer after giving reasonable opportunity to the person concerned to submit his explanation and after necessary enquiry.”

Explanatory Note.

Clause 37.—The amendment is intended to provide for reasonable opportunity being given to the persons concerned to submit their explanation and let in such evidence as they have got in their favour.

Liability
of members
of the commit-
tee or any
past commit-
tee for
irregular pay-
ments from
society or for
loss caused
to society

38. After section 49 of the said Act, the following section shall be inserted, namely :—

“ 49-A. (1) The members of the committee or any past committee of a registered society shall personally be liable, jointly and severally, for any payments made from the funds of the society which is contrary to this Act or the rules made thereunder or to the by-laws of the society, and for any loss or deficiency caused to the society by their culpable negligence or misconduct, and shall pay such contribution, costs or compensation to the society as may be determined against them by the Registrar on his own motion or by the Registrar or any other person or persons deciding a dispute referred to the Registrar under section 51 :

Provided that the Registrar shall not take action under this section in his own motion except in pursuance of an audit under section 37 an inquiry under section 38, or an inspection under section 39.

(2) Every order passed under sub-section (1) determining the amount payable to the society by any person, shall be final unless it is modified, annulled or reversed, on the application of any party aggrieved, by the State Government in case the order was passed by the Registrar and by the Registrar in case the order was passed by any other person or persons.

(3) Every application under sub-section (2) shall be made within two months from the date of receipt of the copy of the order by the applicant.

(4) No order passed under sub-section (1) and no order

passed by the Provincial Government or the Registrar under sub-section (2), shall be called in question in any civil court.

(5) Any sum ordered to be recovered as contribution, costs or compensation under this section may be recovered in the manner provided by section 57-A.

(6) This section shall not apply to any case in which action has been or might be taken under section 49 ”.

Explanatory Note.

Clause 38.—The scope of section 49 dealing with surcharge is restricted to cases of misappropriation, fraudulent retention of money or other property or breach of trust. Under this section the Registrar can take action on his own motion; a dishonest intention should be proved; and an appeal lies to the civil court from the Registrar's orders. Action under this section cannot be taken in respect of cases of misapplication of funds or expenditure incurred by directors contrary to the Act, the rules or the by-laws or any loss or damage caused to the society by their acts of commission or omission. Though there is no specific provision in the Act, the directors are held responsible in such cases and the extent of their liability is now determined on a reference made to the Registrar under section 51. It is proposed to make specific provision in this regard as in the Bengal Act.

39. in section 51 of the said Act,

51. (1) If any dispute touching the business of a registered society (other than a dispute regarding disciplinary action

(i) in sub-section (1) for the words “touching the

Dispute

taken by the society or its committee against a paid servant of the society) arises—

(a) among members, past members and persons claiming through members, past members and deceased members, or

(b) between a member, past member or person claiming through a member, past member or deceased member and the society, its committee or any officer, agent or servant of the society, or

(c) between the society or its committee and any past committee, any officer, agent or servant, or any past officer, past agent or past servant, or the nominee, heirs or legal representatives of any deceased officer, deceased agent, or deceased servant, of the society, or

(d) between the society and any other registered society,

such dispute shall be referred to the Registrar for decision.

Explanation.—A claim by a registered society for any debt or demand due to it from a member, past member or the nominee, heir or legal representative of a deceased member, whether such debt or demand be admitted or not, is a dispute touching the business of the society within the meaning of this sub-section.

(2) The Registrar may, on receipt of such reference,—

(a) decide the dispute himself, or

(b) transfer it for disposal to any person who has been invested by the Local Government with power in that behalf or

business", the words "touching the constitution, management or business" shall be substituted;

(ii) at the end of sub-section (1), the following words shall be added, namely :—

"and no court shall have jurisdiction to entertain any suit or other proceedings in respect of any such dispute.

(iii) for the Explanation to sub-section (1), the following Explanations shall be substituted, namely :—

"*Explanation I.*—For the purposes of this sub-section, a dispute shall include—

(i) a claim by a registered society for any debt or demand due to it from a member, past member or the nominee, heir or legal representative of a deceased member, whether such debt or demand be admitted or not; or

(ii) a claim by a surety for any sum or demand due to him from the principal borrower in respect of a loan taken from a registered society and recovered from the surety owing to the default of the principal borrower whether such sum or demand be admitted or not; or

(iii) a claim by a registered society for any loss caused to it by a member, past member or deceased member, any officer, past officer or deceased officer, any agent, past agent or deceased agent, or any servant, past servant, or deceased servant, or its committee, past or present, whether such loss be admitted or not; or

(iv) a refusal or failure by a member, past member or the nominee, heir or legal representative of a deceased member to deliver possession to a regis-

(c) subject to such rules as may be prescribed, refer it for disposal to an arbitrator or arbitrators.

(3) Subject to such rules as may be prescribed, the Registrar may withdraw any reference transferred under clause (b) of sub-section (2) or referred under clause (c) of that sub-section and deal with it in the manner provided in the said sub-section.

(4) Where the Registrar is satisfied that a party to any reference made to him under sub-section (1), with intent to defeat or delay the execution of any decision that may be passed thereon—

(a) is about to dispose of the whole or any part of his property, or

(b) is about to remove the whole or any part of his property from the local limits of the jurisdiction of the Registrar,

the Registrar may, unless adequate security is furnished, direct the conditional attachment of the said property or such part thereof as he thinks necessary; and such attachment shall have the same effect as if it had been made by a competent civil court.

(5) The Registrar may, of his own motion or on the application of a party to a reference, revise any decision thereon by the person to whom such reference was transferred or by the arbitrator or arbitrators to whom it was referred.

(6) (a) Any decision passed by the Registrar under clause (a) of sub-section (2) or under sub-section (5) shall be final and shall not be called in question in any civil or revenue court.

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tered society of land resumed by it for breach of conditions of the assignment.

Explanation II.—The question whether or not a person is or was a member of a registered society shall be a dispute within the meaning of the sub-section.

Explanation III.—When any question arises whether for the purpose of this section, a matter referred to for decision is a dispute or not the question shall be considered by the Registrar whose decision shall be final."

(iv) after clause (c) of sub-section (2), the following paragraph shall be added, namely :—

"Where the reference relates to any dispute involving immovable property, the Registrar, the person referred to in clause (b) or the arbitrator or arbitrators referred to in clause (c) as the case may be, may order that any person be joined as a party who has acquired any interest in such property subsequent to the acquisition of interest therein by a party to the reference; and any decision that may be passed on the reference by the Registrar, person, or arbitrator or arbitrators aforesaid shall be binding on the party so joined in the same manner as if he were an original party to the reference."

(v) sub-sections (5) and (6) shall be omitted.

The following shall be inserted as sub-section (5), namely :—

(5) The Registrar or his nominee or the arbitrator as the case may be in order to prevent the ends of justice being defeated make such interlocutory orders pending the decision on the dispute referred to in sub-section (4) as may appear to be just and convenient.

(b) Any decision that may be passed by the person to whom a reference is transferred or by the arbitrator or arbitrators to whom it is referred shall, save as otherwise provided in sub-section (5), be final and shall not be called in question in any civil or revenue court.

Explanatory Note.

Clause 39.—The first amendment has been proposed in view of the decision of the City Civil Court in a case that a dispute relating to the constitution of a society and the right to vote was not a dispute touching the business of the society; the second amendment specifically bars the jurisdiction of civil courts; the third amendment amplifies the section by providing *inter alia* that disputes between a defaulting borrower and his surety or sureties may be settled by arbitration and that any loss caused to a society or a refusal or failure to deliver possession to a society of land resumed by it for breach of conditions of assignment may be made the subject-matter of a dispute as also questions relating to the membership of a person in a society and that when a question arises whether it is a dispute or not it shall be decided by the Registrar; the fourth amendment provides that pawns mortgages or encumbrancers and subsequent alienees of the property involved may be made parties to a dispute; the fifth amendment is consequential on new section 51-A and the sixth amendment is based on section 55 (2) of the Bombay Co-operative Societies Act.

40. After section 51 of the said Act, the following sections shall be inserted, namely :—

51-A. (1) The Registrar may, of his own motion or on the application of a party to a reference, revise any decision, award or order passed thereon by the person to whom such reference was transferred under clause (b) of sub-section (2) of section 51 or by the arbitrator

or arbitrators to whom it was referred under clause (c) of that sub-section.

(2) The person appointed as Registrar under section 3 or any person on whom all the powers of such Registrar have been conferred in respect of the whole of the State of Madras may, of his own motion or on the application of a party to a reference, revise any decision thereon passed by any other person on whom any but not all the powers of a Registrar have been conferred under section 3.

(3) Every application under sub-section (1) or sub-section (2) shall be made within two months from the date of the issue of a copy of the decision, award or order to the applicant or from the date of the delivery of the decision, award or order by a messenger, as the case may be, provided that the Registrar may, for satisfactory reasons, condone delays.

(4) Save as otherwise provided in sub-sections (1) and (2) any decision, award or order passed under section 51 shall be final and shall not be called in question in any civil or revenue court.

(5) Nothing in this section shall be deemed to affect the power of the State Government to revise any decision or order under section 57.

51-B. (1) Any two or more members of a registered society for consolidation of holdings may make an application in writing to the Registrar or any person subordinate to him empowered by the Registrar in this behalf for the exchange of their holdings. Such application shall be

accompanied by a scheme agreed upon by the members making the application and in accordance with the provisions contained in the by-laws of the society.

(2) On receipt of such application and the scheme, the Registrar or other person empowered by him under sub-section (1) may pass an order embodying the arrangements contained in the scheme.

(3) The order passed under sub-section (2) may, notwithstanding anything contained in the Indian Registration Act, 1908, be sent by a messenger to the proper registration officer for registration within the time allowed by section 24 of that Act.

Explanatory Note.

Clause 40.—New section 51-A combines the provisions of existing sub-sections (5) and (6) of section 51 and empowers the Registrar to revise all decisions including those passed by the subordinate officers. The amendment also prescribes a time-limit for appeals with power to the Registrar to condone delays in deserving cases.

The present arrangement followed in societies for the consolidation of holdings is for the members to execute exchange deeds and have them registered. It is not always convenient to take all the persons concerned to the Sub-Registry office. In order to obviate this difficulty, new section 51-B authorizes the Registrar or other person empowered by him to pass an award embodying the arrangements or consolidation of holdings arrived at on the application of the members. This award may be sent through a messenger to the proper registration office for registration.

52. It shall be an offence under this Act if—

(a) a registered society or an officer or member thereof wilfully makes a false return or furnishes false information; or

(b) any person wilfully or without any reasonable excuse disobeys any summons, requisition or lawful written order issued under the provisions of this Act or does not furnish any information lawfully required from him by a person authorized in this behalf under the provisions of this Act.

53. Any member or past member or the nominee, heir or legal representative of a deceased member contravening the provisions of section 21 by fraudulently disposing of any property in respect of which the society is entitled to claim priority under that section or doing any other act to the prejudice of such claim, shall be punishable with fine not exceeding two hundred rupees.

54. (1) No person other than a registered society shall trade or carry on business under any name or title of which the word 'co-operative' is part without the sanction of the State Government:

Provided that nothing in the section shall apply to the use by any person or his successor in interest of any name or title under which he traded or carried on business at the date on which the Co-operative Societies Act II of 1912 came into operation.

(2) Whoever contravenes the provisions of sub-section (1) shall be punishable with fine which may extend to fifty rupees and in the case of a continuing offence with further fine of five rupees for each day on which the offence is continued after conviction therefor.

41. After clause (b) of section 52 of the said Act, the following word and clause shall be added, namely:—

“or
(c) any officer wilfully or without any reasonable excuse fails to give effect to any decision, award or order passed under section 51.”

Explanatory Note.

Clause 41.—Failure to carry out a decision is made an offence under the Act.

42. For the word “priority” in section 53 of the said Act, for disposing the words “a first charge” shall be substituted.

Punishment of property in contravention of section 21.

Explanatory Note.

Clause 42.—This is consequential to section 21 as proposed to be amended.

43. In sub-section (1) of section 54 of the said Act, for the words “of which the word ‘co-operative’ is part”, the following words shall be substituted, namely:—

“of which the word ‘co-operative’ or any of its cognate expressions or the equivalent of such word or expressions in any language of the State forms part.”

Explanatory Note.

Clause 43.—The object of the amendment is to prevent an institution not registered under the Act, being named with some modified form of the word “Co-operative” thereby creating an impression that it is so registered.

Power of Government and Registrar to call for proceedings and to pass orders thereon.

57. The State Government or the Registrar may call for and examine the record of any enquiry or the proceedings of any officer subordinate to them for the purpose of satisfying themselves as to the legality or propriety of any decision or order passed and as to the regularity of the proceedings of such officer. If in any case it shall appear to the State Government or the Registrar that any decision or order or proceedings so called for should be modified, annulled or reversed, the State Government or the Registrar, as the case may be, may pass such order thereon as to it or him may seem fit.

44. For section 57 of the said Act, the following section shall be substituted, namely :—

“ 57. (1) The State Government or the Registrar may, of its or his own motion or on the application of any party concerned, call for and examine the record of any inquiry or the proceedings of any officer subordinate to such Government or the Registrar, as the case may be, for the purpose of satisfying itself or himself as to the legality or propriety of any decision, award or order passed and as to the regularity of the proceedings of such officer; and if in any case it shall appear to the State Government or the Registrar that any decision, award, order or proceedings so called for should be modified, annulled or reversed, the State Government or the Registrar, as the case may be, may pass such order thereon as to it or him may seem fit.

Explanation.—The State Government may exercise the powers conferred on it by this sub-section in respect of orders passed by the Registrar under it.

(2) Every application to the State Government or the Registrar for the revision of any decision, award, order or proceedings under sub-section (1) shall be made within two months from the date of the issue of a copy of the decision, award, order or proceedings to the applicant or from the date of the delivery to him of such decision, award, order or proceedings by a messenger, as the case may be.

(3) No order passed by the Provincial Government or the State under sub-section (1) shall be called in question in any civil court.”

Explanatory Note.

Clause 44.—Under section 57 of the Act, the Government and the Registrar have concurrent powers to revise the orders of subordinate authorities. The amendment makes it clear that the Government have power to revise the orders passed by the Registrar in the exercise of his powers of revision. A time-limit of two months is proposed to be fixed for the receipt of revision petitions by the Registrar and the Government. The jurisdiction of the civil court is also barred in order to avoid dead locks in the affairs of a society resulting from the intervention of Civil Courts.

57-A. The Registrar or any person subordinate to him empowered by the Registrar in this behalf may, subject to such rules as may be prescribed by the State Government and without prejudice to any other mode of recovery provided by or under this Act, recover—

(a) any amount due under a decree or order of a civil court, a decision or an award of the Registrar or arbitrator, or an order of the Registrar, obtained by a registered society including a financing bank or liquidator; or

(b) any sum awarded by way of costs under section 41 to a registered society including a financing bank or to the Government; or

(c) any sum ordered under section 47 to be recovered as a contribution to the assets of a society or as costs of liquidation; or

(d) any sum ordered under section 49 to be repaid to a society or recovered as a contribution to its assets

together with the interest, if any, due on such amount or sum and the costs of process, by

45. In section 57-A of the said Act—
(i) the existing section shall be numbered as sub-section (1);
(ii) in the said sub-section, clauses (b), (c) and (d) shall be relettered as (d), (e), (f) and (g) respectively;

(iii) the following clauses shall be inserted, namely :—

“(b) any amount due by a registered society including a financing bank under a decision or award of the Registrar or arbitrators, or an order of the Registrar;

(c) any sum due to the Government under section 31 which is ordered to be recovered by the Registrar or any person authorized by him in this behalf;

(d) any expenses incurred in calling the meeting referred to in sub-section (3) of section 15 or in sub-clause (ii) of clause (c) of sub-section (2) of section 38 the recovery of which is ordered by the Registrar; or”;

(iv) After sub-section (1), the following sub-section shall be added, namely :—

“(2) Where the property of a person has been sold under sub-section (1) or where a society

Power of Registrar to recover certain sums by attachment and sale of property.

the attachment and sale or by the sale without attachment of property of the person against whom such decree, decision, award or order has been obtained or passed.

applies to the Registrar of the district for the enforcement of a decision or award for the delivery of possession to it of land resumed by it from a member for breach of conditions of assignment, the Registrar or other person empowered by the Registrar, as the case may be, may, in accordance with the rules made in this behalf, place the purchaser in possession of the property sold, or deliver possession of the land to the society or to such person as it may appoint to receive delivery on its behalf by removing, if necessary, any person bound by the decision or award who refuses to vacate the land."

Explanatory Note.

Clause 45.—Loans granted to societies under section 31 are now recoverable only under section 58 of the Act. The amendments provide for the recovery of such loans under section 57-A and also for the recovery of any amount due by registered society and of the expenses incurred in calling the meeting under sections 15 and 38 from the person or persons responsible for the failure or refusal to convene such meeting. Provision for effecting delivery of possession of properties is introduced as without it parties will have to go to civil courts for possession.

Registrar or person empowered by him to be a civil court for certain purposes.

57-B. The Registrar or any person empowered by him in that behalf shall be deemed, when exercising any powers under this Act for the recovery of any amount by the attachment and sale or by the sale without attachment of any property, or when passing any orders on any application made to him for such recovery or to take some step-in-aid of such recovery, to be a civil court for the purposes of Article

46. After section 57-C of the said Act, the following section shall be inserted, namely:—

"57-D. The following persons shall be deemed to be public servants within the meaning of section 21 of the Indian Penal Code and also to be public officers within the meaning of section 2 of the Code of Civil Procedure, 1908:—

(i) the person appointed as Registrar of Co-operative Societies under section 3;

122 of the First Schedule to the Indian Limitation Act (IX of 1908).

(ii) every person on whom all or any of the powers of a Registrar have been conferred under section 3;

(iii) every person authorized to audit the accounts of a registered society under section 37, or to hold an enquiry under section 38 or to make an inspection under section 39;

(iv) every person appointed under section 43 to manage the affairs of a society;

(v) every person appointed under section 44 to be the liquidator of a society whether exercising his powers under that section or any other provision of this Act or any rule made thereunder;

(vi) every arbitrator to whom a dispute is referred under section 51;

(vii) every officer of the Co-operative department empowered by the Registrar by general or special order to attach and sell or sell without attachment the property of any person against whom any decree, order, decision or award referred to in section 57-A has been obtained;

(viii) every person appointed by the Registrar to assist the officer mentioned in clause (vii) of this section."

Explanatory Note.

Clause 46.—This lays down in the Act itself who is a Public Officer, on the model of section 58 of the Bihar and Orissa Co-operative Societies Act.

47. After section 60 of the said Powers to Act, the following section shall exempt registered societies be inserted, namely:—

"60-A. Notwithstanding anything contained in any of the provisions of this Act, the functions of the general body of members of a registered society may be delegated to a smaller

60. The State Government may, by general or special order, exempt any registered society from any of the provisions of this Act or may direct that such provisions shall apply to such society with such modifications as may be specified in the order.

body representing the larger body in accordance with the rules made in this behalf.

Explanatory Note.

Clause 47.—In the case of societies with far-flung membership or branches such as the M. & S. M. Railway Employees' Urban Bank and the Post and Telegraphs Co-operative Society, it is found necessary for the general body of members to delegate its functions to a smaller body.

Acts of societies, etc., not to be invalidated by certain defects.

63. No act of a registered society or any committee or of any officer of the society, shall be deemed to be invalid by reason only of some defect in the organization of the society or in the formation of the general body or in the appointment or election of the officer or on the ground that he was disqualified for his office.

48. In section 63 of the said Act, for the words "the officer," the words "an officer" shall be substituted.

Explanatory Note.

Clause 48.—Even if none of the members of a committee have been duly elected, the acts of the committee will fall within the scope of section 63, especially as any "defect in the organization of the society or in the formation of the general body" is specifically included within its terms. The amendment is intended to bring out the meaning of the section quite clearly.

Rules.

65. (1) The State Government may, for the whole or any part of the State of Madras, and for any registered society or class of such societies, make rules to carry out all or any of the purposes of this Act ;

(2) in particular and without prejudice to the generality of the foregoing power, such rules may—

(a) subject to the provisions of section 6, prescribe the maximum number of shares or portion of the capital of a society which may be held by a member ;

(b) prescribe the forms to be used and the conditions to be complied with in the making of applications for the registration of a society and the procedure in the matter of such applications ;

(c) subject to the provisions of section 5, prescribe the procedure to be followed when societies change their form of liability ;

(d) prescribe the matters in respect of which a society may or shall make by-laws and for the procedure to be followed in making, altering and abrogating by-laws, and the conditions to be satisfied prior to such making, alterations or abrogation ;

(e) prescribe the conditions to be complied with by persons applying for admission or admitted as members, and provide for the election and admission of members, and the payment to be made and the interests to be acquired before the exercise of the right of membership ;

(f) regulate the manner in which funds may be raised by means of shares or debentures or otherwise ;

(g) provide for general meetings of the members and for the procedure at such meetings and the powers to be exercised by such meetings ;

(h) prescribe in the case of a financing bank—

(i) the proportion of individual members to society members in the constitution of its general body or of its committee ; and

(ii) the maximum number of members of its committee ;

(i) to clause (f), the following words shall be added, namely :—

"and prescribe the purposes to which the funds may be applied" ;

(i) provide for the appointment, suspension and removal of the members of the committee and other officers and for the procedure at meetings of the committee and for the powers to be exercised and the duties to be performed by the committee and other officers ;

(j) prohibit a society from appointing a defaulting member of any society to its committee or to the committee of any other society and allowing him to exercise his rights of membership in the society or to represent it in another society and vote ;

(k) prescribe the accounts and books to be kept by a society and provide for the audit of such accounts and the charges, if any, to be made for such audit, and for the periodical publication of a balance sheet showing the assets and liabilities of a society ;

(l) prescribe the returns to be submitted by a society to the Registrar and provide for the persons by whom and the form in which such returns shall be submitted and in case of failure to submit any such return for the levy of the expenses of preparing it ;

(m) provide for the persons by whom and the form in which copies of entries in books of societies may be certified and for the charges to be levied for the supply of such copies ;

(n) provide for the formation and maintenance of a register of members and, where the liability of the members is limited by shares, of a register of shares ;

(1-A) *Clause (k)* shall be re-lettered as *(k-1)* and the following clause shall be inserted, namely :—

(k-ii) provide for the recovery of the charges, if any, to be incurred for the supervision of any class or classes of registered societies.

(o) provide for—

(i) the appointment of an arbitrator or arbitrators to decide disputes ;

(ii) the procedure to be followed in proceedings before the Registrar, arbitrator or arbitrators or other person deciding disputes including the appointment of a guardian for a party to the dispute who is a minor or who, by reason of unsoundness of mind or mental infirmity, is incapable of protecting his interests ;

(iii) the levy of the expenses incidental to such proceedings ; and

(iv) the enforcement of the decisions or awards in such proceedings ;

(p) provide for the withdrawal and expulsion of members and for the payments, if any, to be made to members who withdraw or are expelled and for the liabilities of past members, or the estates of deceased members ;

(q) prescribe the prohibitions and restrictions subject to which societies may trade with persons who are not members ;

(r) provide for the mode in which the value of a deceased member's interest shall be ascertained, and for the nomination of a person to whom such interest may be paid or transferred ;

(s) prescribe the payment to be made and the conditions to be complied with by members applying for loans, the period for which loans may be made and the amount which may be lent to an individual member ;

(1-B) in sub-clause (ii) of clause (o) after the word "proceedings" the following words shall be inserted, namely, "and to revision petitions arising from such proceedings."

(t) provide for the formation and maintenance of reserve funds, and the objects to which such funds may be applied, and for the investment of any funds under the control of a society;

(u) prescribe the extent to which a society may limit the number of its members;

(v) prescribe the conditions under which profits may be distributed to the members of a society with unlimited liability and the maximum rate of dividend which may be paid by societies;

(w) prescribe the procedure to be followed by a liquidator appointed under section 47, and provide for the disposal of the surplus assets, if any, of the society;

(z) subject to the provisions of this Act, determine the cases in which an appeal shall lie from the orders of the Registrar, and prescribe the procedure to be followed in presenting and disposing of all appeals under this Act;

(y) prescribe the period for which and the terms under which aid may be given by the State Government to societies and the terms under which the State Government may guarantee the payment of interest on debentures issued by societies;

(z) provide for the custody of property attached under this Act;

(aa) provide for the issue and service of processes and for proof of service thereof;

(bb) provide for the inspection of documents in the

(ii) in clause (y), for the word "interest" the words "either the principal or interest or both" shall be substituted;

(iii) for clause (z), the following clause shall be substituted, namely:—

"(z) provide for the custody of any property attached under this Act and the enforcement of the liability, if any, of the person or persons with whom any property so attached has been entrusted for safe custody";

Registrar's Office and the levy of fees for granting certified copies of the same;

(cc) provide for the investigation of claims and objections that may be preferred against any attachment effected by the Registrar or an officer empowered by him;

(dd) provide for the recovery of costs awarded against the Government in cases under section 49;

(ee) prescribe the procedure for the attachment and sale of property under section 57-A; and

(ff) provide for all matters expressly required or allowed by the Act to be prescribed by rules.

(3) The power to make rules conferred by this section is subject to the condition of the rules being made after previous publication.

(4) All rules made under this section shall be published in the official Gazette and on such publication shall have effect as if enacted in this Act.

(5) All such rules shall be laid before both Houses of the State Legislature.

(iv) at the end of clause (cc), the following shall be added, namely:—

"and for the stay of any of the proceedings taken under section 57-A of the Act";

(v) in clause (ee), the following words shall be added at the end, namely:—

"for the realization of any security given by a person in the course of execution proceedings";

(vi) clause (ff) shall be re-lettered as (ll);

(vii) the following clauses shall be added, namely:—

"(ff) prescribe qualifications for the employees of a registered society and the conditions of service subject to which persons may be employed by it;

(gg) provide for the procedure to be adopted by the Registrar in cases where the taking of possession of the books, documents, securities, cash and other properties of a registered society or of a society, the affairs of which has been ordered to be wound up by the Registrar under section 44 or 45 by a person entitled to the same is resisted or obstructed;

(hh) provide for the procedure to be adopted for taking possession of the books, documents, securities, cash and other properties of a registered society by a person acting under sections 37, 38 and 39 in cases where misappropriation of funds, breach of trust or any fraud is suspected or where it is apprehended that the books, documents, securities, cash and other properties of a registered society are to be tampered with or destroyed or done away with;

(ii) provide for the procedure to be adopted when societies with limited liability reduce their share capital;

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(jj) prescribe the procedure to be followed for the consolidation of holdings by societies formed for that purpose and members thereof;

(kk) prescribe the purposes for which a society may use its premises; and "

Explanatory Note.

*Clause 50—Amendment (i).—*The object is to frame a rule to regulate the purposes for which the funds of societies may be applied.

*Amendment (ii).—*Under section 6 of the Madras Co-operative Land Mortgage Banks Act, 1934, the Government have guaranteed the principal of, and the interest on, the debentures issued by the Madras Co-operative Central Land Mortgage Bank, Limited. The amendment does not introduce any new principle.

*Amendment (iii).—*This empowers the Government to frame a rule on the lines of section 145 of the Code of Civil Procedure providing for the enforcement of the liability of sureties.

*Amendment (iv).—*This provides for the stay of execution proceedings, if and when necessary.

Amendment (v) provides for the realization of any security given by a person in the course of execution proceedings.

Amendment (vi) is a consequential one.

Amendment (vii) extends the rule-making power to the matters stated therein, which are found necessary.