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CO-OPERATIVE BANKS
IN THE
BOMBAY PRESIDENCY
1937.



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BY THE
STANDING COMMITTEE
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BOMBAY PRESIDENCY CO-OPERATIVE BANKS
CONFERENCE.

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INTRODUCTION.

No apology is needed for the publication of a list of co-operative banks in the Bombay Presidency in view of their importance in the credit structure of the Province. A glance at the banking map attached to the Report of the Bombay Provincial Banking Inquiry Committee shows that the number of co-operative banks in this Presidency by far exceeds that of joint stock banks. The names of co-operative banks which conform to the definition of banks contained in the Indian Companies Act should, in the ordinary course, have been included in the list of "Banks and their Branches and Agencies in the Principal Towns of India" in appendix I of the "Statistical Tables Relating to Banks in India" published by the Department of Commercial Intelligence and Statistics. As the Director-General of Commercial Intelligence and Statistics when approached by the Standing Committee of the Bombay Presidency Co-operative Banks' Conference declared his inability to accept this suggestion, the Standing Committee decided to publish a separate list of co-operative banks for this Presidency. The institutions that are included in this list perform the following banking function in addition to the other business they are permitted to do under their bye-laws :—

Acceptance of deposits of money on current account or otherwise subject to withdrawal by cheque, draft or order.

The Standing Committee trust that this publication will be helpful not only to co-operators and co-operative institutions but also to the general public and to commercial institutions and joint stock banks which may be desirous of utilizing the agency of co-operative banks for business purposes.

VAIKUNTH L. MEHTA,
Secretary,
Standing Committee,
Bombay Presidency Co-operative Banks'
Conference.

Bombay, 2nd September, 1937.

No.	TOWN.	DISTRICT,	NAME OF THE BANK.
1	Ahmedabad	Ahmedabad	The Ahmedabad Peoples' Co-operative Bank, Limited.
2	"	"	The Dascroi Co-operative Banking Union, Limited.
3	Ahmednagar	Ahmednagar	The Bombay provincial Co-operative Bank, Limited.
4	"	"	The Nagar District Central Urban Co-operative Bank, Ltd.
5	Akluj	Sholapur	The Bombay Provincial Co-operative Bank, Limited.
6	Alur	Dharwar	The Karnatak Central Co-operative Bank, Limited.
7	Amalner	East Khandesh	Amalner Co-operative Urban Bank, Limited.
8	"	"	The East Khandesh Central Co-operative Bank, Limited.
9	"	"	Pratap Mill-hands Co-operative Bank, Limited.
10	"	"	Pratap Mill-hands Nutan Co-operative Bank, Limited.
11	Amod	Broach	The Broach Co-operative Bank, Limited.
12	"	"	Amod Nagric Co-operative Bank, Limited.
13	Anand	Kaira	Anand Roman Catholic Urban Co-operative Bank, Limited.
14	Ankleshwar	Broach	The Ankleshwar Nagric Sahakari Bank, Limited.
15	"	"	The Broach Co-operative Bank, Limited.
16	Ankola	North Kanara	The Ankola Urban Co-operative Bank, Limited.
17	Athni	Belgaum	The Belgaum District Central Co-operative Bank, Limited.
18	"	"	Shree Shivayogi Murughendra Swami Co-op. Credit Bank, Ltd.

ADDRESS.	REMARKS.
Karanj, near Collector's Office, Ahmedabad.	*
Gandhi Road, near Bala Hanuman, Ahmedabad.	*
Ahmednagar.	Branch.
New Cloth Market, Ahmednagar.	*
Akluj, District Sholapur.	Branch.
Alur, District Dharwar.	Branch.
Lalbag Ginning Factory, Amalner, District E. Khandesh.	*
Amalner, District E. Khandesh.	Branch.
" "	*
" "	*
Amol, District Broach.	Branch.
" "	.
Roman Catholic Mission, Anand, District Kaira.	*
Chauta Pazar, Ankleshwar.	*
Ankleshwar.	Branch.
Ankola, District N. Kanara.	*
Athni, District Belgaum.	Branch.
" "	*

N. B.— * Shows that the working capital of the Bank as on 30-6-37 is Rs. 50000/- or above.

No.	TOWN.	DISTRICT.	NAME OF THE BANK.
19	Bagal Kot	Bijapur	The Bijapur District Central Co-operative Bank, Limited.
20	"	"	Shree Basweshwar Urban Co-operative Bank, Limited.
21	Bailhongal	Belgaum	Belgaum District Central Co-operative Bank, Limited.
22	Bankikotla	North Kanara	The Shamrao Vithal Co-operative Bank, Limited.
23	Baramati	Poona	The Bombay Provincial Co-operative Bank, Limited.
24	Barloli	Surat	The Surat District Co-operative Bank, Limited.
25	Barsi	Sholapur	Barsi Central Co-operative Bank, Limited.
26	Belgaum	Belgaum	The Belgaum District Central Co-operative Bank, Limited.
27	"	"	The Belgaum Pioneer Urban Co-operative Bank, Limited.
28	"	"	The Belgaum Namdev Urban Co-operative Credit Society.
29	Betegeri	Dharwar	The Betegeri Urban Co-operative Bank, Limited.
30	Bhiwandi	Thana	The Bombay Provincial Co-operative Bank, Limited.
31	Bhusawal	East Khandesh	Bhusawal People's Co-operative Bank, Limited.
32	"	"	East Khandesh Central Co-operative Bank, Limited.
33	"	"	Shree Gajanan Brahmins Co-operative Bank, Limited.
34	Bijapur	Bijapur	The Bijapur District Central Co-operative Bank, Limited.
35	"	"	The Bijapur Mahalaxmi Co-operative Bank, Limited.
36	"	"	Shree Siddheshwar Urban Co-operative Bank, Limited.

ADDRESS.	REMARKS.
Bagal Kot, District Bijapur.	Branch.
" "	
Bailhongal, Tal. Sampgaon, District Belgaum.	Branch.
Bankikolla, District N. Kanara.	Branch.
Baramati, District Poona.	Branch.
Bardoli, District Surat.	Branch.
Parsi, District Sholapur.	*
150, Bhandar Galli, Belgaum	*
" "	*
Khade Dazar, House No. 2908, Belgaum.	
Late Rev. Cannon Livingston's Abode, in Hospital Betegeri, Tal. Gadag	*
Bhiwandi, District Thana.	Branch.
Chowk Bazar, Bhusawal, District E. Khandesh.	*
" "	Branch.
" "	
Bijapur.	*
"	*
"	*

No.	TOWN.	DISTRICT.	NAME OF THE BANK.
37	Bombay	Bombay	The Bombay Daxini Brahmins Co-operative Bank, Limited.
38	"	"	" " " "
39	"	"	Bombay Provincial Co-operative Bank, Limited.
40	"	"	Chandraseniya Kayastha Prabhu Co-operative Bank, Ltd.
41	"	"	The Decean Merchants Co-operative Bank, Limited.
42	"	"	G. I. P. Railway Employees Co-operative Bank, Limited.
43	"	"	Ismaila Co-operative Bank, Limited.
44	"	"	Jackson Co-operative Bank, Limited.
45	"	"	Jewish Co-operative Banking Society, Limited.
46	"	"	Lalubhai Samaldas Co-operative Bank Limited.
47	"	"	" " "
48	"	"	" " "
49	"	"	Maratha Market Peoples Co-operative Credit Society, Ltd.
50	"	"	The Miller Co-operative Credit Bank, Limited.
51	"	"	North Kanara Goud Sarswat Brahmins Co-op. Bank, Ltd.
52	"	"	Salsette Catholic Co-operative Credit Society, Limited.
53	"	"	Samastha Nagar Cooperative Bank, Limited.
54	"	"	Sarswat Co-operative Bank, Limited.

ADDRESS.	REMARKS.
Jayant Nivas, 163-165, Girgaon Road, Bombay, 4.	*
Bhagirthi Nivas, Lady Jamshedji Road, Dadar, Bombay, 14.	-Branch.
Sarlal Building, Apollo Street, Bombay 1.	*
Abdulla Haji Bldg., Opp. B. E. & C. I. Rly. Station, Dadar, Bombay.	*
217, Charni Road, Bombay 4.	*
Victoria Terminus Station, Bombay 1.	*
Bhiwandiwalla Bldg., Sandhurst Road East, Bombay 9.	*
Churchgate Offices, Bombay 1.	*
Tiphareth Israel Synagogue Bldg., 92, Clarke Rd., Jacob Circle.	*
302, Kalbadevi Road, Bombay 2.	*
Hamam Street, Bombay 1.	Branch.
Damodar Hall, Parel, Bombay.	Branch.
Sitaram Building, Hornby Road, Bombay.	
Burmah Shell House, 40, Ballard Estate, Bombay 1.	*
H/33, Ambewadi, Opp. Majestic Cinema, Bombay 4.	*
Opp. Parsi Agiari, Hill Road, Bandra.	*
Sarlal Building, Apollo Street, Bombay 1.	
Sarswat Brahmin Samaj Griha, Bombay 4.	*

No.	TOWN.	DISTRICT.	NAME OF THE BANK.
55	Bombay	Bombay	Surswat Co-operative Bank, Limited.
56	"	"	" " "
57	"	"	The Shanrao Vitthal Co-operative Bank, Limited.
58	"	"	"
59	"	"	Zoroastrian Co-operative Credit Bank, Limited.
60	Broach	Broach	The Broach District Co-operative Bank, Limited.
61	"	"	The Broach Urban Co-operative Bank, Limited.
62	"	"	The Gujrati Brahma Kshatriya Co-operative Bank, Limited.
63	Borsad	Kaira	Borsad Peoples Co-operative Bank, Limited.
64	Bulsar	Surat	Bulsar Peoples Co-operative Bank, Limited.
65	"	"	Surat District Co-operative Bank, Limited.
66	"	"	"
67	Byadgi	Dharwar	Shree Gajanan Urban Co-operative Bank, Limited.
68	Chalisgaon	East Khandesh	East Khandesh Central Co-operative Bank, Limited.
69	Chikodi	Belgaum	Belgaum District Central Co-operative Bank, Limited.
70	Chiplun	Ratnagiri	Chiplun Urban Co-operative Bank, Limited.
71	Chopda	East Khandesh	East Khandesh Central Co-operative Bank, Limited.
72	Deogad	Ratnagiri	Deogad Urban Co-operative Bank, Limited.

ADDRESS.	REMARKS.
Thakurlwar, Bombay.	Branch.
Near B. B. & C. I. Rly. Station, Dadar, Bombay.	Branch.
B 2, Sarswat Co-operative Buildings, Gamdevi, Bombay 7.	*
Santacruz, Bombay.	Branch.
Sarlur Building, Apollo Street, Bombay 1.	*
Lallubhai's Chakla, Broach.	*
Juna Bazar, Broach.	*
Chunarwad Broach.	*
Borsad, District Kaira.	
Juna Thana Street, Bulsar, Dist. Surat.	*
Choksi Bazar, Bulsar. "	Branch.
Railway Station, Bulsar. "	Branch.
Byadgi, District Dharwar.	*
Chalisgaon, District E. Khandesh.	Branch.
Chikodi, District Belgaum.	Branch.
Chiplun, District Ratnagiri.	
Chopda, District E. Khandesh.	Branch.
Deogad, District Ratnagiri.	

No.	TOWN.	DISTRICT.	NAME OF THE BANK.
73	Dharangaon	East Khandesh	East Khandesh Central Co-operative Bank, Limited.
74	Dharwar	Dharwar	Karnatak Central Co-operative Bank, Limited.
75	"	"	Raddi Communal Co-operative Bank, Limited.
76	"	"	Southern Maratha Urban Co-operative Bank Limited.
77	"	"	Shamrao Vithal Co-operative Bank, Limited.
78	Dholka	Ahmedabad	Dholka Peoples Co-operative Bank, Limited.
79	Dhond	Poona	Poona Central Co-operative Bank, Limited.
80	Dhulia	West Khandesh	The Bombay Provincial Co-operative Bank, Limited.
81	"	"	Dhulia Urban Co-operative Bank, Limited.
82	"	"	Rajwade Mandal Peoples Co-operative Bank, Limited.
83	"	"	West Khandesh Govt. Servants Co-operative Bank, Limited.
84	Dohad	Panchmahals	The Bombay Provincial Co-operative Bank, Limited.
85	"	"	Dohad Urban Co-operative Bank, Limited.
86	Dondaicha	West Khandesh	The Bombay Provincial Co-operative Bank, Limited.
87	Faizpur	East Khandesh	East Khandesh Central Co-operative Bank, Limited.
88	Gadag	Dharwar	The Bombay Karnatak Kurbav Co-op. Credit Bank, Limited.
89	"	"	Gadag Co-operative Urban Bank, Limited.
90	"	"	Karnatak Central Co-operative Bank, Limited.

ADDRESS.	REMARKS.
Dharangaon, District East Khandesh.	Branch.
Bank Road, Dharwar.	*
Dharwar.	*
Bank Street, Dharwar.	*
"	Branch.
Dholka, District Ahmedabad.	
Dhond, District Poona.	Branch.
Dhulia.	Branch.
Near Garud Baug, Dhulia.	*
Dhulia.	*
Garud Baug, Dhulia.	*
Dohad, District Panchmahals.	Branch.
"	*
Dondaicha, District West Khandesh.	Branch.
Faizpur, District East Khandesh.	Branch.
Gulag, District Dharwar.	*
" "	*
" "	Branch.

No.	TOWN.	DISTRICT.	NAME OF THE BANK.
91	Ghoda	Poona	Ghoda Peoples Co-operative Urban Bank, Limited.
92	Godhra	Panchmahal	Godhra City Co-operative Bank, Limited.
93	"	"	Mercantile Co-operative Bank, Limited.
94	Gokak	Belgaum	Gokak Co-operative Urban Bank, Limited.
95	Guledgudd	Bijapur	The Guledgudd Industrial Co-operative Bank, Limited.
96	Halol	Panchmahals	Kalol Urban Co-operative Bank, Limited.
97	Hansot	Broach	Broach Co-operative Bank, Limited.
98	Haveri	Dharwar	Karnatak Central Co-operative Bank, Limited.
99	Hirekerur	"	Karnatak Central Co-operative Bank, Limited.
100	Honaver	North Kanara	Honaver Urban Co-operative Bank, Limited.
101	Hubli	Dharwar	Hubli Urban Co-operative Bank, Limited.
102	"	"	Karnatak Central Co-operative Bank, Limited.
103	Hukeri	Belgaum	Hukeri Urban Co-operative Bank, Limited.
104	Hungund	Bijapur	Bijapur District Central Co-operative Bank, Limited.
105	Indapur	Poona	Indapur Peoples Co-operative Bank, Limited.
106	"	"	Poona Central Co-operative Bank, Limited.
107	Islampur	Satara	The Bombay Provincial Co-operative Bank, Limited.
108	"	"	Islampur Peoples Co-operative Bank, Limited.

ADDRESS.	REMARKS.
Ghola, District Poona.	
Godhra.	*
"	*
Raviwar Peth, Gokak.	*
Guledguld, District Bijapur	*
Halol, District Panchmahals	Branch.
Hansot, District Broach.	Branch.
Haveri, District Dharwar.	Branch.
Hirekerur, District Dharwar.	Branch.
Bunder, Honaver, District North Kanara.	*
Hubli, District Dharwar.	*
" "	Branch.
Hukeri, District Belgaum.	*
Hungund, District Bijapur.	Branch.
Indapur, District Poona.	
" "	Branch.
Islampur, District Satara.	Branch.
Uran, Islampur. "	*

No.	TOWN.	DISTRICT.	NAME OF THE BANK.
109	Islampur	Satara	Islampur Co-operative Urban Bank, Limited.
110	Jalalpore	Surat	Surat District Co-operative Bank, Limited.
111	Jalgaon	East Khandesh	East Khandesh Central Co-operative Bank Limited.
112	"	"	Jalgaon Peoples Co-operative Bank Limited.
113	Jambusar	Broach	Broach Co-operative Bank, Limited.
114	"	"	Jambusar Peoples Co-operative Bank, Limited.
115	Jamner	East Khandesh	East Khandesh Central Co-operative Bank, Limited.
116	Junnar	Poona	The Poona Central Co-operative Bank, Limited.
117	Kalol	Panch Mahals	The Bombay Provincial Co-operative Bank, Limited.
118	"	"	Kalol Urban Co-operative Bank, Limited.
119	Kalvan	Nasik	Kalvan Urban Co-operative Bank, Limited.
120	"	"	The Bombay Provincial Co-operative Bank, Limited.
121	Kalyan	Thana.	The Bombay Provincial Co-operative Bank, Limited.
122	Karamsal	Kaira	Roman Catholic Co-operative Credit Bank, Limited.
123	Karad	Satara	The Bombay Provincial Co-operative Bank, Limited.
124	"	"	Karad Urban Co-operative Bank, Limited.
125	"	"	Satara Namdeo Co-operative Credit Society, Limited.
126	Karwar	N. Kanara	Karwar Urban Co-operative Bank, Limited.

ADDRESS.	REMARKS.
Uran Islampur, District Satara.	Branch.
Jalalpora, District Surat.	Branch.
Jalgaon, District East Khandesh.	*
" "	Branch.
Jambusar, District Broach.	Branch.
" "	*
Jamnor, District East Khandesh.	Branch.
Junnar, District Poona.	Branch.
Kalol, District Panch Mahals.	Branch.
" "	*
Kalvan, District Nasik.	Branch.
" "	
Kalyan, District Thana.	Branch.
R. C. Mission, Karamsad, District Kaira.	Branch.
Karad, District Satara.	Branch.
" "	*
" "	Branch.
Karwar, District N. Kanara.	*

No.	TOWN.	DISTRICT.	NAME OF THE BANK.
127	Karwar	N. Kanara	Kanara District Central Co-operative Bank, Limited.
128	"	"	The Shamrao Vithal Co-operative Bank, Limited.
129	Khambalaj	Kaira	Roman Catholic Co-operative Credit Bank, Limited.
130	Khanapur	Belgaum	Khanapur Urban Co-operative Bank, Limited.
131	Khed	Poona	Poona Central Co-operative Bank, Limited.
132	"	Ratnagiri	Khed Urban Co-operative Bank, Limited.
133	Kirloskar Wadi	Satara	The Bombay Provincial Co-operative Bank, Limited.
134	Kittur	Belgaum	The Kittur Urban Co-operative Bank, Limited.
135	Kopergaon	Ahmednagar	The Bombay Provincial Co-operative Bank, Limited.
136	Koregaon	Satara	The Bombay Provincial Co-operative Bank, Limited.
137	"	"	Koregaon Co-operative Peoples Bank, Limited.
138	"	"	Satara Namdeo Co-operative Bank, Limited.
139	Kumta	North Kanara	The Kumta Urban Co-operative Bank, Limited.
140	"	"	The Kumta Merchants Urban Co-op. Credit Bank, Limited.
141	Kurduwadi	Sholapur	The Sholapur District Central Co-operative Bank, Limited.
142	Limb	Satara	Limb Co-operative Peoples Urban Bank, Limited.
143	Mahabaleshwar	Satara	Mahabaleshwar Urban Co-operative Bank, Limited.
144	Mahad	Kolaba	Mahad Co-operative Urban Bank, Limited.

ADDRESS.	REMARKS.
Karwar, District N. Kanara.	Branch.
" "	Branch.
R. C. Mission, Khambalaj, District Kaira.	Branch.
Khanapur, District Belgaum.	*
Khed, District Poon.	Branch.
Khed, District Ratnagiri.	
Kirloskar Wadi, District Satara.	Branch.
Kittur.	*
Kopergnon, District Ahmednagar.	Branch.
Koregaon, District Satara.	Branch.
" "	
" "	Branch.
Kumta, District North Kanara.	*
" "	
Kurdawadi, District Sholapur.	Branch.
P. O. Limbgaon, District Satara.	
Mahabaleshwar, "	
Mahad, District Kolaba.	

No.	TOWN.	DISTRICT.	NAME OF THE BANK.
145	Malegaon	Nasik	Malegaon City Co-operative Urban Bank, Limited.
146	Malegaon	Nasik	The Bombay Provincial Co-operative Bank, Limited.
147	Malwan	Ratangiri	Malwan Co-operative Urban Bank, Limited.
448	Nadiad	Kaira	Kaira District Central Co-operative Bank, Limited.
149	"	"	Roman Catholic Co-operative Credit Bank, Limited.
150	Nandurbar	West Khandesh	The Bombay Provincial Co-operative Bank, Limited.
151	"	"	Nandurbar Urban Co-operative Bank, Limited.
152	Nasik	Nasik	Nasik District Central Co-operative Bank, Limited.
153	"	"	Nasik Peoples Co-operative Bank, Limited.
154	Navalgund	Dharwar	Karnatak Central Co-operative Bank, Limited.
155	Nipani	Belgaum	Belgaum District Central Co-operative Bank, Limited.
156	"	"	Nipani Co-operative Urban Bank, Limited.
157	"	"	Shree Ram Co-operative Urban Bank, Limited.
158	Ogalewadi	Satara	Poona District Central Co-operative Bank, Limited.
159	Palghar	Thana	The Bombay Provincial Co-operative Bank, Limited.,
160	"	"	Palghar People's Co-operative Bank, Limited.
161	Palej	Broach	The Broach Co-operative Bank, Limited.
162	Panchgani	Satara	Panchgani Co-operative Credit Society, Limited.

ADDRESS	REMARKS.
Malegaon, District Nasik.	
Malegaon, District Nasik.	Branch.
Malwan, District Ratnagiri.	
Ahmedabadi Bazar, Nadiad, District Kaira.	*
R. C. Mission, Nadiad, District Kaira.	Branch.
Nandurbar, District West Khandesh.	Branch.
Nasik.	*
Main Road, Nasik.	*
Navalgund, District Dharwar.	Branch.
Nipani, District Belgaum.	Branch.
" "	
" "	
Ogalewadi, District Satara.	Branch.
Palghar, District Thana.	Branch.
" "	
Palej, District Broach.	Branch.
Panchgani, District Satara.	

No.	TOWN.	DISTRICT.	NAME OF THE BANK.
163	Pandharpur	Sholapur	Madhyandin Brahma Vrinda Co-operative Urban Bank, Ltd.
164	"	"	Pandharpur Urban Co-operative Bank, Limited.
165	"	"	Sholapur District Central Co-operative Bank, Limited.
166	Pardi	Surat	Sardar Bhiladwala Pardi Peoples Co-operative Bank, Limited.
167	Parola	East Khandesh	The East Khandesh Central Co-operative Bank, Limited.
168	Pen	Kolaba	Pen Co-operative Urban Bank, Limited.
169	Poona	Poona	The Cosmos Co-operative Urban Bank, Limited.
170	"	"	Muslim National Co-operative Bank, Limited.
171	"	"	Poona Cantonment Co-operative Credit Banking Society, Ltd.
172	"	"	Poona District Central Co-operative Bank, Limited.
173	"	"	Poona District Central Co-operative Bank, Limited.
174	"	"	Poona District Rupee Co-operative Bank, Limited.
175	"	"	Poona Merchants Co-operative Bank, Limited.
176	Rajapur	Ratnagiri	Rajapur Urban Co-operative Bank, Limited.
177	Rander	Surat	The Rander Peoples Co-operative Bank, Limited.
178	Ratnagiri	Ratnagiri	Ratnagiri Urban Co-operative Bank, Limited.
179	Raver	East Khandesh	Raver Peoples Co-operative Bank, Limited.
180	Ranebennur	Dharwar	Karnatak Central Co-operative Bank, Limited.

ADDRESS.	REMARKS.
Mahadwar, Pandharpur, District Sholapur.	*
" "	*
" "	Branch.
Parli, District Surat,	*
Parola, District East Khandesh.	Branch.
Pen, District Kolaba.	
Budhwar Peth Poona City.	*
Laxmi Narayan Market, Raviwar Peth, Poona 2.	
95, Budhwar Peth, Poona 2.	
Laxmi Road, Poona City.	*
Deccan Gymkhana, Poona 4.	Branch.
592, Budhwar, Poona 2.	*
Laxmi Road, Poona 2.	*
Rajapur, District Ratnagiri.	
Rander, District Surat.	*
Ratnagiri.	*
Raver, District East Khandesh.	*
Ranebennur, District Dharwar.	Branch.

No.	TOWN.	DISTRICT.	NAME OF THE BANK.
181	Ranebennur	Dharwar	Shree Basweshwar Co-operative Urban Bank, Limited.
182	Revdanda	Kolaba	Revdanda Co-operative Urban Bank, Limited.
183	Ron	Dharwar	Karnatak Central Co-operative Bank, Limited.
184	Sakri	West Khandesh	The Bombay Provincial Co-operative Bank, Limited.
185	Sankeshwar	Belgaum	Sankeshwar Urban Co-operative Credit Bank, Limited.
186	Saswad	Poona	Poona Central Co-operative Bank, Limited.
187	Satara	Nasik	The Bombay Provincial Co-operative Bank, Limited.
188	Satara	Satara	The Bombay Provincial Co-operative Bank, Limited.
189	"	"	Satara Namdeo Co-operative Bank, Limited.
190	Saundatti	Belgaum	Belgaum District Central Co-operative Bank, Limited.
191	Shahale	West Khandesh	The Bombay Provincial Co-operative Bank, Limited.
192	Shevgaon	Ahmednagar	The Bombay Provincial Co-operative Bank, Limited.
193	Shiggaon	Dharwar	Karnatak Central Co-operative Bank, Limited.
194	Shirale	Satara	The Bombay Provincial Co-operative Bank, Limited.
195	Shirpur	West Khandesh	The Bombay Provincial Co-operative Bank, Limited.
196	Sholapur	Sholapur	The Laxmi Co-operative Bank, Limited.
197	"	"	Sholapur District Central Co-operative Bank, Limited.
198	Siddapur	N. Kanara	Siddapur Urban Co-operative Credit Bank, Limited.

ADDRESS.	REMARKS.
Ranebennur, District Dharwar.	Branch.
Revdanda, District Kolaba.	Branch.
Ron, District Dharwar.	Branch.
Sakri, District West Khandesh.	Branch.
Sankeshwar, District Belgaum.	Branch.
Saswad, District Poona.	Branch.
Satara, District Nasik.	*
Satara,	Branch.
"	Branch.
Saundatti, District Belgaum.	Branch.
Shahade, District West Khandesh.	Branch.
Shevgaon, District Ahmednagar.	Branch.
Shiggaon, District Dharwar.	Branch.
Shirale, District Satara.	*
Shirpur, District West Khandesh.	*
571, S. Kasba, Sholapur.	*
"	*
Sildapur, District N. Kanara.	*

No.	TOWN.	DISTRICT	NAME OF THE BANK.
199	Sind Khede	West Khandesh	The Bombay Provincial Co-operative Bank, Limited.
200	Sirsi	N. Kanara	Kanara District Central Co-operative Bank, Limited.
201	"	"	Sirsi Urban Co-operative Bank, Limited.
202	Surat	Surat	Surat District Co-operative Bank, Limited.
203	"	"	Surat Peoples Co-operative Bank, Limited.
204	"	"	Surat Peoples Co-operative Bank, Limited.
205	Tasgaon	Satara	The Bombay Provincial Co-operative Bank, Limited.
206	"	"	Tasgaon Urban Co-operative Credit Bank, Limited.
207	Taloda	West Khandesh	The Bombay Provincial Co-operative Bank, Limited.
208	Vadtal	Kaira	Roman Catholic Co-operative Credit Bank, Limited.
209	Vapi	Surat	Sardar Philadwala Par ti Peoples Co-op. Credit Bank, Ltd.
210	Vengurla	Ratnagiri	Vengurla Urban Co-operative Bank, Limited.
211	Viramgaon	Panchmahals	The Bombay Provincial Co-operative Bank, Limited.
212	Wagra	Broach	Broach Co-operative Bank, Limited.
213	Wai	Satara	The Bombay Provincial Co-operative Bank, Limited.
214	"	"	Wai Urban Co-operative Bank, Limited.
215	Yamkaumardi	Belgaum	Yam Kanmardi Co-operative Urban Bank, Limited.
216	Yawal	East Khandesh	East Khandesh Central Co-operative Bank, Limited.

ADDRESS.	REMARKS.
Sinde Khede, District West Khandesh.	Branch.
Sirsi, District N. Kanara.	*
" "	*
Kanpith, District Surat.	*
Abbas Building No. 3, Kanpith, District Surat.	*
Choksi Bazar, Navapura, District Surat.	Branch.
Tasgaon, District Satara.	Branch.
" "	
Taloda, District West Khandesh.	Branch.
R. C. Mission, Vadtal, District Kaira.	Branch.
Vapi (Daman Road) B. & C. I. Rly. Dist. Surat.	Branch.
Vengurla, District Ratnagiri.	
Viramgaon, District Panchmahals.	Branch.
Wagra, District Broach.	Branch.
Wai, District Satara.	Branch.
" "	*
Yamkanmardi, Taluka Hukeri, District Belgaum.	
Yawal, District West Khandesh.	Branch.

**THE
JOINT REORGANISATION REPORT
ON
CO-OPERATIVE MOVEMENT**

BY

M. D. BHANSALI, I. C. S.
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The Bombay Provincial Co-operative Bank Ltd.

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PREFACE.

At the conclusion of the Bombay Province Co-operative Banks' Conference held in August 1938, the Chairman of the Conference Prof. V. G. Kale gave expression to the desire of co-operators that the Joint Reorganization Report submitted to the Government of Bombay by Mr. M. D. Bhansali, I. C. S., Registrar of Co-operative Societies, and Mr. V. L. Mehta, Managing Director of the Bombay Provincial Co-operative Bank, Ltd., should be published for the information and guidance of co-operators and co-operative institutions. This desire of co-operators, as voiced by the Chairman of the Banks' Conference, was communicated to Government, and Government were pleased to accede the request in a communication received from the Registrar of Co-operative Societies on 14th June 1939. Accordingly, as desired by the Conference, the Report is now made available under the directions of the Standing Committee of the Banks' Conference.

It will be seen from the Report that it contains mostly a series of recommendations to Government. The reasons for arriving at the various conclusions have not been given in detail, because the Report was originally intended not for publication but merely for consideration by Government. The Report also does not cover all the detailed aspects of the co-operative movement, but contains recommendations on the matters referred for investigation according to Government Resolution No. 7363/33 of 6-9-37 the text of which is published as an Appendix.

The orders of Government on the Report have been published under Government Resolutions, No. 7363/33 (R. D.) of 15th March 1938 and No. 7363/33-II (R. D.) of 3rd Feb. 1939 which are reproduced in the BOMBAY CO-OPERATIVE QUARTERLY of March 1938 (Vol XXI No. IV) and March 1939 (Vol XXII No. IV).

VAIKUNTH L. MEHTA,

Secretary,

Standing Committee,

B. P. C. Banks' Conference.

BOMBAY, 12th July. 1939.

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JOINT REORGANIZATION REPORT
BY Mr. V. L. MEHTA AND THE
REGISTRAR, CO-OPERATIVE SOCIETIES.

(1) The proper method of dealing with such of the assets of agricultural credit societies and their central financing agencies as have become frozen.

**I. How Co-operative Societies can be made to
work on a more stable basis.**

(A) Agricultural Credit (Unlimited).

(See paragraph 38 of the Reserve Bank Report).

Out of the profits, 10 per cent. should be invested in the debentures of the Bombay Provincial Co-operative Land Mortgage Bank which Government would guarantee in respect of principal and interest. Such accumulations will not be available to the societies except with the Registrar's sanction, which will be given in special circumstances, *e. g.*,

- (1) Famine,
- (2) Sudden calamity,
- (3) On liquidation.

Local deposits from members and non-members must be encouraged.

The word "local" includes an area of within five miles.

Except with regard to deposits which are in the nature of compulsory deposits, the society shall arrange to pay an annual levy of about $\frac{1}{2}$ per cent. on the amount of its deposits to the Central Bank which can make funds available, when required, for the repayment of such deposits so as to provide credit societies with fluid resources for the payment of fixed deposits on maturity.

(B) Other Societies.

The entire reserve fund or an amount equal to deposit liabilities, whichever be less, should be invested under investments permitted under Section 20 of the Indian Trusts Act, except that no investment should be in immoveable property without the prior sanction of the Registrar.

The above principle should apply to all societies which obtain any portion of their working capital by deposits.

A central fund to be administered by a Committee of Management should be created by the levy of a small percentage contribution not exceeding 5 per cent. on the annual profits of such societies to serve as a stabilizing fund for the movement. It should be invested in the debentures of the Bombay Provincial Co-operative Land Mortgage Bank to the extent the principal and interest are guaranteed by Government. The Central Fund so created will not be available to any individual society, but the Committee of Management may permit from out of the interest recoveries in any year its use to any society or societies for meeting any sudden emergency or calamity. Repayment may be with or without interest. The Fund may also be utilized at the discretion of the Committee of Management to help a society to tide over any emergent crisis, provided, in the opinion of the Committee of Management, repayment is assured and the safety of the Fund is not likely to be jeopardised.

All societies which obtain any portion of their working capital by deposits and do banking business as defined in Section 277 (f) of the Indian Companies Act, shall in addition to the separate investment of the reserve fund, maintain fluid resources on the basis laid down in the Indian Companies Act (vide Section 277L).

(C) All Societies.

Where losses occur continuously over a period of three years, sanction should be obtained with a view to write them off from the reserve fund.

II. Overdues.

(A) Agricultural Credit Societies Unlimited.

(1) Overdues and Extensions.

The existing policy that all loans outstanding, not recovered on the due date and not extended are overdues, should be continued.

Bye-law 34 in old leaflet A and bye-law 42 of leaflet A (1) that extensions should be formally sanctioned for one year by the committee and beyond one year by the general meeting with the previous approval of the financing agency require to be scrupulously observed

and the grant of extension should be dependent on the consent of the sureties. In cases where extension is not granted, a notice of demand should be served on the principal borrower and his sureties and arbitration proceedings started after the period of the notice of demand expires. The period of the notice of demand should not ordinarily be less than one month or more than three months and bye-law 34 of old leaflet A, and by-law 42 of leaflet A (1) require to be amended, further to provide that if satisfactory repayments are not made within the period of the notice of demand, arbitration proceedings should ensue.

Loans outstanding are:-

- 1) loans not due;
- 2) loans overdue.

Overdue loans will consist of authorized overdues (i. e., extensions), and unauthorized overdues.

(2) Frozen overdues.

Where sufficient assets are available but no repayments are forthcoming by way of principal ^{and} _{or} interest for a period exceeding three years, the amount defaulted shall be treated as a frozen overdue.

The Supervisor with the collaboration of the Bank Inspector should prepare a list of frozen overdues which will be checked by the Auditor at the time of audit.

An individual concession scheme on the lines of the scheme at present sanctioned for West Nasik District and the Canal areas should be sanctioned for one year in the first instance, with a view to effect full recoveries of principal and interest, except in so far as the concession is granted; within a maximum period of five years. Further finance in the case of person to whom the individual concession scheme is applied will be at a rate a quarter per cent in excess of the rate sanctioned in the bye-laws and will not be in excess of repayments made by way of principal after recovery of the interest for two years, if due.

The concession will only be permitted to an individual if adequate assets are mortgaged by him to the society.

Members may also be advised to have recourse to the Land Mortgage Bank if adequate assets and repaying capacity exist for the purpose or they may enter into hire-purchase bonds with the society after transferring the ownership of adequate assets to the society. Where advantage is not taken of the individual concession scheme and arrangement as suggested above is not feasible, the case should be referred to arbitration with a view to the transfer of available assets under Section 59 A. Where repayment is by annual instalments under a hire-purchase bond, a rebate for punctual repayments should be given which in no case should exceed the scale fixed under the individual concession scheme. Fresh finance will be on the mortgage of the crops and at a rate a quarter pie in excess of the rate fixed in the bye-laws. If as a result of these transactions losses arise, the margin between the lending and the borrowing rate will require to be widened, and where the lending rate is sufficiently high, the only method of widening the margin is for the financing agency to reduce its rate.

For the purpose of providing such loans on long term basis, the financing agency may approach the Provincial Land Mortgage Bank for a loan on the assignment or re-assignment of mortgage deeds in its possession and should pass the loan to the society at a rate not exceeding $\frac{1}{2}$ per cent. over the rate at which it borrows.

Normally, except for special reasons, e. g., in backward tracts, agricultural credit societies should have their lending rate one and three quarters pies or less and if with the margin so available, a society is not able to work at a profit, it will require to be taken into liquidation.

(3) Doubtful Debts.

Where the amount defaulted by a member by way of principal and interest is in excess of his assets and the available assets of his sureties and the interest arrears exceed three years, the debt should be considered doubtful.

The Auditors should prepare lists of doubtful debts at the next audit in collaboration with the Supervisors and the local Inspectors of the financing agencies.

In the case of doubtful debts, all available assets require to be mortgaged to the society, before any concessions are granted. Failing this, arbitration proceedings should ensue,

All recoveries must be credited to principal and accrued interest shown in a suspense account to be recovered later when possible. The concession to stop further accrual of interest on doubtful debts should be allowed individually if there is a genuine attempt to make repayments within a year at the end of which period it can be considered whether the concession is to be continued or not. Further finance on a restricted scale against repayments can only be on the security of the crops which should be mortgaged to the society and such finance should be at a rate of interest a quarter of a per cent higher than the rate fixed in the bye-laws. If the society suffers a loss on the working of the scheme which it is not possible to write off from the reserve fund, the margin between the lending and the borrowing rates should be widened so as to ensure profit. Where the lending rate is sufficiently high, the only method of widening the margin is for the financing agency to reduce its rate and if this is not possible, the society will have to be taken into liquidation.

(4) Bad Debts.

Where a person has very inadequate repaying capacity and he and his sureties have no available assets, the debt shall be termed a bad debt and societies should be advised to obtain sanction for writing off such bad debts to the extent of their reserve fund less previous accumulated losses.

The Auditors at the next audit should prepare lists of bad debts with suggestions to the societies for obtaining necessary sanction to write them off. The Supervisors and local Inspectors of the financing agencies should help the Auditors in the preparation of the lists.

Where bad debts exceed the reserve fund less accumulated losses or where the reserve fund is not available, the margin between the lending and the borrowing rate should be widened, so as to ensure future profits from which the bad debts could be written off within a reasonable period of years.

Where the lending rate is sufficiently high, the only method of widening the margin is for the financing agency to reduce its rate and if this is not possible, the society will have to be taken into liquidation,

In the case of an individual who has bad debts which require to be written off, the view should be taken that he has ceased to be creditworthy and, therefore, cannot be given any fresh advance and requires to be dismembered, as provided in the bye-laws.

(B) Overdues of Financing Agencies.

'D' class societies which have continued to be in 'D' class for three years or more, have continuously made losses and have arrears of overdue interest exceeding three years should forthwith be taken into liquidation.

Where the outstandings from a society by way of principal and interest are likely to involve the financing agency in losses, recoveries should be so apportioned, between principal and interest, and fresh finance so allowed as to prevent an increase in the amount of the principal outstanding.

Financing agencies should not invest funds in immoveable properties under Section 20 (e) of the Indian Trusts Act, however sound the investment may appear to be, except for the purpose of effecting recovery of their previous dues and for the construction of a building for their own use with the sanction of the Registrar. Where heavy overdues exist and are not covered by their long-term resources, financing agencies should obtain long term deposits to the extent of their needs at rates $\frac{1}{2}$ per cent. to 1 per cent. in excess of the yield on the Postal Cash Certificates.

Normally, financing agencies should be able to advance money to primaries at a rate not exceeding 3 per cent. over the rate at which they are able to obtain deposits and at present the lending rate should not exceed 1 pie. If it does, the position of the financing agency should be a matter for special investigation.

Bad and doubtful debts, heavy overdues of principal and interest, previous accumulated losses, expensive and inefficient management are the factors mainly responsible for inability to maintain a low rate of interest. In such cases, if the Registrar is satisfied that the Bank is making genuine attempts to deal with its overdues on the lines laid down and that the management is efficient and economical, he may recommend to the apex Bank to help the Central Banks with funds on the assets of A and B class societies and, if necessary, with a full or partial Government guarantee which should not normally extend beyond five years.

(C) Other Societies—(Non-Agricultural Credit.)

'D' class societies which have continued to be in 'D' class for three years or more, have continuously made losses and have arrears of overdue interest exceeding three years should forthwith be taken into liquidation.

The general principles laid down in the case of Agricultural Credit Societies (Unlimited) for the treatment of overdues should be examined with a view to their application on similar lines for Non-Agricultural Credit Societies and, where necessary, bye-laws should be amended to enable the societies to follow the principles laid down in consultation with their financing agency, if any.

III. Arbitration.

Where an award is sent for execution under Section 59 (1) (b), no fresh finance should be given to the member who requires to be dismembered as provided in the bye-laws of the society.

If satisfactory repayments are made before the award is sent for execution under Section 59 (1) (a), the society should consider whether the execution should be postponed and extension granted. If extension is not granted and unless the award itself gives time to the debtor, or the society wants to appeal against the award, the award should be sent for execution immediately. If necessary, bye-laws should be amended accordingly.

Select Registrar's nominees could be delegated with powers under Section 54 which would enable them to deal with cases direct from the societies. The Registrar's nominees should ordinarily decide the cases referred to them within two months and if for any reason more time is necessary, permission of the Assistant Registrar should be taken. The Registrar's nominee delegated with powers under Section 54 could also exercise powers under Section 55 which would enable him to deal expeditiously with cases of attachment.

Where payment is made to the arbitrator, a graduated scale should apply so as to induce expeditious disposal.

Section 64A requires to be amended to prevent vexatious appeals or references by way of revision applications when the appellate authority has confirmed the original order.

IV. Liquidation.

Where suitable non-officials are available for this work, they should be preferred for appointment as Liquidators. In particular, the Registrar's nominees could also suitably be entrusted with this work. Except for special reasons or in special areas, Auditors should not be appointed as Liquidators.

In compact areas where sufficient work is available, special liquidation officers who are officers of the Department or other suitable persons could be appointed, provided such appointments are self-supporting.

The present practice of appointing joint liquidators to represent the interests of the financing agency, if necessary, should continue.

In case of a society which is taken into liquidation, arbitration proceedings must have ensued in a majority of cases which should prevent the fraudulent transfer of assets by members. If, however, any tendency is noticed by the liquidator on the part of the members to evade unlimited liability by transfer of assets, he could move the arbitrator to issue orders of attachment pending award under Section 55 or obtain security under Section 50.

Where a list of bad and doubtful debts does not exist, the liquidator should prepare one in collaboration with the joint liquidator, if any, which should be scrutinized by the Auditor at the next audit. In case of any difference of opinion, the question should be referred to the Assistant Registrar for decision. In case of bad and doubtful debts, all recoveries should be credited to principal, interest to be recovered subsequently if and when possible. In case of all defaults, the liquidators should encourage the individual concession scheme on the lines laid down for West Nasik District and for Canal areas. Where genuine attempts at repayment are not made under the individual concession scheme or where satisfactory repayments are not forthcoming, the liquidator must issue orders for the transfer of adequate assets under Section 59(A) of Co-operative Societies Act.

After lands are transferred to the liquidator under Section 59 (A), the following courses are open to him for quick disposal of the lands.

- (1) Where the financing agency and the defaulter agree to a mode of repayment which is just and fair, e. g., on the hire purchase system, and provided the interests of other creditors are not affected, the liquidator should pass an order authorizing the mode of repayment and transferring his rights to the financing agency with regard to the land of the defaulter.
- (2) Every attempt should be made to dispose of the lands in consultation with the joint liquidator, if any, by public auction or failing that, by private negotiations.
- (3) Where no outside creditor except the financing agency remains to be repaid and no further recoveries are expected, so that the only work remaining with the liquidator is the transfer of lands under Section 59 (A), the liquidator should hand over the lands to the financing agency or if it so desires, and no speedy method of disposal is available, to Government provided that in the event of bidders appearing, the surplus after deducting land revenue dues and other necessary charges could be paid to the financing agency by Government.

Refund of share capital in liquidated societies (agricultural and non-agricultural) should be made subsequent to the Registrar's decision whether any interest is to be allowed to creditors.

Except for very special reasons, a new society should not be registered in the area of operation of a liquidated society unless and until the final order of dissolution is passed. When a new society is registered, the financing agency may negotiate for the transfer of transactions entered into with members of the liquidated society who are members of the new society.

V. Execution.

Recourse is had at present to a very great extent to the remedy provided under Section 59 (1)(b) for recovery of the dues of co-operative societies, partly due to the fact that the recovery through the civil court results in delay and an impression about the great

efficacy of recovery as an arrear of land revenue. Defaults from members who are to remain members of the society should constitute debts and recovery in such cases should normally be under Section 59 (1) (a) of the Act. Where recovery is with regard to bad or doubtful debts or the default is contumacious or the recovery is under the order of a liquidator, recourse should be had to Section 59 (1) (b). If this view is accepted, it would be necessary to ensure that delay in execution by the Civil Court on a certificate signed by the Registrar is minimised.

Rule 37 requires to be amended to enable the Registrar to authorise supervisors to call for and send arbitration orders for execution. The bye-laws of Supervising Unions can also be amended suitably. It should be the duty of the Supervising Unions to arrange for the speedy execution of arbitration orders on behalf of affiliated societies and to see that they are saved from unnecessary expense and trouble in the course of execution proceedings.

If greater recourse is had as suggested to Section 59 (1) (a), the need for Special Recovery Officers will diminish. So long as the need exists, their appointments require to be made as at present. In effecting recoveries by coercive measures, greater insistence is necessary on the distress and sale of moveable property in the first instance before recourse is had to the sale and transfer of lands. Special Recovery Officers exercise the powers of Mamlatdars in effecting recoveries of dues of co-operative societies and as Revenue officers they should be able to obtain to the fullest extent the help of the village officers where required, and there should be no objection to remunerate village officers for good work with the sanction of the Registrar or on a scale laid down for the recovery of other Government dues, e. g., irrigation dues.

If for any reason the posts of Special Recovery Officers are temporarily held in abeyance, the Registrar and the Collectors should take steps to see that no delay is likely to occur in effecting recoveries during the season, when the posts are revived.

(2) *The system of education and propaganda, finance, audit, supervision, and official and non-official control.*

I. Finance.

The existing limit under Rule 8 that total liabilities in case of limited liability societies should not exceed 8 times the share capital and reserve fund should continue. For purposes of computation, the reserve fund should be taken to mean the reserve fund and other funds of a permanent nature, less accumulated losses. Liabilities incurred against the pledge of produce or securities should be included for fixing the total liability under Rule 8.

(A) Agricultural Credit Societies (Unlimited).

(1) Village Thrift and Credit Societies (Unlimited).

The existing order of Government contained in Government Resolution, Revenue Department, No. 119/33, dated 4th September 1933, restricting the registration of fresh agricultural co-operative credit societies on an unlimited liability basis require to be continued, except that the Registrar should have discretion to register new societies after satisfying himself that the society will be in a position to function satisfactorily if the outside borrowing limit is kept at one-sixth the total available assets of the members, and four times their contributions, whichever is less. Each proposal for registration should be submitted after scrutiny by the Supervising Union, which will have jurisdiction, and which will satisfy itself that the members have been properly selected, and have been taught and understand the objects and purpose for which the society is registered. The thrift aspect of the movement should be emphasized by making it compulsory, in the case of new societies, to provide for savings deposits at 5 per cent. of the loans outstanding being collected at harvest time, and to maintain savings bank accounts. Existing societies can also be encouraged to provide for savings deposits and to maintain savings bank accounts.

The existing practice of having individual limits and special limits should continue, except that a maximum for special limits also should be fixed. If so, the special limits could be approved by the financing agency on the recommendation of the Supervising Union instead of by the Registrar.

If a co-operative marketing agency exists at a bazar place where the produce from a village is ordinarily sold, the village society should provide in its bye-laws that the members will sell their marketable produce through such agency. Existing societies should also be encouraged to make a similar provision in their bye-laws.

As loans are essentially on personal security, other security, if any, being collateral, for admission of members, greater insistence is necessary on their character and creditworthiness and it is not necessary to insist that they should have economic holdings or pay a fixed amount of land revenue. New agricultural credit societies, unlimited, and existing societies which adopt the suggestions made above could be styled "Village Thrift and Credit Societies".

(2) Village Multi-purpose Societies (Unlimited).

Where marketing facilities or suitable bazars are available in the immediate neighbourhood, a multi-purposes society on an unlimited liability basis for a group of villages within a radius of about five miles could be registered, to supply the normal cultivation needs, on execution by the members of an agreement bond, to bring all marketable produce for sale to the society. The bye-laws should provide that members will bring all marketable produce for sale to the society. The society may also provide, to a limited extent, credit for agricultural needs like purchase of bullocks on personal security supplemented by mortgage of land, if necessary. The society will be an agency for the sale of marketable produce of its members and the members of any other co-operative society in that area who bring their marketable produce to the bazar. The society will also be an agency for the supply of articles for cultivation needs, e.g., seed and manure. If it functions satisfactorily, it may at a later stage provide for the supply of other domestic needs.

The society will also make advances against produce to its members and for this purpose exemption under Section 34 (2) can be granted. Members of other co-operative societies, who bring their produce to the multi-purpose society for sale, can obtain an advance against produce, if desired from the financing agency, which can give such finance in collaboration with the multi-purpose society and the society concerned, and for this purpose nominal membership with the financing agency can be permitted,

Outside borrowings exclusive of borrowings against produce should be restricted to one-fourth the total available members' assets and five times the members' contributions, whichever happen to be less. Total borrowings including borrowings against produce should be limited to ten times the share capital and the reserve fund. No multi-purpose society should be registered unless it has collected an initial share capital of Rs. 500/- or more.

Village Thrift and Credit Societies or multi-purpose societies may not be suitable in backward tracts or for a richer class of landholders who are not willing to give unlimited liability. In the case of large landholders, they could take advantage of a banking union or a purchase or sale organisation or a land mortgage bank where it exists, and no separate organizations are necessary to meet their needs. With regard to backward tracts, it must be admitted that the greatest need is provision for cheap credit, particularly as sufficient creditworthiness is lacking, which would make it necessary that the provision for cheap credit, should be effectively controlled and supervised and to that extent Government aid is essential. Insistence must also be laid on the educative value of these organizations and in compact areas where effective supervision and control can be provided, societies working on the lines of the Bhil area in Dohad and Taloda require to be encouraged. If grain banks are started in backward tracts or for the poorer class of cultivators, they should be registered as co-operative societies only in case they can be effectively managed by the members themselves under such outside control, if any, as is available in that area for other co-operative societies. Village Thrift and Credit Societies and multi-purpose societies should satisfy the needs of backward class members, also for whom no separate credit societies are necessary in rural areas.

The existing restriction regarding the number of members should continue in the case of village thrift and credit societies but need not operate for multi-purpose societies. No person should be admitted a member of a village thrift and credit society or a multi-purpose society who does not produce a true statement of his assets and liabilities and who has outstanding against him any unauthorized arrears of Government dues or a decree of a civil

court. No person who has unauthorized overdues outstanding against him will be eligible for election as an office-bearer or a member of the Managing Committee and in case of violation, the financing agency should stop further finance.

The appointment of a secretary should preferably be of a suitable honorary worker within the area, if available, or of a local person who is suitable and willing to work on a moderate remuneration or of a qualified group secretary. Except a group secretary, a secretary may be permitted to be a member and to borrow on the same terms as a member. Where the secretary has to handle cash, the Supervising Union should take security to the extent of 10 per cent. of the maximum borrowing limit of the society or societies, subject to a maximum of Rs. 2,000/-. Where such security is taken, the appointment of the secretary other than the group secretary will not be subject to the approval of the Supervising Union. If, however, the Supervising Union is of opinion that the secretary does not carry out his duties satisfactorily, it may call upon the society to dispense with his services. An appeal should ordinarily lie to the District Supervision Board within a stated period or the District Supervision Board should have power to review the orders of the Supervising Union, in which case it should not be necessary for the Supervising Union to pass orders with the approval of the District Supervision Board.

The Indian Central Banking Inquiry Committee has recommended in paragraph 179 "If the panchayat of a society should advance loans in excess of the limits prescribed by the bye-laws of the society or otherwise, they should be held personally liable as guarantors of the loan and the rules under the Act should, if necessary, be amended accordingly." A better course would appear to be for the Supervising Union or the financing agency to which the society is affiliated or a member of the society to proceed in arbitration against the person or persons responsible for acts done in contravention of the bye-laws or the Act and obtain an award.

The appointment by the Registrar of members on the Managing Committees of village societies is not necessary, and leaflet A (1) may be modified accordingly.

Receipts should be issued for all deposits taken or loans repaid and the system of pass books should be replaced by a quarterly statement of accounts and it would be the duty of the supervisor to see that such statements are correctly issued. Confirmation slips should be issued annually to depositors and verified at the time of audit.

Normal credit statements should be prepared by all societies for their members at the commencement of the recovery season in collaboration with the Supervising Union and scrutinized by the financing agency before credits are sanctioned. In case of A and B class societies, the financing agency need not scrutinize individual demands where the total demand, including non-members' deposits, is less than the maximum borrowing limit assessed on the basis laid down for village thrift and credit societies. Individual demands require, however, to be subjected to careful scrutiny by the society and the supervising union.

In fixing the normal credit of an individual, his need for short term credit requires to be based not on the outturn he expects to produce in a particular year, but on his capacity to make repayments over a cycle of years which would include good and bad years.

After normal credit statements are scrutinized and approved by the financing agency, the Managing Committee can be authorized to advance loans to members in excess of the sanctioned credits in case of urgency, provided such excess payments do not in any individual case exceed 25 per cent. of the sanctioned credit and provided the total normal credit fixed for the society is not exceeded, and in the case of the individual, the total credit so allowed does not exceed the individual limit under the bye-laws.

The financing agency may permit overdraft facilities in the case of A and B class societies to the extent of 10 per cent. of the maximum credit fixed, provided the total demand including the overdraft facility and the non-member's deposits does not exceed the maximum borrowing limit assessed on the basis laid down for village thrift and credit societies.

As assets register must be maintained in a prescribed form under Rule 14 (n), which should be revised annually and which will contain information normally available in village forms Nos. VI, VII and XII. The register will also show the liabilities of the member to the society and outside, including his liabilities as a surety.

Advance of loans to members should preferably be—

- (a) by instalments according to the needs ;
- (b) in kind if a suitable organization for the purpose is available .

Model bye-law 40 of old leaflet A and bye law 47 of leaflet A (1) viz., "When a loan granted for a specified purpose is misapplied the Committee shall have power to recall the loan with interest to date of repayment" require to be enforced in practice by making a provision to that effect in the bond taken from the member and his sureties.

The lending rate may be kept at a quarter pie or so less in case of punctual repayments, and ordinarily no penal rate should be levied except by a resolution of the general meeting in case of contumacious defaulters. Subject to maximum and minimum limits to be provided for in the bye-laws, a society by a resolution passed at its general meeting can vary its rate of interest with the prior approval of the financing agency.

The normal credit fixed for an individual should operate till the next annual revision which should be promptly done after the harvesting season. Loans can be permitted to the extent of the normal credits for approved purposes and at appropriate periods.

(B) Financing Agencies.

In matters relating to finance and financial control, unification is essential, though as regards supervision, decentralisation should be encouraged.

(1) Banking Unions

The policy of tapping local deposits from members and non-members has been suggested in the case of primaries. A banking union with a taluka as its area of operations and able to obtain local deposits to finance the primaries, could be started, if the area is suitable and a sufficient number of societies like village thrift and credit societies and multi-purpose societies exist. In the alternative, a Supervising Union which is working satisfactorily and with good primary societies affiliated to it may be considered suitable for being converted into a banking union. Where the condition of the primaries is satisfactory and a Supervising Union does not exist or has been newly created, a banking union could also function in place of the Supervising Union. The Banking Union will rely for additional funds required by it on the apex Bank.

All agricultural primaries will be members of the Banking Union and also individuals who require finance for agricultural purposes in excess of the absolute limits laid down in case of village thrift and credit societies or multi-purpose societies. Members of primaries which are themselves members of a Banking Union can be made nominal members. Finance to individuals must be on a short term basis and on tangible assets coupled with one or more sureties. The Banking Union may finance individuals and nominal members against produce and valuables. Where a purchase and sale organization does not exist, the Union can also act as a commission agent.

The Banking Union will not do urban banking business.

The main representation on the Banking Union will be of its primaries. Individual and nominal members may be given a limited representation, restricted to 2 and 1, respectively.

A primary society can be permitted to alter its lending rate within the limits prescribed in its bye-laws with the approval of the Banking Union. The Banking Union will fix its deposit rates and rates for loans and advances in consultation with its financing agency.

For the satisfactory working of the Banking Union, it is very necessary that it should have adequate and efficient staff with requisite qualifications and it should see that proper control is exercised over it.

(2) Central Banks.

A Central Bank supplies short term credit. No investment should accordingly be made under Section 20 (e) of the Indian Trusts Act out of the surplus or reserve funds, however sound it appears to be, unless such investment becomes necessary in the process of effecting recovery of its normal dues or for the purpose of a construction of a building for its own use, with the prior sanction of the Registrar.

In the event of a Central Bank persisting in making such investments, it may be considered if such transactions should not be subject to the levy of stamp duty, registration fees and other charges.

Nominal membership for the purpose of advances against produce and valuables may be permitted in the case of members of primaries, other than Urban Banks and Sale Societies, affiliated to it and representation of one member on their behalf allowed.

The present practice of permitting Central Banks to advance loans to individual members against produce and valuables can be continued subject to the following limitations:—

- (1) absolute limits must be fixed both for individual advance and advances of a particular kind ;
- (2) in areas served by other co-operative societies which would normally handle such business, the minimum limit of advance to an individual is in excess of the maximum kept by the society and there is mutual accommodation.

Central Banks should not do inland exchange business in areas served by Urban Banks except by mutual accommodation.

Subject to maximum and minimum limits to be provided for in the bye-laws of agricultural credit societies, a society, by a resolution passed at its general meeting, can vary its rate of interest with the prior approval of the financing agency.

To encourage crop loans and make advances in kind, the financing agency may take steps to promote the formation of purchase and sale societies at suitable central market places, and pending their formation it may undertake this work strictly as a commission agent.

Where membership is so large as to be unwieldy and election disputes are frequent, election rules should be framed by the Registrar and adopted by the Banks concerned.

Where Central Banks have been certified as fit to receive deposits from local bodies, the total deposits should be restricted to twice the owned capital.

(3) Provincial Co-operative Bank.

Except in areas where it might function as an apex Bank for Banking Unions, it should continue to function as a Central Bank in areas at present served by it and as a balancing centre throughout the Presidency for Central and Urban Banks. To the extent it functions as a Central Bank, it can transact business with individual and nominal members in the same manner as any other Central Bank.

In the areas where dues from liquidated societies are heavy and where overdues in working societies have been frozen and stagnant conditions have set in, the Auditor should be given the help of an assistant, where necessary, and both the officers should try to

effect the recovery of overdues on the lines suggested. The cost of additional establishment could be levied from the societies and if in any case it appears such a levy would operate harshly, the Bank might be asked to meet the deficit.

To the extent the Provincial Land Mortgage Bank does not take over the commitments of the Provincial Co-operative Bank, with regard to its transactions as the Central Land Mortgage Bank, Government may come to the assistance of the Provincial Co-operative Bank and agree to guarantee transfers to the Provincial Land Mortgage Bank. An alternative suggestion would be to ask the Provincial Land Mortgage Bank, to take over the assets and liabilities of the Land Mortgage Department of the Provincial Co-operative Bank, on the transfer at par to it of the debentures of the Provincial Co-operative Bank held by Government.

(4) Co-ordinating Agency.

To provide unification in financial matters, a co-ordinating agency for central financing agencies, which may be in the form of a Co-operative Banks' Association, is necessary, as recommended by the Provincial Banking Enquiry Committee in paragraph 233 of its report. The agency should look into all important matters, particularly the training of the staff, its adequacy and efficiency, the borrowing and lending rates of the banks, mutual arrangements regarding exchange business, the maintenance of fluid resources, inspection of central financing agencies and other matters of common interest. It should be in a position to give expert banking advice to the various banks and to see that it is followed.

- An auxiliary body with Urban Bank representation could help in arriving at decisions regarding matters which also relate to Urban Banks.

In matters pertaining to education and matters of general co-operative interest, the Co-operative Banks' Association will have consultation with the Educational Committee of the Institute.

The Board of the Association should consist of five elected and two nominated members, three to represent the Central Banks; two to represent the Provincial Bank, one to be nominated by Government and one to be co-opted by the remaining members. Out

of the two representatives of the Provincial Co-operative Bank, one should be the Chairman who should be the ex-officio Chairman of the Board.

The auxiliary body representing Urban Banks will consist of five members, three to represent each linguistic division, one from Bombay and one to be co-opted.

A person should be eligible for election to the Board if he is a Chairman, President, Vice-Chairman, Vice-President, Managing Director or honorary secretary of a central financing agency. A member of the Board should not be or should not have been a defaulter of any co-operative society during a period of preceding five years, and the Bank he represents should be in A or B class for the preceding three years. Similar qualifications should exist in the case of a member of the auxiliary body.

The expenditure of the Board should be met by contributions from financing agencies on an equitable basis, supplemented by a subsidy from Government, if necessary.

The Committee of Management of the Central Fund, if created, may consist of the Chairman of the Board of the Association, a representative from the Auxiliary Board and the Registrar.

The Board should be consulted before action is taken against a central financing agency under Rule 48 or any other disciplinary action is taken.

As there will be inspection of financing agencies by the Board, the Registrar may permit, under Section 22 of the Co-operative Societies Act, A and B class central financing agencies to be audited by qualified professional Auditors to be appointed by him on such terms as he considers fair and reasonable.

(5) Land Mortgage Banks.

The policy of having Land Mortgage Banks in compact and suitable areas limited to two or three talukas requires to be encouraged.

The entire business of Land Mortgage Banks must be on a long term basis and they should not be permitted to give short term finance. In making advances it is necessary to see that sufficient assets and repaying capacity exist and that further creditworthiness to enable the individual to obtain short term credit for his agricultural needs is available,

In view of the limited experience of the Land Mortgage Banks in this Presidency, it is still early to decide if any special legislation is necessary.

It is necessary that Conciliation Committees in Primary Land Mortgage Banks should be able to obtain a statement of accounts with regard to debts proposed to be conciliated.

Newly started Land Mortgage Banks require to be subsidized. If the Provincial Land Mortgage Bank does not require the full amount of the subsidy sanctioned to it for the first three years, the amount so set free should be permitted to be used by way of further subsidy to primary land mortgage banks, working at a loss, towards the cost of Land Valuation Officers.

Where Sale Societies exist, Primary Land Mortgage Banks should supply lists of borrowers containing particulars of loans, instalments due, etc., and invite the attention of the Sale Societies to the provision in the bye-law regarding the sale of produce through the Sale Society and ask for their co-operation in effecting sales on the best possible terms.

Provincial and Primary Land Mortgage Banks should be permitted to have as members co-operative organizations desiring to borrow on a long term basis, provided they supply the needs of rural areas. Co-operative institutions which have primaries affiliated to them should be permitted to borrow direct from the Provincial Land Mortgage Bank. Loans so given should be subject to the same scrutiny and safeguards as in the case of individuals. Primary Societies affiliated to financing agencies should not be granted loans by Land Mortgage Banks except in consultation with such financing agencies.

As loan applications are subject to scrutiny by the Assistant Registrar, Land Mortgage Banks, before they are forwarded to the Provincial Land Mortgage Bank, the subsequent scrutiny of the Registrar need only be retained in those cases where permission is required to enquire into a loan, i.e. in cases of loans exceeding Rs. 10,000/-. Where scrutiny by the Registrar is not deemed necessary, the Provincial Land Mortgage Bank may consider whether with a view to expedite proceedings, the Managing Director cannot be delegated with power to sanction loans up to a limit to be determined by the Board.

(6) Urban Banks and Societies.

The use of the word 'Bank' should be restricted to societies which do the business of 'banking' as defined in Section 277 (f) of the Indian Companies' Act and have a paid up share capital of not less than Rs. 20,000/-. Existing banks which do not conform to these conditions should be made to change their nomenclature.

(i) Audit Federation.

An Urban Banks' and Societies' Federation should be started in Bombay with a view to its extension to other areas on similar lines. The Federation will be responsible for the inspection and audit of Urban Banks in C and D class and all Urban Societies with the exception of Salary-earners' Societies in A and B class, and will also inspect Urban Banks in A and B class. The appointment of the audit staff and the terms on which the appointments are made will be determined with the approval of the Registrar, who will permit such persons to carry out the duties under Section 22 at his discretion. The Department will carry out the audit in such societies once in three years and the society or the Union will pay to the Department the charge for the audit.

The expenses of the Federation will be met by contributions from societies and banks affiliated to it on a just and equitable basis. The Board of Management of the Federation will consist of seven members, five to be elected, one to be nominated by the Registrar and one to be co-opted.

In the Bombay area, the Registrar may appoint qualified professional auditors on such terms as he considers fair and reasonable for the audit of Urban Banks and Salary-earners' Societies in A and B class, and may consider the extension of this arrangement to other areas in the light of experience.

Urban Banks and Salary-earners' Societies in A and B class audited by outside auditors should be advised to appoint Supervision Committees, as suggested in model bye-law 34 in Leaflet H. In addition to other duties, such Supervision Committees will be responsible for seeing that defects pointed out in audit are rectified.

Before action is taken against an Urban Bank or Society under Rule 48, the Auxiliary Board of the Federation to which the Society is affiliated should be consulted,

(ii) Staff.

Where security is taken from the staff, except in the case of the Manager, the Urban Bank or the Society should take adequate precautions as regards proper safe custody, renewal etc., and a register should be maintained for the purpose which the Auditor should check. In the case of the Manager, the security bond should be deposited for safe custody with the central financing agency. The central financing agency with regard to its own staff should follow a similar procedure depositing the security bonds taken from the Manager, Chief Cashier and Accountant with the apex Bank.

The Auxiliary Board for Urban Banks will lay down the minimum qualifications for the staff and arrange for adequate training, in consultation with the Education Committee of the Institute.

(iii) Banking Operations.

Copies of quarterly finance statements supplied by Central and Urban Banks to the Registrar should also be supplied to the Provincial Co-operative Association which may arrange for their publication in suitable form in addition to the publication of the quarterly finance statements of Central Banks in "the Bombay Government Gazette".

Urban Societies work on a short term basis and lend primarily on the creditworthiness and character of their members. Other security must, therefore, be treated as collateral. Where loans are advanced against the mortgage of property, one or more sureties should invariably be taken.

Except in case of necessity, investments under Section 20 (e) of the Indian Trusts Act in immoveable property should be avoided.

Individual and total limits for different types of business and a maximum total limit for individuals should be provided for in the bye-laws and strictly adhered to. Within the area of operation of an Urban Society doing banking business another similar society should not ordinarily be permitted, unless satisfactory arrangements are possible to provide for exclusive membership, prevention of overlapping finance and demarcation of areas. To secure close co-ordination and contact among members which would provide

the mutual knowledge necessary for co-operative credit, an unwieldy area of operation should be avoided. Urban societies desiring to do banking business among members of one community or caste in an area so extensive as a taluka or a district should be discouraged.

(iv) Inland Exchange Business.

As regards the grant of Remittance Transfer Receipt facilities, the opinion of the Registrars' Conference held in 1936 was:

"The facilities at present enjoyed by co-operative societies in respect of remittance of funds should be continued by the Reserve Bank and in regard to transactions other than those that are strictly co-operative, the facilities which are given to joint stock banks might be extended to co-operative banks also."

While the existing facilities require to be continued, it should be pointed out that Urban Banks and Branches of Central Banks receiving deposits from Urban Banks, abuse at times the concession by using it for purposes other than co-operative. Such abuse occurs when cheques are cleared at par in Bombay which represent amounts for transfer of funds derived by the sale of exchange bills etc. and are transactions for purposes other than strictly co-operative. To avoid this abuse, the concession to Urban and Central Banks to clear cheques in Bombay should be granted only when a certificate is forthcoming that the cheques refer to transactions which are co-operative in character and in other cases a clearance fee is levied which the Provincial Co-operative Bank may share, if necessary, with the drawee Bank. If a certificate issued by an Urban or Central Bank is found to be false, the Registrar may direct the payment of full exchange commission as far as that Bank is concerned.

Hundi transactions should be restricted to members when credit is to be given. Urban Banks and Societies must fix absolute limits of advances to individuals and of a particular kind including advances against inland bills of exchange.

II. Audit, Supervision, Official and Non-official Control.

(A) Audit.

Under Section 22 (1), every society is required to be audited once at least in every year. Audit should, therefore, be so arranged that during any co-operative year at least one audit should take place.

Audit fees are recieved under Rules 29 and 30 with the object of complying with this statutory obligation. If, therefore, the statutory obligation cannot be complied with, with regard to any society, the society should be entitled to claim refund. Except in the case of agricultural credit societies, it may be necessary to consider whether the scale of audit fees requires to be revised for compliance with the statutory obligation.

For proper compliance of his statutory duties, the Registrar should have the assistance of a Chief Auditor who can examine and take action on audit reports and see that in cases of breach of provisions of the Act, Rules, or Bye-laws, proper remedial measures are taken. In case of non-compliance, it should be open to the Registrar to levy a higher audit rate not exceeding the maximum laid down under the rules.

The unit for the audit of agricultural credit societies should be a sub-auditor, and an auditor should do the audit of urban societies and non-credit societies. He should also do a percentage test audit of the sub-auditor's work. The unit for societies audited by the Special Auditor should be one Special Auditor, one auditor and two clerks, so that the Special Auditor could so apportion the work that while he is conducting one audit, the auditor and the other clerk could also carry out an independent audit. The Special Auditor and his staff should also do a test percentage audit of the auditor's work. The post of Auditor, Purchase and Sale, will not then be necessary.

For purposes of audit, societies with a share capital of Rs. 2,000 or less should be treated as minor societies, and societies with a share capital over Rs. 2,000 should be treated as a major societies.

The audit of minor societies should be with the sub-auditor. Major societies with a share capital in excess of Rs. 20,000 should be audited by the Special Auditor. Major societies with a share capital between Rs. 2,000 and Rs. 20,000 should be audited by the Auditor.

The appointment of qualified professional auditors may be made by the Registrar under Section 22 on such terms as he considers fair and reasonable for the audit of co-operative societies on the following lines:—

- (i) A and B class central financing agencies, provided inspection by a co-ordinating agency is available.

- (ii) A and B class Urban Banks and Salary-earners' Societies with a share capital over Rs. 20,000 in the Bombay area, in the first instance.

If the arrangement works satisfactorily, it may be extended to other areas.

A similar procedure could be followed for Consumers' Societies which do not desire to arrange for independent audit permitted under Rule 31.

Housing Societies in A and B class and having no Government loan outstanding can be permitted to have audit done by professional auditors appointed by the Registrar. Where a Housing Association exists, it should see that the audit objections are complied with.

Sale Societies in A and B class with share capital in excess of Rs. 20,000 can be permitted to have audit done by professional auditors to be appointed by the Registrar, on condition that under its bye-laws provision is made for appointment of a Board of Control whose duty it would be to see that audit objections are complied with.

(B) Supervision.

(i) Supervising Unions.

The Supervising Union should be primarily responsible for the effective working of and supervision over the societies affiliated to it, and control by the District Supervision Board should be by way of revision of or appeal against the orders or decisions of the Supervising Union.

The Supervisor should see that the requisite books and registers are properly maintained and kept up-to-date. He should see that irregularities and discrepancies pointed out in the latest audit and inspection reports are attended to and rectified and that orders or suggestions made by departmental officers, the financing agency or the District Board of Supervising Unions are carried out. While the duty of audit rests primarily with the Auditor and that of financial inspection will ordinarily rest with the staff of the financing agency, the Supervisor should carry out at his inspection such primary audit as is necessary for the proper performance of the duties attached to him. Where a bank loan has not been taken by a society or the amount of the bank loan is small in comparison with the owned capital of the society or where, as in the case of A and B class societies, detailed

scrutiny of normal credit statements is not exercised by the financing agency, it should be the duty of the Supervising Union to see that proper check is maintained and effective supervision exercised. It should also be the duty of Supervising Union to arrange for the speedy execution of arbitration orders on behalf of its affiliated societies and to see that they are saved from unnecessary expence and trouble in the course of execution proceedings.

In backward areas, e. g., Bhil area, or areas where a concentrated form of supervision is required, e. g., the Nira Canal area, it might be necessary to have special controlling staff which could also do supervision work.

(ii) District Supervision Board.

All Supervising Unions within the district should be members of the District Supervision Board. In addition, societies not eligible for affiliation to a Supervising Union within the district and individuals may be admitted as associate members. Each District Supervision Board should have—

- (1) a Supervision Committee and
- (2) an Education Committee.

The Supervision Committee will be formed in the same manner as the present Managing Committee under Leaflet 00, except that

- (a) an elected Vice-Chairman shall be provided;
- (b) the Assistant Registrar shall vacate after three years, provided a person who has been elected as Vice-Chairman and has served as such for two years or more is available;
- (c) an honorary secretary elected by the members may be appointed;
- (d) if the District Institute does not exist, the nominee of the District Institute will be replaced by a person elected at the annual general meeting of the District Supervision Board.

The Supervision Committee will carry out the supervision duties at present entrusted to the Managing Committee and duties with regard to education and propaganda will be transferred to the Education Committee.

The Education Committee will consist of

- (1) all the members of the Supervision Committee,

- (2) two members elected from among the individual associate members,
- (3) two members elected from among associate members other than individuals.

The Education Committee may co-opt a person who has experience of co-operative work and

- (1) is preferably connected with the work of education,
- or (2) has high University qualifications,
- or (3) has to his credit some literary achievement.

The Educational Inspector of the Institute should be the ex-officio secretary of the Education Committee.

The budget of the District Supervision Board will be framed and approved by the Supervision Committee which may arrange for a grant to the Education Committee. The funds of the District Supervision Board will be obtained in the manner contemplated in bye-law 12 of leaflet OO, except that associate members other than individual members should pay an annual fee of Rs. 5 and individual members of Rs. 3.

The annual general meeting will record the budget framed and approved by the Supervision Committee, make elections where necessary, consider the annual report and matters of general interest.

The Supervision Committee of the District Supervision Board may lend to a Supervising Union which is its member to the extent of the budget provision for the Union.

(C) Official and Non-Official Control.

(i) Act, Rules and Bye-laws.

Bye-laws require to be so framed as to permit variations to be made for which the Registrar's sanction would not be necessary. If desired, the variation within the permissible limits, could be with the sanction of :

- (1) the financing agency,
- or (2) the District Supervision Board,
- or (3) the Federation,
- or (4) the Assistant Registrar,

A new society seeking registration or an existing society desiring to amend a bye-law has a right to be informed within a definite period, e.g., 3 months, whether the Registrar is sanctioning registration and, therefore, if delay is likely to occur, an order refusing registration requires to be issued before the expiry of three months.

In cases where a society has been permitted under its bye-laws or by the order of the Registrar to transact a kind of business for which subsidiary rules require to be framed on the lines of any model rules framed and approved by the Registrar, a bye-law could be so provided as to permit the society to frame such rules with the sanction of (1) a District Supervision Board or (2) a Federation to which the society is affiliated, and to have them confirmed at the next annual general meeting.

Rule 22 requires to be amended on the lines of paragraphs 1 and 2 of Resolution 11 approved by the Registrars' Conference of 1936, by the omission of the words "for the purpose of declaring a dividend or bonus" and "for more than six months", and making other consequential changes.

Section 13 of the Co-operative Societies' Act requires to be amended to provide that the special general meeting, if convened at the instance of the Registrar, shall have powers to transact all business which could have been transacted at an annual general meeting.

Before action is taken against a co-operative society under Rule 48, there should be prior consultation with:

- (1) the District Supervision Board in the case of Supervising Unions and Agricultural Credit Societies,
- (2) the Federation to which the society is affiliated, if any,
- (3) the Auxiliary Board in the case of Urban Banks,
- (4) the Co-operative Banks' Association in the case of financing agencies.

(ii) Administration.

Honorary Organisers do propaganda work, supervision work and make preliminary arrangements for starting new societies. As separate agencies are now available for carrying on these duties and as the amount for the travelling allowance of honorary organisers is restricted, the need for their continuance is doubtful, and on the termination of the existing appointments no fresh appointments need be made.

Agricultural Organisers could be replaced by Development Inspectors with an area of operation ranging ordinarily over one or two districts. The lowest grade of Inspectors could be on the same grade pay as sub-auditors. Requisite qualifications for Inspectors would be B. Ag. degree with a qualifying examination in co-operation on the lines laid down for the G. D. C. & A.

Sub-Auditors should be recruited with qualification B. Com., R. A. or G. D. C. & A.

If the Assistant Registrar and the Deputy Director of Agriculture could function within their mutual area as a Joint Board of Agriculture and Co-operation and, if necessary, replace the Divisional Board, greater co-ordination between the work of Agricultural Organisers or Development Inspectors and Agricultural Overseers could be secured.

III. Education and Propaganda.

(i) Education.

The duty of imparting education to the workers and members should rest with the Institute through its Education Committee consisting of four elected representatives and four persons nominated by Government and one to be co-opted by them. The persons appointed on the Education Committee should have experience of co-operative work and

- (1) should be preferably connected with the work of education,
- or (2) should have high University qualification,
- or (3) should have to their credit some literary achievements.

Education should be imparted by carrying on propaganda, opening circulating libraries, publishing books, leaflets and journals, and holding training classes and examinations. Examinations should be held for secretaries of rural and urban societies and for supervisors and other field staff. The conduct and control of such examinations should rest with the Education Committee. Permission to appear for the secretaries' examination should be granted only to persons who are actually working as secretaries, whether permanently employed as such or not. Permission to appear for a higher examination should be granted only to a person who has passed a lower examination or who is officiating in a post for which the examination is prescribed. Training classes and refresher

courses, if any, should be held with the consent of the Education Committee which should also lay down the lines on which they should be held.

The best form of co-operative education for members and members of managing committee of urban and rural societies would be by means of propaganda which would include pictorial charts, circulating libraries, lectures preferably illustrated by magic lantern slides or cinema films, suitable gramophone records or radio talks etc. co-ordination with rural reconstruction or village uplift activities and instructions imparted in the course of supervision and audit.

Co-operative literature of an easy character which the agriculturist can understand should be made available and, if necessary, prepared by the Education Committee.

For the proper performance of these activities the Education Committee should appoint Educational Inspectors who will replace the Propaganda Officers. The scales of pay, qualifications and the number of posts will be fixed with the approval of the Registrar and the appointments will also be made with his approval. Government should agree to bear at least half the cost of these appointments and the whole of the grant at present made to the Institute should be diverted for this purpose. Out of the Central Fund created from the levy on profits, 1 per cent. could be given for education under this scheme. The District Supervision Board should also arrange for payment of a contribution at the rate of 2 annas in the rupee on the supervision fees received from societies affiliated to the Supervising Unions.

In consultation with the Education Committee, arrangements should be made for the training of the Educational Inspectors under the scheme for Co-operative Training and Education subsidized by the Government of India and for the use of their services in the training of Supervisors, Secretaries and members of the managing Committees of Co-operative Societies.

(ii) Co-operative Institute.

The main duty of the Co-operative Institute should be to impart education to the members of Co-operative societies and to the workers in the cooperative movement. It should act as a co-ordinating agency in all matters pertaining to co-operative education. It will further

the spread of the co-operative movement by promoting the study of problems connected with co-operation and educating the public with regard to the advantages of co-operation. The membership of the Institute will consist of District Supervision Boards and all other federations of co-operative societies registered under the Act except Supervising Unions of Agricultural Credit Societies. Each member will nominate one representative to attend and vote at the general meeting. The annual general meeting will elect four representatives on the Education Committee which will consist in all of nine persons of whom four persons will be nominated by Government and one will be co-opted by the other eight. Of the persons nominated by Government, one person will be an elected representative of the Co-operative Banks' Association including the Auxiliary Board. The other three members will retire in rotation, so that only one fresh nomination is made every year. The annual general meeting will receive and record the report of the Education Committee, admit new members, review the progress achieved in co-operative education for the year and make suggestions for further development to the Education Committee. The representatives of the members attending the annual general meeting will be paid their travelling expenses by the institutions concerned. The Chairman and the Secretary of the Education Committee after it is formed on the lines suggested will be the Chairman and the Secretary, respectively, of the Institute. The personnel of the Education Committee will consist of such persons either elected, nominated or co-opted in the manner prescribed as have experience of co-operative work and are :

- (1) Preferably connected with the work of education,
- or (2) have high educational qualifications,
- or (3) have to their credit some literary achievements.

The committee will elect a Chairman for a period of three years. Out of the Education Inspectors appointed by the Education Committee, one Inspector should be appointed as the Secretary of the Committee and of the Institute. The duties of the Education Committee will be to deal with all matters pertaining to co-operative and educational activities of the movement as detailed under 'Education'. Where a District Supervision Board exists, the Educational Inspector for that district should be permitted to act as the Honorary Secretary of the Education Committee of the District Supervision Board.

The funds of the Institute which will be under the control of the Education Committee will consist of :

- (1) a grant from Government which may contribute to the extent of half the cost of the appointment of Educational Inspectors, including the grant at present made ;
- (2) contributions at 2 annas in the rupee on the fees received by the District Supervision Boards ;
- (3) contributions at 1 anna in the rupee on the income of the members other than District Supervision Board ;
- (4) subventions from the Co-operative Banks' Association, the Auxiliary Body and donations from sympathisers ;
- (5) receipts from other sources such as sale of literature, examination fees etc. ;
- (6) other assets and liabilities of the Institute.

The Education Committee may appoint Sub-Committees for special purposes or areas which may consist of persons who may or may not be members of the Education Committee.

(3) The development of non-credit co-operation, especially for the purpose of better farming, the marketing of agricultural produce and the organization of secondary occupations and cottage industries.

(A) Better Farming.

(i) Consolidation of Holdings and Prevention of Fragmentation.

Consolidation of holdings consists in demarcating a unit of land into blocks arranged according to their suitability for particular crops and re-distributing portions thereof to owners of scattered holdings more or less equal in area and assessment to the strips held by them originally. As such distribution involves an element of compulsion, special legislation is necessary. The scope for voluntary action is limited, and co-operatives agency, in the absence of special legislation and equipment, would be of doubtful utility. If consolidation of holdings could be introduced, the principle of impartible tenure could be applied to prevent fragmentation, and the consolidated holdings on redistribution could be granted on impartible tenure. Such areas should provide fruitful field for future co-operative efforts.

(ii) Joint Farming Societies.

For joint farming on a co-operative basis, a substantial unit of area is necessary. Where such an area is not available for cultivation, it will be necessary to encourage the formation of such units, in the first instance, by having recourse to consolidation of holdings. In the alternative, it may be possible to form better farming societies on the lines of such societies in the Punjab, with an area of operation restricted to a village or a compact group of villages and on a limited liability basis. Such societies, if successful, can, at a later stage, be converted into joint farming societies.

The area of operation of joint farming societies should be confined to a village or a group of villages within a small and convenient radius, and the membership to persons whose lands form part of units for joint cultivation. Such societies will sell the joint produce and make joint purchases, if necessary. The societies will be on a limited liability basis and can borrow on the security of lands, crops and other moveable assets. Such borrowings will be for purposes of land improvement or the purchase of machinery or for cultivation expenses.

Where lands fit for cultivations after improvement or cultivable lands are available for grants by Government, such grants could be made for the purpose of joint farming and a nominal occupancy price charged or the payment of occupancy price could be spread over a number of years. If necessary, loans could also be made for land improvement under the Land Improvement Loans Act.

(iii) Better Farming Societies.

For better farming societies, initial propaganda and supervision should be by the Agricultural Department and the help of the Development Inspectors could be given for this purpose. The Society could be a suitable medium for the distribution of grants, if any, and for schemes of seed supply and local demonstrations etc. organized by Government or other agency. Such societies may collect share capital and borrow for approved purposes up to three times the share capital and reserve fund.

Better farming societies in view of their compact area and their aims and objects will be in a more favourable position to carry out propaganda regarding improved agricultural methods than the Taluka Development Associations, and with the organization of

better farming societies, the need for Taluka Development Associations should cease, so that the grants made to the Taluka Development Associations could be diverted to such societies. Local officers of the Co-operative and Agricultural Departments may arrange periodically for informal annual meetings of representatives of such societies with a view to co-ordinate activities and exchange ideas.

Better farming societies may also be for special purposes like cattle-breeding and fodder storage. Cattle-breeding should be recognised as a special purpose in areas where full advantage can be taken of the special facilities for improvement of the stock and the *ad hoc* registration of cattle-breeding societies should be discouraged.

(iv) Sugarcane Growers' Societies.

Cane-growers' Societies are formed for the purpose, among others, of introducing the improved varieties of cane. As the bulk of cane-growers do not serve any factory area in this Presidency, it is necessary that they should be enabled to get the maximum benefit from the improved varieties, and for this purpose the co-operative society should encourage the use of power crushers. Under the Sugar Excise Subsidy Scheme, no subsidy is permitted towards the purchase of power crushers. Societies may, therefore, create a Power Crusher Purchase Fund by arranging for credit to the Fund of the subsidies received by members for the purchase of improved varieties. As the difference in yield from the improved varieties even by the use of ordinary methods of crushing is in excess of the additional cost of purchase of seedlings of the improved varieties, the creation of such a fund should not be a hardship.

The expenditure on the staff employed by the Sugar Excise Subsidy Scheme in comparison with the subsidy granted to cane growers seems excessive and should be capable of reduction.

If a refinery for the manufacture of sugar by open-pan process could be established from the subsidy given by the Government of India or by Government, cane-growers' societies could be organised for the supply of rab prepared with the use of power crushers, to the refinery for conversion into sugar.

(v) Land Improvement.

Loans to individual members of agricultural credit societies under the Land Improvement Loans Act should be discouraged in areas

where a Land Mortgage Bank exists and in other areas the present policy should continue.

Loans by Land Mortgage Banks for improvement of lands require to be encouraged, and with this end in view Land Mortgage Banks should form contacts with the Collectors and local officers of their respective districts, particularly of the Agricultural and Engineering Departments and ascertain the lines of development of areas which they finance to enable them to judge the nature of improvements they should encourage by the grant of loans. Programmes for such development could be framed for a period of five years and should be reviewed every year.

(B) The Marketing of Agricultural Produce.

Co-operative Marketing.

To provide godown facilities in bazar areas, multi-purpose societies should be encouraged to build godowns adequate to their needs on standard or approved patterns, and Government may for this purpose advance long term loans at favourable rates of interest to the extent of two-thirds the value of the construction. Similar facilities may also be made available to sale and supply societies.

To provide godown facilities to agriculturists in rural areas, Government may consider the desirability of a small construction adjoining the village chavadi where produce can be stored and stores and implements kept for demonstration, hire or sale. Villagers, local bodies and co-operative societies could contribute towards such construction and grants from the village uplift funds could also be made.

Taluka purchase and sale societies with a compact area of operation consisting of one or two Talukas could act as agents of multi-purpose societies for the sale of the principal crops of the area. Individuals could also be members of Taluka Purchase and Sale Societies. Credit should be only against produce or trade credit. Limits of advances to individuals and societies and by way of trade credit should be prescribed and total maximum limits for each kind of advance should also be prescribed. Where trade credit has been granted and default is made, recourse to civil litigation is necessary and if civil litigation is likely to be delayed, the society should take security for the loan outstanding, avoid

further transactions with the defaulter and arrange for the defaulter to be a member so as to enable the society to have recourse to arbitration, if necessary.

New sale societies are given a grant of Rs. 300 for the first three years by Government and such grants require to be extended to multi-purpose societies to enable them to maintain efficient and qualified staff. The grant could also be extended to branches of existing sale societies which are newly opened.

Taluka Purchase and Sale Societies should not be registered in any area unless there is a sufficient number of multi-purpose societies working in that area which can supply the needs of the Taluka Society. Pending the formation of such societies, the central financing agency may act as an agent for the sale of produce as at present in some instances.

Taluka Purchase and Sale Societies may sell the produce of non-members, but no credit even by way of advance against produce should be given except by way of trade credit, i. e., the transactions for non-members must be on a cash basis, but if the produce is to be sold on the next bazar day, trade credit till then may be permitted. When advances are made to members of co-operative societies, intimation together with details of advances should be given to the society concerned and except in case of cash transactions, repayment of the balance outstanding should be through the society. Taluka Purchase and Sale Societies should avoid crops loans or loans for purposes of weeding etc. Taluka Purchase and Sale Societies should aim at the grading and pooling of commodities of which the processing should be effected locally as far as possible.

A Central Co-operative Purchase and Sale Society with an area of operation extending over a district or districts, a division or the Presidency for the purchase and sale of a money crop or to act as an agent for Taluka Purchase and Sale Societies and other co-operative societies which do the business of advancing loans against the produce of that money crops could be registered, in case a sufficiently large number of societies dealing in that money crops exist to provide business for the Central Agency. Where possible, it should eliminate risks involved in purchase and sale transactions due to fluctuations in prices by the adoption of adequate safeguards on business lines and under expert advice, if necessary.

Such a Society should necessarily have a very large share capital and its outside borrowings against general assets should be restricted to twice the share capital and reserve fund. It should be able to make advances to traders and societies doing business with it at a rate not in excess of the Bank rate by 1 to 2 per cent. and the Taluka Purchase and Sale Societies and the financing agencies lending against produce should be able to advance loans at rates not in excess of the Bank rate by 2 to 3 per cent. The village multi-purpose society could keep its rate for advances at between 3 to 4 per cent. above the Bank rate.

As village multi-purpose societies can undertake the work of supplying articles of agricultural and domestic needs and as better farming societies could also be permitted to act as supply societies, it should not be necessary to form societies only for the purpose of supply of such articles. In case of durable articles of a costly nature which last for five years or more, greater advantage could be taken of the hire purchase system and the sale of such articles encouraged under a hire-purchase agreement. Ordinarily, supply societies should not give credit and articles should be supplied on a cash basis. Credit should only be allowed to members of co-operative credit societies and only to the extent guaranteed by the credit society of which they are members.

Supply societies and Sale and Supply societies may purchase articles of domestic need for sale against indents.

Agricultural Marketing Agency.

A co-operative marketing enquiry agency should be created in Bombay and put in charge of a marketing officer who will maintain touch with marketing organizations, supply information regarding the Bombay markets, be a liaison officer for marketing organisations, consumers and traders in Bombay and arrange, if necessary, for a show-room of samples and exhibits in Bombay. He should be an expert in agricultural marketing and should have practical experience of marketing methods and problems. He should be under the Registrar and his work would be reviewed by the Joint Board of Agriculture and Co-operation.

(C) The Organization of Secondary Occupations and Cottage Industries.

(i) Weavers' Societies.

Existing credit societies should be converted into purchase and sale societies with an area of operation extending over a village or a compact group of villages, having a membership consisting of weavers and if necessary, sympathisers, and with a fairly large share capital and on a limited liability basis.

The society could supply raw material to members and purchase on a cash basis the articles produced according to specifications. The supply of raw materials may be on credit based on the number of looms possessed by individual members. Individual limits and total limits of advances should be fixed. It should form contact with the nearest Industrial Association to which it will become affiliated, so that it can function as an effective producing centre for the preparation of articles according to the specifications required by the Industrial Association.

The Industrial Associations formed under the scheme approved by the Government of India are not yet in a position to establish contact with all the important weaving centres and for this purpose it will be necessary to register more Industrial Associations, each with an area of operation extending over a District or Talukas, similar to the Industrial Associations so far registered, and if necessary, Government should subsidize them on the lines on which the Government of India subsidy is at present given.

(ii) Other Cottage Industries.

Industrial Associations formed as suggested above and subsidized by the Government of Bombay could also act as purchase and Sale Agencies for other industrial commodities, *e. g.*, products of cottage industries.

Producers Societies for workers in cottage industries may be formed on the lines of weavers' societies in suitable centres and particularly in areas where there has been sufficient propaganda for the development of cottage industries by the Industries Department or any other efficient organization and the artisans appear anxious to adopt improved machinery and improved methods of production. Government subsidy to these societies may take the form of grants

towards recurring expenses for the first three years and for the purchase of implements. Such grants within the limits prescribed by Government could be sanctioned by the Joint Board. The societies will be financed by the financing agencies and except in case of advances against commodities, the limits of outside borrowings should be twice the share capital and the reserve fund.

(iii) Development of Secondary Occupations.

The development of secondary occupations should be mainly through better farming societies and except for special reasons or in special areas, societies for the development of secondary occupations should not be separately organized. Their formation could be favourably considered at a later stage for the purpose of further improvement in production and the better marketing of finished articles. Subsidies on the lines suggested for artisans' societies could also be made available for this class of societies.

If cottage industries and secondary occupations are to be developed on a large scale, it is essential that the co-operation and the sympathy of women workers are enlisted through existing women's organizations or by the formation of Women's Guilds. In rural areas, except when engaged in domestic work or crops picking, home industries constitute the exclusive domain of the women workers. (See Sir John Russel's Report).

A demand for the articles so produced exists among the dwellers in urban areas and in other centres. If the Women's Associations could effectively organize such demand, the women workers in rural areas could be organized to supply the demand. Unless Women's Associations in urban areas co-ordinate their efforts with the efforts for the revival of secondary occupations in rural areas, it will not be possible for the women workers in rural areas to derive the maximum amount of benefit from their labours.

(D). Miscellaneous.

(i) Consumers' Societies.

In rural areas, as multi-purpose societies develop, they will act also as Consumers' Societies.

In mill areas or urban areas where sufficient demand is forthcoming, initially it would be of advantage to arrange for the supply of such demand through recognized dealers on payment

of cash or against vouchers issued by a co-operative credit society and to register a consumers' society at a later stage.

(ii) Housing Societies.

Except in the case of Housing Societies for working classes or backward classes, financial aid from Government should only be encouraged to the extent the societies are not likely to obtain satisfaction of their needs from outside sources.

Where Housing Associations exist for the help of Housing Societies, they should see that the Societies obtain their finance on satisfactory terms. Housing Associations, however, should not themselves undertake to finance Housing Societies. Housing Associations should also encourage working and backward classes in urban areas and agricultural classes in rural areas, to develop housing societies.

Where a Government loan has been advanced to Housing Societies and due to causes beyond control, the societies are working at a loss, Government might help by giving relief in interest charges and consider if the rate of interest could be reduced.

Co-operative Societies which have established provident funds for their members may grant loans to members from the provident funds for building purposes.

Building Corporation.

To provide housing facilities to working class and backward class people, a building corporation mainly financed by recognized insurance companies could be registered under the Co-operative Societies' Act to finance House Construction Societies formed for the purpose of house construction in any area under a local body under conditions approved by the local body and the building corporation and further subject to the condition that every member of a society so formed shall insure with a recognized insurance company.

(iii) Co-operative Insurance.

(a) Life Insurance.

For the Co-operative Life Insurance Society the area of operation requires to be as wide as possible consistently with its safety margin and for this purpose it should consider if it is advisable for it to have transactions in areas where the Bombay Co-operative Societies' Act does not apply.

Life insurance could be encouraged by permitting members of co-operative societies who insure and give the insurance policy as a collateral security to obtain loans at a slightly better rate. The same policy could be followed by Land Mortgage Banks. To encourage group insurance in agricultural co-operative credit societies where compulsory deposits have accumulated, the financing agency could advance at a slightly lower rate of interest.

(b) Motor Insurance.

Co-operative Motor Insurance Societies on the lines of the Ratna. giri Co-operative Society require encouragement and if a sufficient number of such societies exists, the question of co-ordinating their activities under a central organization could be considered.

(c) Cattle Insurance.

Where loans are given for the purchase of cattle, care should be taken to see that good milch cattle or draught cattle are purchased. Insurance of cattle which it is not economically profitable to keep would constitute a further loss. If an Insurance Company either run on a co-operative basis or otherwise could insure cattle, the Society advancing loans for cattle purchase could charge a slightly better rate if insurance is effected.

(d) Crop Insurance.

Statistics showing soil classification, nature of crops grown, average yield etc. are available on the basis of which it should be possible for insurance companies to quote rates for crops insurance. If insurance companies could be consulted and crops insurance effected, co-operative societies could lend to their members who have so insured at a slightly better rate. In the alternative, A and B class societies could also consider crop insurance for members by payment of premia from reserve fund or profits.

(e) Provident Fund.

Section 41 of the Co-operative Societies' Act permits societies to establish Provident Funds for their members. Societies should be encouraged to take advantage of this section for members whose relations with the society are of a permanent nature. In particular, Salary-earners' Societies and agricultural Credit Unlimited Liability Societies in A and B class and making steady profits should take advantage of this provision.

POONA: }
29th October 1937. }

VAIKUNTH L. MEHTA.
M. D. BHANSALI.

APPENDIX.

**Co-operative Movement.
Bombay Presidency.
Examination of Position of—in.**

Government of Bombay.
Revenue Department.
Resolution No. 7363/33.
Bombay Castle, 6th September 1937.

Resolution of Government.

The Registrar of Co-operative Societies in collaboration with Mr. Vaikunth L. Mehta, Managing Director of the Bombay Provincial Co-operative Bank who has offered his services for this purpose, should be requested to examine and report on the present position of the co-operative movement in the Bombay Presidency and to make specific recommendations as early as possible regarding the future lines of development, particularly with reference to the following points:—

- (1) The proper method of dealing with such of the assets of agricultural credit societies and their central financing agency as have become frozen.
- (2) The system of education and propaganda, finance, audit, supervision, and official and non-official control.
- (3) The development of non-credit co-operation, especially for the purpose of better farming, the marketing of agricultural produce and the organization of secondary occupations and cottage industries.

By order of the Governor of
Bombay,
N. A. FARUQUI,

Under Secretary to Government.

15. When a person ceases to be a member under any of the byelaws 12, 13 and 14 the amount of his share money less any portion of it, if any, which may have been written down to meet bad or doubtful debts shall be paid :—

- (a) in case of death of the member after one year from date of decease, to his nominee, heir or legal representative unless such nominee, heir or legal representative is made a member, in which case the share or shares held by the deceased member shall be transferred to him ;
- (b) in case of expulsion or withdrawal to the member after two years from the date of cessation of his membership.

Provided that before making the aforesaid payment all moneys due from the member to the society shall be deducted.

LIABILITY OF PAST MEMBER.

16. Every member of the society whose connection with the society has ceased under these byelaws shall at once be liable to pay the whole of his debt to the society. Any member who has been expelled or who has withdrawn from the society shall continue to be liable for the debts of the society as they existed at the time when he ceased to be a member for a period of two years from the date of his ceasing to be a member.

INTEREST OF PAST MEMBER.

17. The interest of a member deceased or expelled or of a member who has withdrawn shall be held to be the amount of any deposits or loans made by him with or to the society together with interest thereon to the date of decease, expulsion or withdrawal and the amount of his share money less any portion of it, if any, which may have been written down to meet bad or doubtful debts, less any sums due from him to the society together with the interest thereon to the date of decease, expulsion or withdrawal.

FORMATION, DUTIES AND RESPONSIBILITIES OF PANCHAYAT.

18. Until a Panchayat is elected by the members of the society in a general meeting, the persons signing the forms of application for registration shall be deemed to be the Panchayat.

19. As soon after registration as convenient the members of the society shall hold a general meeting and shall elect a Panchayat which must consist of at least three members and shall, if possible consist of not less than five members.

20. No one who is not a member of this society shall be eligible to serve on the Panchayat.

21. The Panchayat shall be elected annually at the general meeting of the members. Any member of the Panchayat shall be eligible for re-election.

22. The Sirpanch and the Secretary of the society shall be elected at the annual general meeting from amongst the members of the Panchayat.

23. Vacancies occurring in the Panchayat or among the office-bearers of the society shall be filled up at an ordinary general meeting for the remainder of the term.

24. The Panchayat shall meet as often as may be necessary and in any case at intervals of not more than three months.

25. In addition to the powers and duties already laid down in these byelaws the Panchayat shall :—

(1) submit to the Central Bank or to the union as the case may be, proposals for the fixation of the maximum credit limit of the society for the ensuing 12 months with a list of the individual credits assigned to the members of the society ;

(2) consider applications for loans by members and grant them if they are within the annual maximum credit fixed for each member by the general meeting in accordance with byelaw 31 (2). Subject to the right of appeal to the general meeting, the Panchayat shall have the power to reject any application for a loan by member if in their opinion there is good reason to suppose that the money is not wanted for a necessary purpose or for any other just or proper cause ;

- (3) see that every loan granted to a member is duly secured by two sureties. These two sureties shall, as a general rule, be members of the society, but in exceptional cases, and with the approval of the general meeting, sureties may be furnished by non-members provided such non-member furnish a written undertaking to abide by the Registrar's decision on any matter which may be the subject of dispute between them and the society. The Panchayat shall have the power in addition to requiring personal sureties to take a mortgage or a sub-lease of any alienable immoveable property of the applicant or of his future crops ;
- (4) collect instalments of shares and return share money in accordance with the provisions contained in these byelaws ;
- (5) subject to the provisions of byelaws 31 (3), 34 and 35 raise loans and disburse them as soon as possible ;
- (6) collect as they fall due the principal and interest on loans and repay loans and deposits with interest thereon ;
- (7) examine all cases of outstanding arrears and make arrangements in such cases as may be necessary to provide against loss ;
- (8) maintain the society's accounts and records ;
- (9) elect two of their number to represent the society at the general meeting of the Circle Union, if any, to which the society belongs ;
- (10) guard and preserve the good name of the society ;
- (11) incur necessary expenses connected with the business of the society ;

26. The members of the Panchayat are personally responsible for seeing that the byelaws of the society are duly acted up to and enforced, and in any enquiry or inspection which the Registrar may hold or make or may order to be held or made into the affairs of the society, costs may be exacted according to law from the members of the

Panchayat by way of penalty should it be proved that they have been guilty of neglect of the duties imposed upon them by these byelaws.

27. No member of the Panchayat and no member of the society, shall vote on any application for a loan in which he is personally interested as a borrower. When any application for a loan is under discussion, the member applying for the loan shall withdraw, from the meeting.

RECORD OF PROCEEDINGS.

28. The proceedings of meetings of the Panchayat and of the society shall be recorded in the Proceedings Book of the society and signed by the Sirpanch and the Secretary in token of accuracy. Copies of the proceedings shall be forwarded to the Union or to the Central Bank as the case may be. The Sirpanch or the Secretary or such other member as may be duly authorized by the society shall be empowered to sign all documents on behalf of the society and to institute or defend suits or proceedings on behalf of the society.

PERIODS OF LOANS.

29. As regards the period for which the society may grant loans to its members, the Panchayat shall observe the following principles :—

- (1) when a loan is made for a non-productive purpose it shall be repaid within two years ;
- (2) loans for seed, food, cultivation expenses, cattle-fodder, or the payment of rent or revenue shall be repaid immediately after the next ensuing harvest ;
- (3) loans for the purchase of carts or cattle or industrial or agricultural implements, for the liquidation of small debts, or for house-building must be repaid within two or at the most three years ;
- (4) loans for liquidation of large debts, the purchase or redemption of land, or for expensive improvement of land must be repaid within three or at the most four years ;
- (5) the Panchayat shall scrupulously observe these principles and shall not grant more than one extension of an overdue kist ;

- (6) should it be necessary in the opinion of the Panchayat, to grant a loan or to make an extension for a period not in accordance with the principles above expressed, the Panchayat shall refer the matter for the orders of the Circle Union or the Central Bank to which the society is affiliated and shall obtain and obey such orders which must be in writing.

GENERAL MEETING.

30. A general meeting of the society shall be called as often as may be necessary. At least one such meeting shall be called each year in the month of _____. This meeting shall be known as the Annual General Meeting. The quorum for a General Meeting shall consist of not less than half the number of members in the society.

31. The members shall in the Annual General Meeting :—

- (1) elect the Panchayat, the Sirpanch and the Secretary for the year ;
- (2) fix the maximum amount of credit to be allowed to each member during the ensuing twelve months ;
- (3) fix the maximum amount of liability to be incurred by raising loans on behalf of the society during the year. This maximum may, of course, be increased, or decreased, on the addition or removal of members in any general meeting or otherwise as may, from time to time, be necessary in the course of business. The maximum limit fixed by the Registrar may be reduced without reference to the Registrar, but it cannot be exceeded without such reference.

Note.—The term loans includes borrowings of every description such as deposits made with the society.

32. Except as otherwise provided in these byelaws all questions shall be decided by a majority of votes.

RESTRICTION OF BORROWINGS.

33. The society's borrowings from all sources shall not exceed a maximum to be fixed by the Registrar for the society from time to time.

SAVINGS DEPOSITS OF MEMBERS.

34. Every member shall on election receive a savings deposit book in which shall be entered all deposits and withdrawals made by him on his savings deposit account. Savings are the personal property of the depositor and of his heirs. On such savings the society shall pay interest at a rate not more than that which it pays for money borrowed from the Central Bank to which it is affiliated. Savings deposits are withdrawable on such terms and conditions as the depositor may make with the Panchayat, but the exception of savings deposits is subject to such rules as the Registrar may lay down from time to time, for the society's guidance.

ACCEPTANCE OF FIXED DEPOSITS.

35. The society may accept fixed deposits from members and non-members subject to such special rules as may be prescribed by the Registrar from time to time.

RESTRICTION ON LENDING OR MAKING DEPOSITS.

36. The society shall not lend money to non-members nor shall it be at liberty to make loans to or to make deposits with any society other than the Central Bank to which it is affiliated.

RATE OF INTEREST ON LOANS.

37. The rate of interest which members of the society shall pay for the loans which they take as individuals from the society shall be subject to the sanction of the Registrar.

PROFITS.

For newly organized societies.

38. Should the society adopt the system of non-returnable shares, the net profits accruing in the 11th and each subsequent year, may, after making adequate provision for bad and doubtful debts and carrying at least half of the remainder to reserve fund, be divided among the shareholders subject to a maximum dividend of 9 per cent on a fully paid up share or a dividend not exceeding the rate of interest on loans by members whichever is less, provided ten years have elapsed from the date of the first payment on

account of the share. Dividend shall be calculated on the entire paid up share capital, but shall be paid only on fully paid up shares, the balance being added to the reserve fund.

For an old society converted into a share-society.

38. Should the society adopt the system of non-returnable shares, the net profits accruing in the sixth year after the society adopts these byelaws may, after making adequate provision for bad and doubtful debts and after carrying at least half of the remainder to the reserve fund, be divided among the share-holders subject to a maximum dividend of 9 per cent on each fully paid up share or a dividend not exceeding the rate of interest on loans paid by members whichever is less. Dividends shall be calculated on the entire paid up share capital, but shall be paid only on fully paid up shares, the balance being added to the reserve fund, provided that shares purchased by members after the date of adoption of these byelaws, shall be eligible for dividends only after the lapse of ten years from the date of the first payment on account of shares.

FORMATION, PURPOSE, INVESTMENT AND DISPOSAL OF RESERVE FUND.

39. Subject to the provisions of byelaw 38, all net profits shall be carried to the reserve fund of the society. The reserve fund of the society shall be invested in such manner as the Registrar of Co-operative Societies may direct from time to time. The purpose of the reserve fund is not only to provide the society and its future members with a permanent pledge on which to obtain credit, but is to protect the present creditors of the society against loss, to build up a fund from which an annual income may be derived to cheapen the rate of interest on loans to members of the society, to provide an emergency fund and, in the end to furnish the society with its own working capital. Members of the society must clearly understand what the purposes of the reserve fund are, and they must also understand that it is only by patient and gradual steps that the society can attain to the ultimate goal of being in possession of its own working capital.

40. The reserve fund shall not be drawn upon without the sanction previously obtained of the Registrar of Co-operative Societies, Central Provinces and Berar. The reserve fund is

the permanent and indivisible fund of the society and in the event of the society's dissolution it cannot be shared out amongst the members, but it will be utilized in accordance with the rules framed by the Local Government under the Act which are given below:—

- (36) The reserve fund of the registered society shall be indivisible, and no member shall be entitled to claim any specified share in it.
- (37) (i) On the dissolution of the registered society, the reserve fund shall be applied to discharging such liabilities of the society as may remain undischarged after the enforcement in full of the liabilities of the individual members of the society.
- (38) Any balance of the reserve fund which may remain after making the payments specified in rule 37 (i), shall be applied to such local object or objects of public utility as may be selected by a majority of the votes of the members of the society (as they existed on the date of dissolution) assembled in a special meeting, and approved of by the Registrar. If within three months of the dissolution of the society the members fail to make a selection which is approved of by the Registrar, the latter shall credit the above mentioned balance of the reserve fund to the reserve fund of the co-operative society, if any, to which the society was affiliated, or, if the society was not affiliated to any other society, shall place the said balance on deposit in some co-operative or other bank until a new co-operative society with a similar area of operations is registered, in which event it shall be credited to the reserve fund of such society.

AFFILIATION TO THE CENTRAL BANK.

41. The society shall purchase in the Central Bank share of such total face value as may be laid down by the Board of Directors of the Bank in consultation with the Registrar, provided that the total face value of such shares shall not exceed three-fourths of the share capital

subscribed by the members. The face value of each share of the Central Bank shall be Rs. 10 and shall be payable in not more than 5 annual instalments.

**AFFILIATION TO THE CENTRAL PROVINCES AND BERAR
PROVINCIAL CO-OPERATIVE BANK, LIMITED.**

42. The society shall as soon as possible become a member of the Central Provinces and Berar Provincial Co-operative Bank, Limited.

AMENDMENT OF BYELAWS.

43. The above byelaws can be amended by resolution of the general meeting of the society carried by a two-thirds majority of the members present after sanction of the Registrar of Co-operative Societies, Central Provinces and Berar.

Explanatory notes on the standard byelaws for a primary co-operative society with share capital and unlimited liability.

Byelaw 2.—In the first paragraph of the existing byelaw, the words “the total number of members in the society” have been substituted for the words “the number of individuals elected to membership of this society” occurring after the word “Registrar” in order to make it clear that the total number including the signatories to the application for registration shall not exceed 50.

Byelaw 2 (2).—As the Central Bank is the agency which collects the per capital subscription and disburses it and as reference to this subscription is deleted from the revised byelaws of the Federation, it is laid down in this byelaw that the payment on account of the subscription shall be made to the Central Bank instead of to the Federation.

Byelaw 2 (4).—In a society without share capital every member is required to purchase shares in the Central Bank to which the society is affiliated in proportion to his borrowings. Under this byelaw non-borrowing members were not required to purchase shares. This byelaw requires all members, whether borrowing or non-borrowing, to undertake to purchase at least one share of the society. It is not necessary for them to purchase shares in the Central Bank.

Byelaw 5.—In this byelaw the words “without limit” have been inserted between the words “liable” and “for” in order to emphasize the unlimited liability of the members.

Byelaw 6.—This is a new byelaw framed in order to meet the requirements of rule 11 (7).

Byelaw 7.—This new byelaw is in accordance with the recommendations of the Federation Committee in paragraph 7 of their Report. The value of each share is kept at Rs. 5 as at present in order to suit the economic condition even of the smallest borrower; but since profits in share societies are to remain indivisible for ever or at least for a certain number of years, according to the option of the society, it is considered that the proportion of share holding to borrowing should not be as high as at present. In this byelaw the proportion of 1 : 20 has been laid down only as a guide. The exact standard to be laid down in the byelaw of

any particular society should be fixed in the light of local circumstances of the Bank with particular reference to the proportion of its owned capital to loans and deposits. Should the society decide not to fix any maximum limit upon the share holding of members, the proviso at the end may be deleted.

Byelaw 8.—A new by-law. The maximum number of annual instalments in which the value of a share should be required to be paid up is fixed at 5 in accordance with the recommendations contained in paragraph 5 of the Federation Committee's Report ; but any society desiring to fix a smaller number of instalments may make the necessary changes in the bylaw. A society which decides to require the payment of the share value in full at once should delete the bylaw regarding instalments and retain the alternative by-law only.

Byelaw 9.—A new bylaw with alternatives for a newly organized society and for an existing non-share society converted into a share society. The text of the bylaw for a new society is in accordance with the recommendations in paragraph 5 of the Federation Committee's Report. In the alternative bylaw for an old society converted into a share society the period that should elapse before the society should be given the option to decide whether shares should be made returnable and profits indivisible or shares should be made non-returnable and profits divisible, has been fixed at five years according to the recommendations in paragraph 10 of the Federation Committee's Report. This is however to be only the maximum period; but should the society consider that it is deserving of being allowed to exercise such option earlier, a shorter period may be laid down instead of the maximum. The Registrar will consider each case on its merits when registering the bylaws. The considerations on which such shorter period should be determined should ordinarily be the length of the society's existence, its good working, absence of overdues and bad and doubtful debts, large accumulation of reserve fund, etc.

Byelaw 10.—A new bylaw. The one for a newly organized society is in accordance with the recommendations in paragraph 5 of the Federation Committee's Report. In the alternative bylaw for an old society converted into a share society the period at the end of which shares fully paid up at the time of conversion shall be returned is fixed at 5 years from the date of such conversion. But if the

society decides to adopt a smaller period as pointed out in the explanation against byelaw 9 the period to be stated here will correspond with that shown against byelaw 9.

Byelaw 11.—A new byelaw added in accordance with the provisions of section 14 (2) of the Act.

Byelaw 12.—This is the same as byelaw 6 of the existing byelaws for non-share societies with the addition of the words "share or" between "his" and "debt".

Byelaw 15.—This is a new byelaw added in accordance with the recommendations in paragraph 7 of the Report of the Federation Committee.

Byelaw 17.—This is the same as byelaw 6 of the existing byelaws for non-share societies with the addition of the words "and the amount of his share money less any portion of it which may have been written down to meet bad or doubtful debts". In share societies the interest of a past member includes also his share money; hence the addition.

Byelaw 22.—In byelaw 15 of the existing byelaws for non-share societies, the election of the Sirpanch and the Secretary has been left to the Panchayat. It seems desirable that these office-bearers should be elected by the members of the society assembled in general meeting, which, in fact, is the general practice at present.

Byelaw 23.—Provision has been made in this byelaw for filling up of vacancies occurring in the Panchayat or office-bearers. This is wanting in the existing byelaws.

Byelaw 25.—This is the same as byelaw 17 of the existing byelaws for non-share societies with the addition of a new sub-clause (4) which includes the collection and return of share money among the duties of the Panchayat.

Byelaw 30.—In the byelaws for non-share societies no quorum is laid down for a general meeting. This defect has now been removed. For a general meeting it appears to be desirable to fix the quorum at not less than half the total number of members in the society.

Byelaw 31.—This is the same as byelaw 23 of the existing byelaws for non-share societies with a slight modification in clause (1) made in accordance with the new byelaw 23.

Byelaw 34.—This is the same as byelaw 26 of the byelaws for non-share societies with a slight change. It

appears desirable that the rate of interest to be payable on savings deposits of members should not be more than the rate at which the society borrows money from the Central Bank.

Byelaw 38.—This byelaw is in accordance with the recommendations of the Federation Committee in paragraphs 6 and 10 of their Report. The year from which profit in an old non-share society converted into a share society will begin to be distributed should be the same as that which may be decided to be laid down in byelaw 9 (*vide* explanation against that byelaw).

Byelaw 39.—This is the same as byelaw 30 of the byelaws for non-share societies except with the addition of the words "subject to the provisions of byelaw 38" made at the beginning in order to allow of distribution of profits in share societies which decide to adopt the system of non-returnable shares with divisible profits. Registrar will allow by an executive order the utilization of reserve funds in the working capital of societies to the extent recommended in paragraphs 8 and 10 of the Committee's Report, *i.e.*, 50 per cent of the accumulated reserve fund of old societies converted into share societies and 75 per cent of the future reserve funds of share societies.

Byelaw 41.—This is the same as byelaw 33 of the existing byelaws for non-share societies modified in accordance with the recommendations in paragraph 9 of the Federation Committee's Report, but, in many cases, it should be possible to require societies to invest not more than 50 per cent of their subscribed share capital in the shares of the Central Bank and it is hoped that it will not be necessary to call upon share societies to furnish as much as 75 per cent of their share capital in the shares of the Central Bank.

Byelaw 42.—At present, a portion of the reserve funds of primary societies is invested in the Provincial Bank's share capital under the orders of the Registrar and societies thus become members of the Provincial Bank. It is, therefore, desirable that there should be a provision in the byelaws about affiliation to the Provincial Bank.

Byelaw 43.—This is the same as byelaw 34 of the existing byelaws for non-share societies with a slight modification to suit the requirements of rule 12 of the rules under the Act.

LEAFLET.

THE ESSENTIALS TO BE KNOWN BY ALL MEMBERS OF CO-OPERATIVE CREDIT SOCIETIES.

1. Object of credit society.—

- (i) Cultivation of habit of thrift and economy.
- (ii) Increase of savings and their profitable use.
- (iii) Extinction of debts.
- (iv) Increase of property.

2. Advantages of co-operative borrowing.—

- (i) Small men can get loans at the same rate of interest as big men.
- (ii) Mutual check and supervision.
- (iii) Profitable use of borrowed money.

3. Admission, withdrawal and expulsion of members.—

(i) *Admission*.—The essential qualifications for admission are good character and intimate mutual knowledge.

(ii) *Withdrawal*.—A member may withdraw from a society after repaying all his debts to the society, but his liability (as defined in paragraph 4 below) continues for two years from the date of withdrawal.

(iii) *Expulsion*.—The main grounds on which a member is liable to expulsion are :—

- (a) Concealment of debts before admission into the society, and borrowing from outside without the knowledge of the society after admission.
- (b) Wilful default in payment of any instalment of share or loan.
- (c) Misapplication of loans.
- (d) Conduct injurious to the credit and reputation of the society and any serious breach of the byelaws.

4. Liability of members to their society.—Is unlimited, *i.e.*, a member is personally, as well as with all his estate, responsible not only for his own debt to the society, but also for the debts of his fellow members to the society.

5. Liability of a credit society.—

- (i) In respect of its own borrowings is unlimited.
- (ii) In respect of the guarantee for the borrowings of all other societies affiliated to the circle union to which it belongs, is limited to the extent of a sum equal to its own maximum borrowings during the preceding 12 months.

6. Safeguards against loss.—

- (i) Admission of persons of good character intimately known to one another.
- (ii) Thorough knowledge and observance of the byelaws.
- (iii) Proper fixation of maximum credit limits, and their rigid observance in granting loans.
- (iv) Discouragement of loans for purposes which are not productive and profitable.
- (v) Grant of loans for actual requirements only.
- (vi) Taking of two personal sureties for every loan granted to a member. The sureties should, as a general rule, be members of the society, but in exceptional cases and with the approval of the general meeting non-members sureties may be accepted.
- (vii) Taking of mortgage or sub-lease of any alienable immoveable property of the borrower or of his future crops in addition to personal sureties, if the Panchayat considers it necessary.
- (viii) Application of loans to specified and approved purposes.

7. System of repayment.—

- (i) When a loan is made for a non-productive purpose it shall be repaid within two years.

(ii) Loans for seed, food, cultivation expenses, cattle fodder, or the payment of rent or revenue shall be repaid immediately after the next ensuing harvest.

(iii) Loans for the purchase of carts or cattle or industrial or agricultural implements, for the liquidation of small debts, or for house-building must be repaid within two or at the most three years.

(iv) Loans for liquidation of large debts, the purchase or redemption of land, or for expensive improvement of land must be repaid within three or at the most four years.

(v) Loans must be punctually repaid in the manner shown above.

(vi) More than one renewal for an overdue kist is prohibited by the byelaws.

(vii) The Panchayat shall scrupulously observe these principles.

(viii) Should it be necessary in the opinion of the Panchayat, to grant a loan or to make an extension for a period not in accordance with the principles above expressed, the Panchayat shall refer the matter for the orders of the circle union or the Central Bank to which the society is affiliated and shall obtain and obey such orders which must be in writing.

8. Where does the money advanced in loans to members come from?—

(i) A member gets his loan from the society.

(ii) The funds of the society are composed of:—

(a) Share capital.

(b) Loans from the Central Bank borrowed directly, if it is not affiliated to a circle union, or by borrowings guaranteed by the circle union, if it is affiliated to a circle union.

(c) Deposits and loans from members and non-members subject to such rules as may be prescribed by the Registrar from time to time for their acceptance.

(d) Reserve fund to the extent it is allowed by the Registrar to be used as working capital.

(iii) The society in its general meeting fixes the credit limit of each individual member for a year having regard to his average annual paying capacity, average annual requirements and his character. After fixing the credit limits of its members the society fixes its own borrowing limit having regard to the limit up to which the members as a body are prepared to pledge their joint liability. The Central Bank fixes a credit limit for the society which bears a close relation to its estimated annual paying capacity and average repayments made in the past; but it need not necessarily be the same as the borrowing limit fixed by the society for itself. Then a check limit for the society for disciplinary purposes is fixed by the Registrar on the recommendation of the Central Bank.

(iv) When a society sanctions the grant of loans to its members it makes an application to the Central Bank to advance a loan of the amount required. The Secretary or Sirpanch executes a pro-note and an agreement for the amount sanctioned by the Central Bank and obtains the money. When the society advances loans to its members entries are made in the Karz-Khat and the signatures or thumb-marks of the borrowers and their sureties are obtained.

(v) Repayments made by members are credited into the Central Bank. The society or any of its members desiring to make any payment shall take the pass book of the society, or the pass book of the individual member, and the cash to the Central Bank which shall receive payment from the society or the members on behalf of the union if the society is affiliated to a union, or on behalf of the society if it is not affiliated to a union. It is the duty of each society to see that its members repay punctually.

(vi) The Central Bank raises its funds by shares, deposits, and loans from the public and supplements local capital by loans from the Provincial Bank.

(vii) The Provincial Bank raises its funds by shares and takes loans and deposits from the public.

(viii) It must be remembered that the money which a member gets from his society is not Government money. Government does not undertake financial responsibility of any co-operative institution.

9. (i) Every member of a society must purchase at least one share of Rs. 5 in the society. If he borrows money from the society, he must purchase shares in the society of a total face value which shall bear such proportion to his borrowings as may be laid down in the byelaws.

(ii) Every society decides at registration whether to require its members to pay the full value of the shares purchased by them either at once on allotment or by annual instalments not exceeding 5 in number.

(iii) Shares held by members shall not be returned to them for a period of ten years from the date of commencement of the working of the society. At the end of this period the society shall decide whether to make shares returnable or not.

(iv) If shares are made returnable, they shall be returned to members at the end of ten years from first payment made in respect thereof, but after the return of original shares the members shall immediately start subscribing to fresh shares as before. All net profits of societies adopting a system of returnable shares are carried to reserve fund and no portion thereof can be divided among the share-holders.

(v) If shares are made non-returnable, the net profits accruing in the eleventh and each subsequent year may, after making adequate provision for bad and doubtful debts and carrying at least half of the remainder to the reserve fund, be divided among the share-holders on their fully paid up shares subject to a maximum dividend of 9 per cent or a dividend not exceeding the rate of interest on loans to members whichever is less provided ten years have elapsed from the date of the 1st payment on account of the share.

10. The society has to purchase in the Central Bank shares of a total face value not exceeding $\frac{3}{4}$ ths of the share capital subscribed by its members, and this gives a right to every one of its members to sit and vote at the annual general meeting of the Central Bank.

II. Formation and use of reserve fund.—

(i) The reserve fund is formed as follows :—

(a) All net profits of every society for the first ten years from the commencement of its working go to its reserve fund.

- (b) If a society decides at the end of ten years to make shares returnable, it has to continue to carry all its net profits to its reserve fund.
 - (c) If a society decides to adopt the system of non-returnable shares, it has to carry at least 50 per cent of the net profits accruing in the eleventh and each subsequent year to the reserve fund.
- (ii) The functions of the reserve fund are as follows:—
- (a) It strengthens the society's credit.
 - (b) It protects the creditors of the society against loss.
 - (c) It is a source from which an annual income is derived to cheapen the rate of interest on loans to members of the society.

12. Every member of a society pays an annual subscription of Re. 1 to the Central Bank to which the society is affiliated. The subscription is utilized in payment of the staff employed to do the writing work of the societies and in the payment of the cost of books, forms and stationery supplied to societies. It must be remembered that the society moharrirs are not the masters of the societies, but their servants, and the societies must get all their writing work done by them properly.

13. No servant of Government, of the Provincial Bank, the Central Bank, or of the societies may ask for or accept any gratification whatsoever from any society or from any member of any society, and every Government servant or other servant employed in the service of co-operative societies is bound, on penalty of instant dismissal, to pay for his rasad. It is the duty of all members of societies to see that this rule is strictly observed. Breach of this rule by a member of a society or by a society will entail the stoppage of all credit, the cancellation of the society and immediate recovery of all loans.

Account books, registers, etc., to be maintained by the Secretary of a Society with unlimited liability.

The Secretary of a Society with unlimited liability should maintain the following account books, registers, etc. :—

1. Register of Members.
2. Haisiyat Register.
3. Proceedings Book.
4. Cash Book.
5. Register of Shares.
6. Register of Share-holders.
7. Record of Dividend.
8. Karz-khat (Chittha adai karz).
9. Ledger of Loans.
10. Ledger of Deposits.
11. Register of annual financial statements.
12. Pass Book.
13. Receipt Book.
14. Visitors' Book.
15. File No. I.
16. File No. II.

On each book a label with a description of the book and the name of the society shall be affixed.

The pages of all books should be numbered consecutively before being brought into use.

I. Register of Members.—This register must be maintained in form No. 1. As soon as the certificate of registration of a society is received, the names of the signatories to the application for registration should be written out in this book and signatures or thumb-impressions should be obtained against the names. The date of admission should be the same as that entered on the certificate of registration of the society. Further entries in this register must be made from time to time as new members are admitted into the society, and signatures or thumb-impressions of the new members must always be taken.

If any member dies, withdraws or is expelled from the society, the date of death, withdrawal or expulsion shall be entered (with reasons) against his name.

This is a very important register and it should be kept neat and clean. No superfluous remarks or entries should find place in this register.

*(To be maintained only by societies with share capital.)

Serial numbers should be given for every member, sufficient space (about one inch and a half) being left between entries relating to any two numbers for the thumb-marks of members and signatures of attesting persons and for remarks in the last column. In the case of a joint member, the number of the principal member should be noted below his serial number and his relationship with the principal member should be explained in the column of remarks. In case of a member admitted as successor of a deceased member a remark to the effect "Successor to No." should be made against his name. In the same way a remark to the effect "Succeeded by No." should be made against the name of the deceased member.

2. Haisiyat Register.—This register must be maintained in form No. 2. It should be filled up every year in a general meeting and must be signed by the members concerned in token of the correctness of the information entered. In case a member is found guilty of concealment of debts or of obtaining money from the society by means of such concealment he will render himself liable for action under bylaw 2 (7).

3. Proceedings Book.—When any meeting is held the Secretary should write at the top of the page the date of the meeting, whether it is a general meeting (of all the members of the society) or a meeting of the Panchayat and the names of the members present at the meeting. Then the subjects for discussion should be written on the left hand half margin of the page and against each subject the decision arrived at in the meeting should be written in the other half margin.

NOTE.—In an annual general meeting the subjects will be considered in the following order:—

- (1) Election of the Sirpanch, Secretary and the Panchayat.
- (2) Election of a member to represent the society in the general meetings of the Central Bank and on the Circle Union, if any, to which the society is affiliated.
- (3) Fixation of maximum liability to be incurred by raising loans and deposits on behalf of the society during the year.
- (4) Fixation of the maximum amount of credit to be allowed to each member during the ensuing 12 months.

NOTE.—Fixation of credit is one of the most important duties of a general meeting and several factors have to be considered in determining it. In order, therefore, to ensure that all points have had due consideration information shown in the form attached to this note (Appendix I) shall be collected for each member and embodied in the proceedings under this subject.

- (5) Passing of annual statements.

After the proceedings are recorded in this manner the Secretary and Sirpanch must sign in token of accuracy.

4. Cash Book.—This book is to be maintained on the Mahajani system. Each page will be divided into two equal parts, the left side half margin being the credit side and the right side half margin the debit side. All amounts received are to be entered on the credit side and all amounts disbursed on the debit side. When any transactions occur the date shall first be entered at the top of the page and on the credit side the first entry shall be the balance brought forward from the last date on which transactions took place. Then receipts and disbursements for the day shall be entered, the totals of debit and credit being made to agree by adding the closing balance to the debit side.

Specimen entries are given below :—

Dated the 18th December 1911.

<i>Credit.</i>		<i>Debit.</i>	
<i>Rs. a. p.</i>		<i>Rs. a. p.</i>	
125 10 0	Balance brought forward.	550 0 0	Loans advanced.
500 0 0	Loan from Nagpur Central Bank, at 9 per cent per annum interest, repayable :—		Rs. 550 to Vishnu Dixit at 12 per cent per annum interest, repayable—
	Rs. 200 on 31st March 1912.		Rs. 200 on 31st March 1912.
	Rs. 300 on 31st March 1913.		Rs. 330 on 31st March 1913.
	Ledger page—		Ledger page—
1 0 0	Entrance fee—	12 0 0	Savings deposits returned—
	Re. 1 from Vishnu Dixit.		Rs. 12 to Chotu Miyan
	Ledger page—		Ledger page—
10 0 0	Savings deposits—	120 0 0	Central Bank's loan repaid—
	Rs. 5 by Vishnu Dixit.		Principal Interest.
	Ledger page		Rs. 100 Rs. 20
	Rs. 4 by Govind Gopal.		Ledger page—
	Ledger page—		
	Re. 1 by Ashraf Ali.	2 10 0	Contingencies—
	Ledger page—		Paper. Ink. Forms
50 0 0	Recoveries of loan from Ganesh Prasad.		Re. a. p. Re. s. p. Rs. a. p.
	Principal Interest		0 5 0 0 2 0 2 3 0
	Rs. 40 Rs. 10		Ledger page—
	Ledger page—	5 0 0	Share money returned to Govind Prasad.
25 0 0	Share payments received from Ramprasad.		Ledger page—
	Ledger page—	22 0 0	Closing balance.
711 10 0		711 10 0	

5. Register of Shares,
 6. Register of Share-holders and
 7. Record of Dividend. } —These regis-

ters shall be maintained only in those societies which adopt the share system.

Register of Shares (Form No. 5).—Shares issued will be entered in consecutive order in column 1. In column 2 will be entered the face value and in column 3 will be entered the date of the payment of the first instalment of the share value. Column 4 will show the page number on which the member's account is opened in the share-holders' register. The share-holder's name will be entered in column 5. Columns 6 to 8 will be filled up when a share is redeemed or transferred. In case of redemption columns 7 and 8 will be left blank.

Entries in this register should not be too close, for sufficient space must be left to admit of entries in columns 6, 7 and 8 in the case of more than one transfer.

Register of Share-holders (Form No. 6).—Ordinarily one page to one share-holder should suffice. The form is divided into two parts. The columns in the upper part will be filled up from the register of members. The share-holder's number will be entered on the top. In the second part columns 1, 2, 13, 14 and 15 will be filled up from the register of shares. Columns 4 to 11 will be filled in as payments are made, the total in column 12 being made after the last instalment is paid.

Record of Dividend (Form No. 7).—Columns 1 to ³ will be filled up from the register of share-holders. Entries in column 4 will be made as soon as dividend is declared, while those in columns 5 and 6 when actual payments are made.

8 Karz-khat (Chittha adai karz) Form No. 8.—Entries in this register should be made only when a loan is actually advanced to a member, sufficient space about 3 inches should be left between two entries of loans to provide for thumb marks. No loans should be advanced unless the signatures of the borrowers and their sureties are duly obtained. When thumb marks are taken they should be duly attested. At the close of the year when loan accounts of members are balanced fresh *karz-khat* should be taken for the outstanding balances against them. Special care must be taken to see that sureties are solvent and that they realize their responsibilities.

9. Ledger of loans.—This book is to be maintained on the Mahajani system. Every member must have a separate account of his loan transactions in this book, the entries being made from the cash book. Besides the personal loan accounts of individual members, the Ledger should contain the following accounts :—

- (1) loan account of the Central Bank ;
- (2) total deposit account ;
- (3) total share capital account ;
- (4) reserve fund account ;
- (5) accounts of investments of Reserve Fund (each kind of investment to have a separate account),
- (6) account of Central Bank shares purchased by the society ;
- (7) account of per capita subscription realized from members and paid into the Central Bank (in a tabular form, *vide* appendix II) ;
- (8) total loan account of members ;
- (9) profit and loss account.

10. Ledger of Deposits.—This book should be maintained like the ledger of loans with a separate account for each depositor showing whether he is a member or a non-member.

11. Register of financial statements.—A copy of the financial statements of each year should be made in this book, as soon as they are ready. The auditor in the course of his annual audit should check these statements and correct them, if necessary.

12. Pass Book.—The form of this book is appended herewith (form No. 9). The book must be handy and strongly bound and should contain about 20 pages. Every member on admission into the Society should be supplied with a book. The left side of the book indicates share account and account of deposit of a member, the first two pages only being allotted for the former. The right side of the book will show the account of loans and their repayments. Whenever any amount is received from or paid to any member in respect of loans, deposits or shares, the member should be required to produce his pass book and the Secretary must make the necessary entries and return the book to him at once.

Whenever entries in respect of interest are made the word "interest" should be written below the amount in column 2 of the Deposit and Loan Account.

The Secretary must see that the accounts in the pass books agree with the corresponding accounts in the ledger.

13. Receipt Book (Form No. 10).—Each book should contain 100 forms which must be numbered consecutively, the number being given on the counterfoil also. When any amount is received, the Secretary should immediately fill in particulars on the original and the counterfoil and after affixing his signature shall issue the original to the person making payment, and retain the counterfoil in the book itself for purposes of check and audit.

14. Visitors' Book.—This book is intended for the inspection notes of any officers who inspect the Society. As far as possible these notes should be recorded in vernacular. When an inspection note is recorded in this book the Secretary of the Society shall make a copy thereof and forward it to the Secretary of the Central Bank.

15. File No. I.—This file is intended only for the application for registration of a Society with all connected papers, such as the certificate of registration and the approved bylaws.

16. File No. II.—This file is to contain all orders and instructions from the Central Bank and from the Registrar, Co-operative Societies, and any other important papers and documents not contained in File No. I.

Members' Register.

FORM. NO. I.

Serial No.	Name and father's name.	Caste.	Age.	Residence.	Occupation.	Date of admission.	Signature or thumb-mark of members.	Signature of attesting witness against thumb-marks.	Date of cessation of membership.	Remarks.
1	2	3	4	5	6	7	8	9	10	11

Haisiyat Register of the _____ Co-operative
Name of member _____

Year.	Revenue.		Malik-makbuza land.			Absolute-occupancy land.			Occupancy land.		Deposits and shares in the society and in the Central Bank.	Value of houses.	Value of grain stock.	Value of carts.	As
	Villages or shares of villages held.	Value.	Area.	Rental.	Value.	Area.	Rental.	Value.	Area.	Rental.					
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	

NOTE 1.— In columns 22 and 23 will be entered such expenses as those
NOTE 2.— The figure to be shown in column 25 will be the difference between amount which may be borrowed to meet

Society (unlimited) _____
 son of _____ caste _____
 Tahsil _____ District _____

sets.		Number and value of cattle.	Liabilities.
Debts due			
16	Bullocks.		To society, creditors.
17	Buffaloes.		
18	Cows.		To other creditors.
19	Other cattle.		
20	Total assets—(Total of columns 3, 6, 9 and 12—19.)		
21	Annual income.		
22	Annual cultivation expenses.		
23	Annual household and other current expenses.		
24	Estimated annual payment towards the liquidation of outside debts.		
25	Annual paying capacity towards the society's debts.		
26	Rental arrears.		
27	On mortgage.		To other creditors.
28	Other debts.		
29	On mortgage.		To other creditors.
30	Other debts.		
31	Total liabilities.		
32	Signature or thumb mark of member.		
33	Remarks.		

in respect of which loans, if advanced, are made repayable in one year. the figure in column 21 and the total of figures in columns 22, 23 and 24, plus any expenses shown in columns 22 and 23.

REGISTER OF SHAREHOLDERS.

Number _____

Name of shareholder _____ father's name _____ caste _____ age _____

Nominee (if any) _____

Number of shares.	1st call.		2nd call.		3rd call.		4th call.		5th call.		Total.	Date of redemption or transfer.	Name of transferee.		Remarks.
	Date.	Amount.	Date.	Amount.	Date.	Amount.	Date.	Amount.	Date.	Amount.			Full name.	Page of account in this register.	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16

35

FORM No. 7.

Record of dividend for the year _____.

Rate of dividend _____ per cent _____.

Serial number of shareholder.	Name of shareholder (in full).	Value of shares fully paid up and eligible for dividend.	Amount of dividend.	Date of payment in cash or of adjustment in loan account.	Signature of shareholder.	Remarks.
1	2	3	4	5	6	7

Karz-Khat (Chittha Adai Karza).

Date of advance of loan.	Name of borrower with father's name and caste.	Amount of loan advanced.	Rate of interest.	Purpose of loan.		Particulars of re-payments as agreed upon.		Other conditions, if any.	Signature or thumb-mark of the borrower with signature of attester of thumb-mark.	Sureties.		Remarks.
				Amount.	Purpose.	Date.	Amount.			Name.	Signature or thumb-mark with signature of attester of thumb-mark.	
1	2	3	4	5	6	7	8	9	10	11	12	13

Share Account.

Number of share.	Face value.	Date of issue.	Signature of Secretary.	Date of transfer or redemption.	Signature of Secretary.
1	2	3	4	5	6

Particulars of payments.

Date.	Amount paid by the member on account of shares,	Amount returned to the member.	Balance of share-money.	Signature of Secretary.
1	2	3	4	5

Deposits Account.						Loans Account.									
Date.	Amount (in words).	Deposit- ed.	With- drawn.	Balance.	Signature of the Secretary.	Date.	Amount ad- vanced.	Re-payments agreed upon.		Particulars of re-payments made.				Signa- ture of the Secre- tary.	Remarks.
								Date.	Prin- ci- pal.	Date.	Prin- ci- pal.	Inter- est.	Total.		
1	2	3	4	5	6	1	2	3	4	5	6	7	8	9	10
		Ra. a. p.	Rs. a. p.	Rs. a. p.											

Instructions to members.

This book should be carefully kept. At the time of every transaction it should be presented to the Secretary and an entry to that effect should be obtained from him.

After each entry the book should be carefully examined and checked to see whether all the entries have been correctly made and signed by the Secretary.

If there is any mistake it should be immediately brought to the notice of the Secretary and corrected and initialled.

Pass Book.

The _____ Co-operative Society, Unlimited.

_____ Tahsil _____ District _____

Name of member _____

Ledger of loans page No. _____

„ deposits page No. _____

Share-holders' Register page No. _____

Receipt.

The Co-operative Society, Unlimited.

Tahsil District

No.

Date 192 .

From whom received

Amount received (in words) Rs.

annas pies only.

On what account

Rs.

Signature of Secretary.

Receipt.

The Co-operative Society, Unlimited.

Tahsil District

No.

Date 192 .

Received from Rupees (in words) 11

annas and pies .

only on account of

Rs.

Signature of Secretary.

APPENDIX I.

Serial No.	Name of member.	Lands both transferable and non-transferable.		Value of transferable lands.	Value of houses.	Other assets.	Annual income.	Annual paying capacity towards society's debts for		Rental arrears.	Outside debts.	Society's debts.	Credit limit.	Remarks.
		Area.	Rent.					Annual cultivation, household and other current expenses.	Other purposes.					
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

NOTE 1.—The figure in column 9 will represent the amount which a member requires to borrow to meet his annual cultivation, household and other current expenses for the year.

NOTE 2.—The figure in column 10 will be the difference between the figure in column 21 and the total of figures in columns 22, 23 and 24 of the Haisiyat Register (Form No. 2).

NOTE 3.—Total of columns 9 and 10 will agree with the figure in column 25 of the Haisiyat Register (Form No. 2).

AUDIT NOTE OF PRIMARY CREDIT SOCIETIES.

Date of present audit _____	Submitted to C. A. by F. A. or Licensed Auditor on _____
Date of last audit _____	Forwarded to C. B. on _____
Name of Society _____	Copy taken by C. B. and original note submitted to C. O. on _____
No. and date of registration _____	Returned to C. B. for compliance on _____
Number of members _____	Given over to Society Moharrir for compliance on _____
Tahsil _____ District _____	Returned to C. B. after compliance on _____
	Filed on _____

AUDIT NOTE OF PRIMARY CREDIT SOCIETIES.

PRELIMINARY.

1. Does any member reside outside the village or villages for which the society was organized? If so, what action do you recommend?

REGISTER OF MEMBERS.

2. Is the register of members properly maintained?
Are all joint members entered? Are all signatures duly obtained and thumb-marks attested?
Note the conditions under which widows and guardians of minors have been admitted.
Is it advisable to retain them?
3. How many new members have joined since last audit?
4. Have all new members been elected formally and paid their admission fees?
Was the election a genuine one?
5. Have any members been expelled or withdrawn? If so, for what reasons?
Do any members wish to withdraw now and why?
Have any members been retained against their will?
What is the effect of withdrawal or expulsion of members on the society?
Have their shares of the Central Bank been redeemed?
Do they acknowledge receipt of share money?

ROKAR (CASH BOOK).

6. Are all balances in the cash book duly struck and signed by the Secretary or Sirpanch and does the cash in hand agree with the balance shown in the cash book?
Who holds the cash balance and how long has the cash balance been in his hands?
Has any cash been retained for an unnecessarily long time?
7. Have the loans advanced by the Central Bank been distributed in full to the members?
Have the payments collected from the members been remitted in full to the Central Bank?

8. Have you checked all the items of receipts and expenditure in the Rokar with khatas, vouchers, and the Society's Pass Book?
9. Is the Society's Pass Book up to date and duly attested?
If so, by whom?
Is the Pass Book taken to the Central Bank and entered whenever a loan is taken or repaid? If so, by whom?

KHATAS (LEDGERS).

10. Are credits to individual members granted only after full consideration by all the members assembled in the General Meeting?
How many of the members understand the meaning of a credit limit?
On what are the credits granted based?
Do you consider the credits granted suitable? If not, give instances of unsuitable credits with reasons for your opinion.
11. What is the total amount of credit limit granted to members in the General Meeting?
12. What is the borrowing limit fixed by the Society for itself? What is the check limit sanctioned by the Registrar?
13. What is the total amount of loans outstanding against members?
What interest do they carry?
Has any member received a disproportionately large loan?
If so, give details.
14. Mention cases in which individual members have been granted loans in excess of their credit limits.
Give reasons for such excess.
15. Is the Chitha Adai Karja (Karja-khat) properly maintained?
Are all signatures duly obtained and thumb-marks attested?
Are all sureties adequate and are they still members of the society?
Do the sureties realize their responsibility? In case of outsider—sureties, have agreements been taken from them?
16. Is the purpose of each loan duly considered and recorded in the proceedings book?

17. Have any loans been misapplied?

If so, how have they been spent and what action has been taken?

N. D.—Misapplication includes application to any purpose other than the purpose for which it was granted.

If no action has been taken do you recommend any action?
Does the misapplication affect the instalments fixed?

18. What is the total amount of overdue debts? Are they within the paying capacity of the members in one year? If not what instalments do you suggest?

To what do you attribute the arrears?

19. What is the total amount for which renewals have been granted? What instalments have been fixed? Was renewal necessary? If so why? Was it asked for by the members? Are the instalments suitable? Is this the first renewal? If not, how many have there been of the same loan?

20. Give a list of bad and doubtful debts, with reasons for your estimates? What are the prospects of recovery? What action do you recommend? How have these debts become bad or doubtful?

Has any provision been made by the society for bad and doubtful debts? If so, how much has been provided for this purpose from:—

- (a) Profits of the year.
- (b) Reserve fund.
- (c) Share capital.

21. Have any awards been taken by the society? Give details for such members with dates, amounts, and recoveries? Have they been executed? What was the result? Are any more awards necessary? Where full recovery has been made has the member withdrawn, been expelled or retained? If the latter, has he been refinanced?

SHARE CAPITAL.

22. Has the society adopted share system? If so, whether the shares are returnable or non-returnable?

23. What is the subscribed share capital of the society?

24. Have all members purchased shares according to by-laws?

Are instalments of shares regularly paid? If not, give names of defaulters and note what action the society has taken against them?

25. In case of returnable shares, has the share money been returned to members according to bye-laws and have the members acknowledged the receipt of their share money?
Have such members commenced subscribing to fresh shares?
26. Have any shares been redeemed or transferred? If so, for what reasons? Have the members acknowledged the receipt of share money returned to them?
27. What is the total face value of the shares held by the society in the Central Bank? What proportion does it bear to the total share capital of the society subscribed by its members? How much of it has been actually paid?

CENTRAL BANK LOAN.

28. What is the credit limit fixed for the society by the Central Bank?
Has it been increased or reduced since last granted? Do you consider it suitable? If not why not?
29. What is the amount of Central Bank loans outstanding against the society? How much is overdue? What action, if any, has been taken by the Central Bank to effect recovery? What interest does it carry?

DEPOSITS.

30. What is the amount of deposits made by members and non-members? Is the society allowed to accept deposits from non-members? What rate of interest does the society pay on deposits?
31. Have you scrutinized the Pass Books of loans and deposits and found that they agree with the Khatas?
Are all members' Pass Books duly entered? Are they kept by the members? Do the members know what is in them and attach any value to them?

PROFITS.

32. What was the net profit of the year?
33. What was the amount of unrealized interest if any?
34. What amount has been carried to Reserve Fund out of the year's profit? Is it according to the bye-laws?

35. What is the amount of the Reserve Fund?

How much is invested in Provincial Bank shares? Is the interest being used to reduce the rate of interest to members? If so, what is the present rate payable by members?

36. If any shares have matured for dividend, what was the rate of dividend paid? Are dividends paid duly acknowledged?

Is the record of dividend properly maintained?

37. Have any profits been invested in working capital?

What is the amount of such profits?

PROCEEDINGS.

38. Are the minute books properly written and meetings regularly held and attended? Was the annual general meeting held and were the Panchayat and office-bearers duly elected?

Ascertain whether all the members have any knowledge of the proceedings. State from their replies whether you consider they take any interest in them.

GENERAL.

39. Has the society a copy of the Registrar's vernacular circulars, a copy of the Co-operative Societies Act, the Rules thereunder, the registration certificate and by-laws and leaflet? Do the members understand them? If not, have you explained them?

Do the members understand and accept the principle of joint and unlimited liability? Has it ever been given effect to by voluntary subscriptions?

40. Is the management efficient? Do the office-bearers realize their responsibilities and discharge them properly? Are the members satisfied with their work? If not, mention any complaint for which you think there is any reasonable ground.

41. Have the defects pointed out in the last audit note been remedied?

42. Are there any remarkable or unusual matters to bring to notice?

Is the society improving or deteriorating as a whole? State briefly the grounds for your opinion. Any

dishonest dealing such as misappropriation of funds should be stated here.

Give instances of any striking improvement in the condition of members, directly attributable to the society.

What class would you assign to the society?

43. Has the society a copy of the annual financial statements? Have you checked them and corrected where necessary?
44. Append a copy of balance sheet for the last 30th June duly checked and corrected, statement of receipts and disbursements and profit and loss statement for the year ending 30th June last and statement of receipts and disbursements from 1st July last to date of audit.
45. Have you written the audit note on the spot?
Have you explained the main points in the note to the members present?

NOTE.—Please note also time spent in audit and number of members present at the audit.

Balance sheet as on 30th June 192

Serial No.	Liabilities.	Amount.			Serial No.	Assets.	Amount.		
		Rs.	a.	p.			Rs.	a.	p.
1	Reserve Fund ...				1	Reserve Fund invest- ments—			
2	Capital—					(a) in P. B. shares.			
	(a) Loans from the Central Bank.					(b) in C. B. shares.			
	(b) Savings depo- sits.					(c) other invest- ments.			
	(c) Other deposits.				2	C. B. shares (pur- chased out of share capital).			
	(d) Loans from Government.				3	Loans outstanding—			
3	Interest due on loans from the Central Bank.					(a) considered good.			
4	Interest due on depo- sits—					(b) considered doubtful.			
	(a) Savings depo- sits.					(c) considered bad.			
	(b) Other depo- sits.				4	Interest outstanding on 30th June 192—			
5	Interest due on Gov- ernment loans.					(a) on loans to members.			
6	Establishment and contingent charges due.					(b) on investments excluding re- serve fund.			
7	Dividends due (if any).				5	Other items (with details).			
8	Provision for bad and doubtful debts from—				6	Cash balance with Treasurer.			
	(a) Profits of the year.								
	(b) Reserve fund...								
	(c) Share capital ..								
	Other items (give de- tails).								
	Total Liabilities A ...								
10	Profit and Loss Ac- count—								
	Profit up to 30th June 192								
	Profit for the year 192 192								
	Total ...								
	Deduct amount carried to Reserve Fund.								
	Balance B ...								
	Total A and B ...					Total ...			

Cash Account for the period from 1st July 192 to 192 .

Serial No.	Receipts.	Amount.			Serial No.	Disbursements.	Amount.		
		Rs.	a.	p.			Rs.	a.	p.
1	Opening Balance ...				1	Purchase of C. B. shares.			
2	Withdrawal of C. B. shares.				2	Share capital withdrawn.			
3	Share payments ...				3	Deposits withdrawn—			
4	Entrance fees ..					(a) Saving Deposits.			
5	Deposits—					(b) Other Deposits.			
	(a) Savings Deposits.				4	Interest* paid on deposits.			
	(b) Other Deposits.				5	Loans repaid to Central Bank.			
6	Loans from Central Bank.				6	Interest paid to Central Bank.			
7	Loans from Government.				7	Loans repaid to Government.			
8	Loans repaid by members.				8	Interest paid to Government.			
9	Interest received ...				9	Loans to members.			
10	Other receipts (give details).				10	Dividends paid ...			
					11	Establishment and contingent charges.			
					12	Carried to Reserve Fund.			
					13	Other items (give details).			
					14	Closing Balance ...			
	Total ...					Total ...			

AUDIT CERTIFICATE

I certify that I have this day completed the local audit of _____

 Bank Limited No. _____ affiliated to _____ Circle Union
 Union Unlinited _____ Central Bank
 Society _____
 Tahsil _____ District _____.

The certificate of registration is correct and in order and is held
 by the _____ Bank
 _____ Union and business has been transacted with
 Society
 fairness, legality and honesty.

The accounts for the period _____ to _____
 have been scrutinized in detail, and the mistakes have been pointed
 out in the audit note.

The _____ Bank is {
 Union { A.—(Very Good.)
 Society { B.—(Good.)
 { C.—(Fair.)
 { D.—(Bad and Unco-operative.)
 { E.—(Financially dangerous.)

Dated _____

Signature.

Designation _____

(Brief reasons for class allotted.)

Brief remarks by the Circle Officer. (The Circle Officer should be brief and to the point.)

Explanatory Note on the Revised form of the Audit Note of a Primary Society with unlimited liability.

The revision of the present form of Audit Note has been found necessary, owing to the introduction of a new type of societies with share capital of their own. The present form has been so drafted as to be suitable for both kinds of societies whether with share capital or without share capital.

2. The additions made to the present questionnaire are the latter portion of question No. 20 and questions Nos. 22 to 27, 32 to 34, 36 and 43. In some of the other questions there are a few verbal changes.

3. Provision must be made for bad and doubtful debts in the balance-sheets of all societies, whether they are on a share-basis or otherwise. Provision for bad debt is made indirectly at present, since the figure of bad debts to Central Banks is arrived at after deducting the reserve fund and shares held by members in societies, but such provision is not shown in the balance-sheets of societies. It is desirable that the practice followed with regard to bad and doubtful debts in Central Banks should be adopted in the case of societies.

4. In the case of non-share societies questions Nos. 22 to 27 and No. 36 should be left blank. While answering question No. 25 if the Auditor finds that the period, for which shares must remain in the society before being returned, has not elapsed, he should make a note to that effect against the question; but, in other cases, he should state the required facts.

5. In the statements appended to the note, additional side-heads have been inserted to suit the requirements of share societies.

(a) *Cash account statement.*— Side-heads "withdrawal of Central Bank shares" and "purchase of Central Bank shares" have been provided in the "Receipts" and "Disbursements" sides, respectively, to show transactions of shares purchased by the society in the Central Bank.

(b) *Balance sheet—**Assets—*

Side-head 1.—In the old form the head was intended to represent the investment of Reserve Fund. This has been made clear in the revised form, and separate sub-heads have been provided to show the details of investments.

Side-head 2.—A new head has been provided to show the share holding of the society in the Central Bank. This will remain blank in non-share societies.

Side-head 3.—Sub-heads for showing the classification of loans into good, doubtful and bad have been provided.

Side-head 4.—Side-heads 3 and 5 of the old form have been brought under one head.

Liabilities—

Sub-head 8.—New head has been provided to show the provision made and the sources from which it has been made to meet bad and doubtful debts.

REPORT
ON THE
CONDITION OF THE CO-OPERATIVE
MOVEMENT

IN
ORISSA

BY
DIWAN BAHADUR K. DEIVASIKHAMANI MUDALIAR A.V.

[*Price—Rs. 1-2-0.*]

XM.254.N46
G8

FROM

M. R. RY DIWAN BAHADUR
K. DEIVASIKHAMANI MUDALIAR AVL.,
OFFICER-IN-CHARGE,
CO-OPERATIVE ENQUIRY, ORISSA.

TO

THE SECRETARY TO THE GOVERNMENT
OF ORISSA, EDUCATION DEPARTMENT, CUTTACK.

Dated Madras, the 31st March 1938.

SIR,

I send herewith my report on the enquiry into the condition of the Co-operative Movement in Orissa.

I have the honour to be,

SIR,

Your most obedient servant,

K. DEIVASIKHAMANI,

Officer-in-charge.

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REPORT ON THE CONDITION OF THE CO-OPERATIVE MOVEMENT IN ORISSA.

CHAPTER 1.

PRELIMINARY.

Appointment of the officer for enquiry and the terms of reference.— The Government of Orissa in their notification No. 5-80-E., Education Department, dated the 10th November 1937, were pleased to depute me to conduct an enquiry into the condition of the co-operative movement in Orissa in pursuance of an announcement made by the Hon'ble the Chief Minister in the Legislative Assembly during the discussions on the budget estimates in August 1937. In resolution No 6584-E., Education Department, dated the 23rd December 1927, Government announced the terms of reference regarding the enquiry as follows:—

- (1) to examine the progress made in the co-operative movement in the Province since its start;
- (2) to ascertain the present general financial position of each of the central banks in the Province, taking into consideration the present market value of properties and the reduced repaying capacity of the borrowing members of societies, and if in any of the central banks the assets fall short of the liabilities, to suggest what further action is necessary and possible;
- (3) to find out—
 - (a) whether any of the central banks was unable to meet its obligations to its creditors and, if so, for how long and for what reasons;
 - (b) whether any of them has made any satisfactory arrangements since to pay back its overdue debts;
- (4) to ascertain the general condition of the primary credit societies in the Province and to state if any remodelling of their constitution is necessary, if their present condition is not satisfactory and also to report whether they are being financed adequately at present by the central banks to meet the demand of their tenant members for their agricultural operations;
- (5) to examine the practice and organisation of the financial system of the movement and to make recommendations particularly about the reconstitution of the central banks and the establishment of an apex bank and to state the

principles upon which these banks should finance the societies in future and also to suggest how central banks and societies can be extricated from their present financial stagnation and how the public confidence in them can be restored ;

- (6) in respect of each central bank and primary society which are found to be in an unsatisfactory condition, to ascertain if any one is responsible for this and the extent to which he can be held responsible ;
- (7) to examine the position in regard to co-operative distribution, production and sale and to make recommendations ;
- (8) to make suggestions about the reorganisation of the Co-operative Department in the Province.

2. *Constitution of District Committees.*—The notification also laid down that in the course of the enquiry I would be assisted by the following gentlemen when conducting the enquiry in their respective districts:—

CUTTACK DISTRICT.

1. Srijut Bhagirathi Mahapatra.
2. „ Souri Prasad Mahapatra.
3. „ Harihar Mahapatra.
4. „ Loka Nath Misra.
5. Rai Bahadur Bhikari Charan Patnaik.

BALASORE DISTRICT.

1. Srijut Jagannath Das.
2. „ Karunakar Panigrahi.
3. Maulavi Muhammad Hanif.

SAMBALPUR DISTRICT.

1. Srijut Ramani Ranjan Bose.
2. „ Biswanath Panigrahi.
3. „ Prahlad Rai Lath.

PURI DISTRICT.

1. Srijut Jagannath Misra.
2. „ Banamali Das.

GANJAM DISTRICT.

1. Srijut Kshetramani Panda.
2. „ Balkrishna Patra.
3. „ Navi Ramkrishna Rao.

3. *Preliminary work and issue of a questionnaire.*—I reached Cuttack on the 8th November 1937, had preliminary discussions with Government on the lines of the enquiry, visited some rural credit societies round about Puri and Cuttack and also the central bank at Puri and framed the questionnaire (appended to this report) and the forms for certain statements for the collection of statistical information on the working of the societies and the central banks in the Province. The questionnaire was issued on the 29th November 1937 to all the central banks and other co-operative institutions, all the members of the Provincial Legislature and the Orissa members of the Central Legislature and a large number of gentlemen—official and non-official—who were known to be interested in the movement or who were thought likely to offer advice. (A notice was also inserted in certain newspapers inviting any one interested to give evidence.) An additional questionnaire was also issued to the central banks with special reference to their working. On receipt of replies to the questionnaire, the selection of the gentlemen for taking evidence was made. I commenced the enquiry on the 3rd January 1938. Mr. K. Subrahmanyam who was appointed secretary to assist me joined his duties on the 9th January 1938.

4. *Programme of work.*—I toured throughout Orissa and visited all the fifteen central banks, 35 village credit societies and a few societies of other types. I obtained 243 statements for village credit societies showing their financial position. At each of the villages which I visited I met a large number of members of societies. During my inspection of central banks I met the directors and held discussions with them on the working of the banks and generally of the movement in their areas. Most of the members of the district committees accompanied me during my visits to the central banks and societies and were present during my examination of the witnesses and elicited information on matters of importance touching the movement generally in their respective districts. At the conclusion of the enquiry in each district, I had discussions with the members of the committees concerned and obtained their views on all matters of consequence to the movement. At Cuttack, however, a conference of the members of the District Committee with certain members of the Legislative Assembly was held and this was presided over by the Hon'ble the Chief Minister. The Hon'ble Mr. Dube, Minister for Local Administration, also attended this conference. Two members of the Cuttack Committee were present at this conference. The resolutions of the district committees will be found in Appendix no. I to this report.

I received in all 86 replies to my questionnaire and I examined 68 witnesses in addition to my informal discussions with a number of other persons interested in the movement. Further, I met several hundreds of the members of village credit societies at many places with whom I had informal talks. The enquiry was completed by the 15th February 1938 and the drafting of the report was finished by the 31st March 1938.

CHAPTER II.

THE ORIGIN AND DEVELOPMENT OF THE CO-OPERATIVE MOVEMENT IN
ORISSA.

5. *Introduction.*—One of the terms of reference in regard to the enquiry is to examine the progress of the co-operative movement in the Province since its start. I have accordingly done it and the plan of treatment adopted is as follows. I have divided the chapter into three parts. The first part deals with the origin and the slow progress of the movement from its inception up to the period ending 31st March 1920—that is to say, up to the year of the introduction of the Montague-Chelmsford Reforms. The second part deals with the rapid progress of the movement during the first decade of the post-reform period (from 1921—1931). The third part relates to the working of the movement during the subsequent period when the effects of the economic depression were felt; this is a period of slow deterioration when the movement has experienced difficulties.

In the third part I have given a full and detailed description of the various types of co-operative organisations in the Province so that all the available information on the subject can be found in a convenient form in the report. As it is, no connected account of the objects or the methods of work of the several types of institutions can be found in any one place; it can be had with great difficulty in a fragmentary manner from a number of reports and statements. This rather detailed account of societies makes the chapter a little elaborate but this cannot be helped. I may also add that it was found difficult to obtain information for a major part of this chapter as the new Province was carved out of three or four old Provinces from time to time. With the information furnished by the central banks and the statistics culled from various reports, this chapter has been written.

6. The early beginnings of the movement in Orissa were clouded by the larger movement in Bengal of which Orissa and Bihar then formed a part and its later growth by that in Bihar and Orissa. The origin of the movement here as elsewhere in India dates back to the beginning of this century. Co-operation was officially *set up* in India with the passing of the Co-operative Credit Societies Act X of 1904 and depended for its original impetus upon official initiative, direction and control. Because credit was and has been the most insistent need of the Indian agriculturist, the first efforts of the pioneers of the movement were naturally directed towards the establishment of adequate credit agencies and helping to lighten the burden of rural indebtedness though in later years (after the passing of the India Act II of 1912) co-operation has been applied to other aspects of the economic life of the people. The Raiffeisen type of co-operative credit society taken from Germany was considered suitable for Indian needs and introduced. The main principle underlying this form of organisation is the collective guarantee furnished by a group of persons, enabling them to obtain

funds at a rate of interest lower than the rate at which the individual members could obtain such advances. The educative value of co-operation in promoting thrift, self-help and mutual help and associated effort for the attainment of common economic needs has been from the beginning realised and emphasised, although in practice much was not achieved in this respect.

7. *Origin of the movement in Orissa.*—Even before the passing of the first Co-operative Credit Societies Act, 1904, Orissa like some other parts of India, witnessed the beginnings of co operation under official initiative. In the year 1903 a co-operative society was started in the Banki subdivision of Cuttack district and was given an advance of Rs. 1,000 by the Bengal Board of Revenue. At Nimapara in Puri district, too, another society was formed with a Government loan of Rs. 500 which was utilised for loans to members for a period extending to seven years. In the same year (1903) Mr. P. C. Lyon, Director of Settlement and Agriculture, organised and started three societies in Balugaon, Taraboi and Dolgarh villages of the Khurda subdivision with a Government loan of Rs. 1,250. In 1905 three more societies were started in the Dompara Estate of the Banki area and were financed by the Dompara Wards Estate; the years 1906 and 1907 saw the addition of seven societies and in 1909, ten more were started. With the increase in the number of societies, it became necessary to have an agency for supervising and financing the societies and expanding the movement and the Banki Dompara Union of Co-operative Credit Societies Limited (later styled as the 'Banki-Dompara Central Co-operative Union') was registered in March 1910. In Khurda, too, 21 societies were formed by 1911 when the need for a central bank was felt. In May 1912, the Khurda Central Bank was started and with the appointment of an honorary organiser, expansion of the movement in that area was proceeded with.

The passing of Act II of 1912 more or less synchronised with the separation of Bihar and Orissa from Bengal. By this time there were formed 530 agricultural and non-agricultural societies and 8 central banks in Bihar and Orissa. Of these there were only 2 central banks and 82 societies in Orissa with a membership of 3,182 and a working capital of Rs. 2.78 lakhs.

After Bihar and Orissa was separated from Bengal a separate Registrar was appointed for the new province from the cadre of the Indian Civil Service and an officer from the Provincial Service became his Personal Assistant; there were three auditors in charge of the credit societies.

8. *Growth of the movement after separation from Bengal.*—Even at that stage it was evident, as may be seen from the resolution of the Government of Bihar and Orissa on the report on the working of co-operative societies for the year 1912-13, that if real progress was to be made, the need for the present time was for consolidation rather than

for the rapid extension which characterised the movement in its earlier stages and rendered necessary the compulsory winding up of a large number of societies. Of the 181 societies started in the first three years of the introduction of the movement in Bihar and Orissa, 126 had been closed with the advent of the central societies and provision for better supervision. Thirty-seven out of 146 societies registered in the next two years had ceased to exist.

The progress of the movement in Orissa during the first eight years after the formation of the new Province of Bihar and Orissa is indicated in the following statement :—

Year.	Societies of all kinds.	Individual members.	Central banks.	Total working capital of all banks and societies as shown in Government returns.	Actual working capital in the movement excluding investments of one society in another.	Reserve fund
1	2	3	4	5	6	7
				Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)
1912-13	94	3,182	2	2'78	1'83	0'03
1914-15	155	5,397	3	5'97	4'11	0'34
1919-20	641	12,650	10	16'61	11'02	1'43

The progress during the first few years was slow but during the year 1918-19, 138 societies were registered and in 1919-20, 221 more were started.

9. *Policy of debt redemption and difficulties of finance and supervision.*—At the beginning Government financed societies and on 31st March 1913, the total amount of Government money invested was Rs. 11,732. Owing to the increase in the number of societies and to the “declared policy” of the non-official workers in the movement as well as of the department at that time “to redeem all the old debts of the members of societies so as to free them completely from *mahajans*,” the difficulties for adequate finance were soon felt. More funds were required to meet the demands. The need, too, for continuous supervision of societies—the absence of which was said to have accounted for the winding up of a large number of societies in the earlier years—was felt. It was realised by the officers of the department that care should be exercised for registering applications for the starting of societies and that such applications should be refused in cases where requisite arrangements for adequate supervision were wanting. Conditions were, therefore, to be created to ensure adequate

finance and supervision, and efforts in this direction resulted in forming central societies. Sir (then Mr.) E. L. L. Hammond, Registrar of Co-operative Societies, in his report for the year 1912-13 wrote as follows:—

“At first I was doubtful as to the advisability of starting a central society until some experimental rural societies had demonstrated the need for the larger institution. The success of the experiment initiated by the late Mr. Buchan at Madhipura where a central society, superimposed on some 22 societies, which were more or less declared failures, not only infused new life into those societies, but also extended operations with, up to the present, marked success, has led me to believe that the most successful method of bringing co-operative societies into existence is to start a central bank where the necessary conditions appear to exist. These conditions are first the need for money at a lower rate of interest than can be obtained locally; secondly, suitable members whose circumstances are of such a nature as to justify their being fully financed and freed from all their creditors; thirdly and most important of all, educated men who are willing to devote their spare time and energy as directors of the bank for supervision; lastly, an energetic and tactful local officer on whom both the Registrar and the local organisers can rely for advice and assistance.

“Every Subdivisional Officer has at the present moment a great opportunity. He has only to enquire to realise the need for co-operative societies. He should be able to arrange for the necessary organisers, selecting them as far as may be from all classes, official or non-official, and then by personal encouragement and example, get a central bank started and financed, which in the course of a few years should really be independent of official encouragement.

“It is therefore not only essential that the members should be fully financed in the first instance, but equally imperative that throughout the year temporary accommodation should be available.”

The policy adopted in pursuance of this objective would seem to account for the greater increase in the number of central banks in Orissa from two to ten during the period from 1912-13 to 1919-20.

10. *Central banks and unions.*—The first central bank was, as already stated, formed at Banki in March 1910. It was of the type of “central banking union”. This type of financing agency was at first composed of affiliated societies, but later on a limited number of special share-holders (individuals) were also taken in if they were known to be

in sympathy with the movement and if their association with the 'union' was likely to safeguard the interests of the societies. The second financing bank formed in Orissa is the Khurda Central Co-operative Bank (1912). This represents the second type of central financing agency (known as "central banks") consisting of representatives of societies (ordinary share-holders) and preference (individual) share-holders qualified to participate in the business management of the banks concerned and expected to add strength to the bank by reason of their local influence and business knowledge. These two forms of central banks still continue to function in Orissa. By 31st March 1920, there were ten such central banks and unions which financed 563 societies. Their working capital was Rs 8-17 lakhs.

In addition to finance, the banks also undertook supervision of affiliated societies through a paid staff of inspecting clerks, each being in charge of 40 to 50 societies. Government usually paid for the maintenance of an inspecting clerk in the initial stages, as it was impossible for a newly started central bank to meet its cost of management.

11. *Provincial Bank.*—With the growth of the central banks and banking unions, the need for liquid capital in the shape of cash credit at a reasonable rate of interest and for adequate funds to enable the central banks to finance the societies was felt. In April 1914 the Bihar and Orissa Provincial Co-operative Bank was formed. During the year 1913-14, it granted cash credits to the central banks to the extent of about Rs. 3 lakhs besides 'fixed loans' to the amount of Rs. 1 lakh.

12. *Honorary organisers.*—In the early stages of the expansion of the movement, the honorary organisers also played an important part. In undeveloped areas, non-official gentlemen with local knowledge and influence were selected and they were paid travelling allowances for the journeys they undertook in connection with their two principal functions of organising and supervising societies. The usual practice was to withdraw the honorary organisers from an area when a central bank was formed and a manager with a sufficient number of inspecting clerks was appointed.

13. *Beginnings of guarantee unions.*—The period under reference saw the beginnings of the formation of guarantee unions. The first guarantee union in Orissa was started in 1918 at Purushothampur in the Jajpur area. Supervision of societies through guarantee unions was considered better for the healthy development of the movement. The system of guarantee unions was copied from Burma. It was expected that these unions would keep up a high standard of efficiency in the working of societies by a system of mutual supervision. These unions were also intended to foster education, sanitation, agriculture and to further, in every way, the interests of the societies. There were six unions in Orissa by 31st March 1920,

14. *The Bihar and Orissa Federation.*—Towards the end of 1918, the Bihar and Orissa Co-operative Federation was started with the following objects :—

- (i) to ensure a regular and efficient system of supervision, audit and control for all co-operative banks and societies enrolled as members ;
- (ii) to promote agricultural, industrial and other special forms of co-operation ;
- (iii) to aid in the expansion and improvement of primary education, to promote sanitation, to facilitate medical and famine relief and generally to secure moral and material progress of its affiliated societies ; and
- (iv) to secure unity and uniformity amongst all co-operators of Bihar and Orissa and to see that all co-operative business is conducted on sound and progressive lines.

15. *Non-agricultural credit societies.*—Though attention was, during this period, mainly given to the organisation of agricultural credit societies, a few attempts were also made in 1914 to start societies for the weavers of Cuttack and Sambalpur towns. At the instance of the Registrar, the Khurda Central Bank undertook, rather reluctantly, to form societies among the fishermen living along the bank of the Chilka Lake in order to improve their material condition and to arrange for drying and curing fish.

16. *Origin of the movement in South Orissa.*—In South Orissa the first co-operative society started was the Berhampur Urban Bank in the year 1906 and there was no appreciable expansion till 1915-16 when the number of societies was 19. In the year 1913 a co-operative society was for the first time started at Aska. These societies were financed by the Madras Central Urban Bank (now the Provincial Bank). The Ganjam District Co-operative Central Bank was formed in 1916 when these societies were got affiliated to it for purposes of finance. For local reasons, another central bank was formed at Aska in 1918 to finance societies in Ghumsur Division and Khallikote and Athagada Estates. Though another financing bank was started at Parlakimedi, it could not attract deposits and was amalgamated with the Berhampur Central Bank in 1924-25. At the end of the year 1919-20, there were three central banks with 185 societies affiliated to them with a total working capital of Rs. 6.83 lakhs. The membership of all types of societies was 9,264. There were six local co-operative supervising unions for the purpose of supervising affiliated societies.

So much to show the origin and the beginnings of the movement up to 1919-20.

17. *Progress from 1920-21 to 1931.*—This period is important from more than one point of view. The beginning of this period

coincided with the introduction of the Indian constitutional reforms when 'Co-operation' became a transferred subject under the control of Provincial Ministers. A committee was appointed in the year 1922 to advise the Government on the financial side of the co-operative movement in Bihar and Orissa. A second committee was appointed in 1923 to consider the arrangements proposed to be made to control the movement, the adequacy of the audit system and financial assistance required from Government. The reports of both the committees were generally accepted by the Bihar and Orissa Government and followed up in practice. As repayments by members to societies were not satisfactory, a wholesale revision of *kists* (instalments of loans) was made between the years 1927 and 1929. In the year 1929-30 the Bihar and Orissa Provincial Banking Enquiry Committee reviewed the co-operative movement as one of the more important banking agencies existing in the Province and came to the conclusion that "the co-operative movement in this Province has made an appreciable inroad into the province of rural credit and viewed as a banking agency is generally in a sound condition. Its defects are remediable and there is no reason why it should not occupy a very prominent position in this sphere before many years have passed". Conditions, however, altered so considerably that a fresh enquiry became necessary, and Government appointed another committee in the year 1931 and on its report, Government were pleased to note that "in spite of the world-wide economic depression the co-operative movement in the Province has been pronounced to be essentially sound and on right lines" and agreed with the verdict of the committee "that it is beyond doubt that there is a great demand for credit societies among the rural population of the Province and that there is scope for an advance, though cautious, in most directions".

The following statement shows the rapid progress of the movement during this period :—

Year.	Societies of all kinds.	Individual members.	Central banks.	Total working capital of all banks and societies as shown in Government returns.	Actual working capital in the movement excluding investments of one society in another.	Reserve fund in the movement.
				Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).
1920-21	837	20,900	11	23'79	11'83	1'84
1923	1,307	31,515	13	51'83	24'34	3'30
1925	1,748	22,068	13	71'61	51'02	5'21
1927	2,149	65,501	13	93'63	49'48	7'45
1929	2,288	71,846	13	102'86	54'55	10'22
1931	2,259	75,968	13	111'28	59'08	12'82

Certain broad facts in relation to the progress of the movement during this period may perhaps be stated here. While over 900 societies were started between 1920-21 and 1925, the annual average being 180, the number of societies formed during the quinquennium ending 1930, was 550, the annual average being 110. Three circumstances contributed to this "co-operative boom". There was a rise in the prices of agricultural commodities and of land immediately after the Great European War and this had the effect of generally increasing the borrowing capacity of the agricultural classes. Further, there was a free flow into co-operative banks of middle class capital seeking investment. The enthusiasm of the Registrar and the honorary organisers during the earlier part of this period was also responsible for the rapid expansion. During this period the number of central banks in North Orissa reached the maximum, viz., 13. There was a very marked increase in membership and working capital of all banks and societies. This rather too rapid growth of the movement, before the preparatory ground was made ready, had its inherent weaknesses and brought in its wake evils which landed the movement in difficulties.

18. *Progress from 1932 to 1936-37.*—The following statement shows the working of the movement during the third period, from 1st January 1932 to 30th June 1937 :—

Year.	Societies of all kinds.	Individual members.	Central banks.	Total working capital of all banks and societies as shown in Government returns.	Actual working capital in the movement excluding investments of one society in another.	Reserve fund in the movement.
				Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).
1932	2,213	74,563	18	107'52	58'60	12'99
1933	2,184	72,905	18	107'14	56'82	13'58
1934	2,169	72,546	18	104'35	59'00	12'17
1935	2,205	86,319	13	117'24	87'88	13'00
1936-37 N. Orissa.	2,137	71,341	13	98'21	75'57	11'05
S. Orissa.	522	29,921	3	30'23	19'82	2'32

As may be seen from the statement there has been a fall in the number of societies and the transactions. The period more or less coincided with that during which the effects of the world-wide economic depression have been very severely felt. There has been a marked fall in the prices of agricultural produce and of land; repayments by

members to societies and societies to central banks recorded a marked deterioration. Some of the societies went into liquidation and most others have been in a very bad way.

The close of this period under review witnessed the introduction of provincial autonomy in all British Indian Provinces, and what is of great importance, the creation of the new Province of Orissa.

Of the 2,679 societies existing on the 30th June 1937 no less than 2,434 with 89,807 members were agricultural primary credit societies. The remainder consisted of 16 central banks including the newly registered Orissa Provincial Co operative Bank, 4 guarantee unions and 36 non-agricultural credit societies, 10 societies for purchase and sale, 66 societies for production and sale and 60 miscellaneous societies.

19. *Agricultural primary credit societies.*—Orissa like most other British Indian Provinces is mainly agricultural and it is natural, therefore, that the village credit societies constitute the most important part of co-operative organisation in Orissa. There has been a considerable increase in the number of agricultural credit societies every year since 1915 when there were only 146* societies in existence.

The 2,434 credit societies in existence on 30th June 1937 had a working capital of Rs. 56.77 lakhs, of which Rs. 41.26 lakhs had been lent by central banks. The balance was made up of share capital of Rs. 4.7 lakhs, reserve and other funds of Rs. 8.8 lakhs and deposits of Rs. 2.01 lakhs held by members and non-members.

Membership.—There were 70,361 members in all agricultural credit societies on the 30th June 1937, the average membership per society being 29. While for North Orissa, the number was only 23, for South Orissa it was 37. The gradual decrease in the average membership per society in North Orissa is a regrettable feature which needs to be noticed; it was 35 in 1912-13 and 23 on 30th June 1937. This average membership compares very unfavourably with that of village societies in most other provinces. In Madras it was 49 on June 30, 1937.

Objects.—The objects, constitution and method of working of these societies may briefly be stated here. The objects of the societies, as shown in the model by-laws, are to bring about the moral and economic welfare of the members by means of common counsel and joint efforts and with this end in view, they shall do all or any of the following things:—

- (i) borrow funds at a reasonable rate of interest by offering the joint and several liability of the members as security in order to utilise such funds in loans to members;

* The figures relate to North Orissa.

- (ii) encourage thrift and habit of saving by insisting on small monthly deposits and on frugality on all occasions of festivity and general prosperity;
- (iii) establish schools by raising subscriptions, donations, securing grants-in-aid or other ways where none exists; or improve existing ones by increasing the attendance of pupils and improving the quality of the teachers and the teaching;
- (iv) improve village sanitation and the health of the members and their cattle by providing for better drinking water, arranging for medical aid, for the prevention of epidemics and for more healthful life;
- (v) create among the members a spirit of service, of mutual help and toleration among all castes and creeds by utilising all occasions when help and service are needed, by undertaking joint work for common village needs, such as the excavation of a tank or a well for drinking water or the construction or improvement of village roads;
- (vi) effect agricultural improvements of all kinds by arranging for better seeds, manures and implements and by introducing more remunerative crops wherever possible; and
- (vii) organise village amusements by arranging for healthy sports, recital of stories and contemporary news by educated friends, magic lantern lectures and the like, and similar other objects of moral and material progress for the people.*

It will be observed that the societies were not intended merely to give loans to their members but to attend to the common needs of all the villagers.

* The original objects of the by-laws were as follows:—

- (i) to borrow funds at a reasonable rate of interest by offering the joint and several liability of the members as security in order to utilise such funds in loans to members;
- (ii) to accept deposits at interest in order to stimulate the habit of saving;
- (iii) to encourage primary education, improved agriculture, sanitation and similar other objects of moral and material progress for the people.

The scope of the objects of the by-laws was widened by a circular of the Registrar in 1926 in the manner noted above.

The by-laws of the village credit societies in South Orissa which follow the Madras model besides providing for giving loans to members permit also —

- (i) the owning in common of costly agricultural implements and animals;
- (ii) the joint purchase of domestic and agricultural requirements of members; and
- (iii) the joint sale of agricultural produce of members.

If a society wishes it can under its by-laws be a multiple purpose society.

The societies are registered on the basis of unlimited liability and are composed of agriculturists, raiyats or tenants and credit is obtained on their joint security. The membership of a society is generally confined to the residents of one village in order to ensure mutual knowledge amongst the members. There are villages also in which two or more societies exist, while there are societies each operating over a large number of villages sometimes numbering a dozen or more. This is particularly noticeable in Angul. In one society in the Bargarh area, as many as 16 villages are included.

Management.—The management of the societies in North Orissa is in the hands of the *panches* (or panchayatdars) generally not exceeding five, who are elected in annual general meetings. The *Sirpanch* is the chairman who is elected by the general body. No *Sirpanch* or secretary shall hold office for more than three years without the previous sanction of the Registrar or shall be eligible for re-election within two years of such period without such sanction. (Originally the approval of the Central Bank was necessary). Individuals are admitted into the societies at the general meeting provided one-fourth of the total number of members on the rolls do not object to such admission. The panchayats may fine, suspend or expel any member for breach of the by-laws or rules, for wilful defaults, etc.; but all such cases require the confirmation of the general meeting. In South Orissa, the *Sirpanch* or the President is selected by the Panchayat from among themselves and not by a general body.

Funds.—The funds of the societies in North Orissa consist of shares, deposits and loans from central banks. A dividend, not exceeding 9½ per cent is allowed on members' shares. The societies are permitted to take fixed and savings deposits at rates of interest fixed annually at the general meeting. The fixed deposits are repayable at *kist* time. The amount of deposit of either kind which an individual may at any time have to his credit in a society should not exceed Rs. 200. Fifty per cent of the amount received in respect of savings deposits should be kept in the central bank. The maximum borrowing power of societies or of a member is not specifically fixed in the by-laws.

The general meeting decides the maximum amount of liability to be incurred during any one year, the maximum amount which any member can borrow and the period of such loans. In practice, the maximum borrowing power of societies is the total of the individual limits fixed for members. Originally the maximum limit of loan for a member was fixed at one-third of his assets shown in the "haisiyat" (property statement) register but in recent years, the limit is generally fixed at one-fifth. The maximum borrowing limit fixed by the general body has to be approved by the central bank, but in practice the question is considered only when a loan application is received. Under the by-laws, a member is required to take or subscribe shares up to one-tenth of the amount of his loan, and a society can borrow from the central bank up to ten times the face value of the shares taken by it in the bank.

Loans.—Loans are granted for necessary purposes on the security of one or more sureties; in addition, the panchayat may take mortgages of immovable properties. When a borrowing member is a co-sharer in any joint family, at least any other adult co-sharer is also asked to join as surety. Repayment of *kists* (instalments of loans) is fixed by the panchayats subject to the maximum period fixed from time to time by the general meeting; originally the period extended to five years and in some cases even to eight years, particularly in cases where indebtedness was heavy. In the light of the financial difficulties such as wholesale defaults, frozen loans, etc., brought about in the earlier years by the grant of loans to members of societies for the repayment of old debts, purchase of lands, redemption of mortgages, the Registrar issued circular instructions in the year 1931, suggesting a classification of loans into short-term, medium-term and long-term loans and the fixation of the maximum borrowing limit of societies at Rs. 10,000 (loans in excess of this limit being permissible with his previous sanction).

As in North Orissa the societies in South Orissa also derive their working capital from shares, deposits and loans from central banks. Their maximum borrowing power is specifically fixed in the by-laws and it is invariably put at not more than one-eighth of the net assets of all members of a society. The maximum borrowing power of an individual member is also specifically laid down in the by-laws—generally it ranges from Rs. 250 to Rs. 500—but the actual amount which can be given to a member depends upon his income and repaying capacity.

As regards the objects of societies already referred to it may be stated that the first object has been achieved in a large measure. On 30th June 1937, the total amount of loans outstanding against the members of all agricultural credit societies* (limited and unlimited) was Rs. 45.80 lakhs; for North Orissa, the amount was Rs. 36.04 lakhs; the corresponding figure in 1912-13 being Rs. 1.41 lakhs. The following figures show the classification of loans outstanding on 30th June

* Separate figures for agricultural credit societies with unlimited liability are not available for this classification.

1937 according to security—(mortgage of immovable properties, joint personal security, etc.) and also the amount of loans advanced for varying periods:—

Loans outstanding against members classified according to security and period.

Particulars.	Amount outstanding.		Percentage to the total amount outstanding.		Percentage for the Province.
	North Orissa.	South Orissa.	North Orissa.	South Orissa.	
	Rs. (lakhs)	Rs. (lakhs).			
<i>Security.</i>					
1. Loans advanced on the pledge of deposits of members.	...	'11	...	1'09	'23
2. Loans advanced on the mortgage of movable property.	...	'08	...	'29	'06
3. Loans advanced on the mortgage of immovable property.	12'57	'98	34'87	17'25	20'63
4. Loans advanced on the joint and personal security of one or more members.	23'47	9'22	63'15	88'37	70'19
Total ...	36'04	9'76	100'00	100'00	100'00
<i>Period.</i>					
Short-term ...	2'05	4'22	5'67	43'32	13'69
Long-term.—Exceeding one year but not two years.	0'28	1'13	'77	11'55	3'08
Exceeding two but not five years ...	10'46	4'39	29'04	44'94	32'44
Exceeding five years ...	23'25	0'02	64'52	'19	50'79
Total ...	36'04	9'76	100'00	100'00	100'00

The most disquieting feature of the working of agricultural credit societies has been a steady increase of members' overdues to societies. The overdues on 30th June 1937 amounted to Rs. 40.23 lakhs as against a demand of 48.22 lakhs. I will again discuss this aspect of the matter in fuller detail.

So far as the second object (viz., promotion of thrift and savings) laid down in the by-laws is concerned, the position is disappointing. As against a total working capital of Rs. 56.77 lakhs, the deposits held by the members amounted to Rs. 1.33 lakhs, which work out to 2.34 per cent of the total working capital; the share capital of the members was Rs. 4.70 lakhs which is 8.28 per cent of the working capital. It may be stated here that in most cases the share capital was deducted from the loan amount disbursed.

There is not much to record on the work done by the societies in carrying out the other objects laid down in the by-laws except that some of them advanced some loans for agricultural improvements, purchase of better seed, etc.

Rates of interest.—The primary agricultural credit societies borrowed from the central banks at $15\frac{1}{2}$ per cent in the past years and lent to their members at $15\frac{3}{4}$ per cent. The rates have been reduced to $10\frac{1}{2}$ per cent by a very few banks in recent years and the societies in such cases lend to their members at $12\frac{1}{2}$ per cent. The bulk of the loans outstanding against members continues to carry interest at $15\frac{3}{4}$ per cent. In the past years, penal interest was also charged on overdue instalments of loans.

Distribution of profits.—The annual profits of the societies in North Orissa are generally distributed as follows:—

- (i) 10 per cent to one of the *panches* who writes the accounts of the society;
- (ii) one-fourth of the balance to the reserve fund;
- (iii) an amount not exceeding 10 per cent of the balance to the common good fund;
- (iv) out of the balance, a dividend not exceeding $9\frac{3}{4}$ per cent on all paid-up shares; and
- (v) the remainder, if any, to the reserve fund.

The above allocation of the net profits seems to be in conflict with the provisions of the Act. Apparently the by-laws of primary societies have not been changed since the Bihar and Orissa Co-operative societies Act was enacted in 1935. Under the provisions of this Act 35 per cent of the net profits shall have to be carried to the reserve fund before any division of the net profit can be made. But the above allocation may not give more than $22\frac{1}{2}$ per cent of the net profit to the reserve fund. Even when the Act of 1912 was in force that Act required at least 25 per cent of the net profit to be carried to the reserve fund. The allocation was inconsistent with the provisions of that Act, too. Most of the societies have not been able to declare a dividend as they have not been working at a profit.

Reserve Fund.—Under the rules the societies, after the first four years of their working, are required to invest 50 per cent of their accumulated reserve fund and thereafter, one-half of their annual contribution to their reserve fund in purchasing shares of the central banks to which they are affiliated or in such manner as the Registrar may decide. The reserve fund is ordinarily available for any of the following purposes:—

- (i) to cover any losses arising from any unforeseen circumstances;

- (ii) to meet any liability when the society has not got a sufficient cash balance, such payment being reimbursed to the fund as soon as collections are made; and
- (iii) to serve as security for any loan which the society has to contract.

In the societies in South Orissa 50 per cent of the net profit is allotted to reserve fund. The dividend payable on share capital cannot exceed $6\frac{1}{2}$ per cent.

20. *Grain golas*.—Grain golas constitute the balance of agricultural credit societies in Orissa. They are registered on limited liability basis. The objects of the grain golas are—

- (i) to create a store of paddy to be lent out to members for seed grain, maintenance and repayment of paddy debts at higher interest;
- (ii) to create a reserve stock of grain for any unforeseen emergencies, such as famine and scarcity; and
- (iii) to evolve improved varieties of seed by a process of careful selection and to propagate the same.

The rate of interest on loans to members is 25 per cent on account of dryage, wastage and deterioration to which the grain is liable. Loans are advanced on personal sureties, and mortgages of immovable property by way of collateral security are also taken. Every member is generally required to contribute towards share capital 10 seers of paddy for every acre of land cultivated by him but it is refundable to the member after five years without interest. He is also expected to make voluntary contributions on such occasions as marriage, *sradh*, etc.

The first grain gola was registered at Banki in the year 1918; with the help of a Government grant of Rs. 2,000 a godown was built for storage of paddy. It rendered service to the members during the high floods in the year 1920-21, but as its working was found bad, it was subsequently liquidated.

Consequent on the famine which occurred in Angul in the year 1919 and the scarcity of paddy in that area, the need was felt for grain golas as a measure of relief. Sixteen golas were, therefore, started in the Angul subdivision in the year 1920-21 and in the following year, 18 more were added. There are at present 34 golas in Angul. Four of the golas constructed *pucka* buildings with Government contributions of Rs. 27,600. Other golas own all *kutchā* buildings. Kujang, Cuttack and Bhadrak subdivisions also have some golas. In Sambalpur, Government originally started and managed paddy golas and in the year 1926, handed them over to the Sambalpur Co-operative Central Bank. At present the bank is managing three golas through a paid staff of its own.

Similarly in Bargarh subdivision Government started some grain golas and in the year 1927, handed them over to the Bargarh Central Bank by a deed of gift. The Bank has at present stock of paddy in three centres serving 52 village credit societies affiliated to it. The central bank charges 20 per cent on paddy loans to societies and the latter in their turn charge 25 per cent on loans to their members. The societies and the central bank deal in cash as well as paddy.

There were on 30th June 1937 forty-four grain golas with a total membership of 14,018; of these, 34 golas with a membership of 12,527 are in Angul subdivision. Most of the grain golas, particularly in Angul, are now reported to have deteriorated. A number of factors have contributed towards this result. The golas in Angul operate for a number of villages varying from 6 to 21; and the number of members varies from 100 to 700 and are therefore unwieldy and difficult of management. The free loan operations during the boom period between 1921 and 1930 and the subsequent economic depression resulting in the fall of prices of paddy are other contributory factors. Inadequacy of supervision by the inspecting clerks of the banks and the borrowing by members both in the golas and the village credit societies, wilful default in some cases and utter inability to pay in other cases—all these contributed largely to the deterioration.

The following statement shows the position of the 44 grain golas on June 30th 1937 at the market value on that date:—

1. Membership ...	...	...	14,018
2. Share capital ...	...	Rs.	.26 lakhs
3. Deposits of members ...	...	..	.03 "
4. Deposits of non-members...	...	..	.13 "
5. Loans from Central Bank ...	...	..	.03 "
6. Reserve fund and other funds	...	..	1.89 "
7. Working capital ...	...	..	2.34 "
8. Loans outstanding against members	...	..	1.86 "
9. Loans overdue ...	...	..	1.74 "

21. *Non-agricultural (credit and non-credit) societies.*—The following statement shows the position of non-agricultural societies in Orissa on June 30th 1937:—

(1)	No. of societies.	Membership.	Paid-up share capital.	Borrowings.	
				Deposits from members and non-members.	Loans from central banks.
	(2)	(3)	(4)	(5)	(6)
			Rs.	Rs.	Rs.
North Orissa ...	135	4,359	58,730	47,801	1,19,080
South Orissa ...	37	7,098	1,10,367	3,54,713	80,088

	Reserve and other funds.	Working capital.	Loans outstanding against members.
	(7)	(8)	(9)
	Rs.	Rs.	Rs.
North Orissa ...	65,766	2,91,329	1,75,457
South Orissa ..	94,289	5,89,457	4,80,785

The 135 societies of this class in North Orissa are made up of—

Employees' societies ...	9
Weavers' societies (credit) ...	44
Weavers' societies (production and sale)...	3
Fishermen's societies (credit) ...	52
Artisan societies ...	7
Co-operative press ...	1
Fishermen's stores ...	1
Village welfare societies ...	2
Depressed class societies ...	10
Other types ...	6
Total ...	135

The 37 societies in South Orissa are made up of—

Credit societies (including urban banks and employees' societies).	24
Stores societies ...	7
Weavers' societies ...	3
Building societies ...	2
Labour society...	1
Total ...	37

I have dealt below with all the important types of these societies.

22. *Urban banks.*—North Orissa does not contain co-operative societies of the type of people's banks operating in urban centres and catering to the credit needs of middle class urban population such as petty merchants, vakils and other men of limited means. In South Orissa there are four urban banks at Berhampur, Chatrapur, Khallikote and Parlakimedi. Of these, the Berhampur urban bank is the biggest

with a membership of 1,746, paid-up share capital of Rs. 30,696, reserve fund of Rs. 42,034, deposits (from members and non-members) of Rs. 2,28,571 and a total working capital of Rs. 3,20,000.

23. *Employees' societies.*—On 30th June 1937 there were 9 employees' societies in North Orissa and 11 societies in South Orissa. They consist of Government servants and local board employees. The transactions of these societies during the year 1936-37 are given below:—

(1)	No of societies.	Membershp.	Paid-up share capital.	Borrowings.	
				Deposits from members and non-members.	Loans from central banks.
	(2)	(3)	(4)	(5)	(6)
			Rs.	Rs.	Rs.
North Orissa	9	1,148	47,152	28,319	...
South Orissa	11	2,256	29,631	14,099	2,790

	Reserve and other funds.	Working capital.	Loans outstanding against members.
	Rs.	Rs.	Rs.
North Orissa	24,584	99,955	95,417
South Orissa	8,926	55,446	48,317

None of the banks in North Orissa borrowed from the central banks; only one of these accepted deposits from a club of which the members of the society are also members. Some of the societies can borrow money or receive deposits only from members and the maximum amount of such liability should not exceed five times the amount of share capital subscribed. In one of the societies (Puri District Board Employees' Association registered in the year 1936), I find that there is no provision for payment of share capital by members. Instead of this, every member should contribute one anna for every rupee of his salary or such other contributions as may be fixed by the general body; and these contributions carry interest at the rate determined by the general body from time to time. Every person, on becoming a member, should authorise the head of his office in writing to deduct his monthly contribution from his salary and to remit it to the secretary of the association. The association can borrow money or receive deposits from members up to twice the amount of contributions actually subscribed by them. No loan is granted to a member exceeding four

months' salary. The members should also authorise the deduction of loan instalments fixed from their monthly pay bill. In some of the older societies, members are advanced loans up to 10 times the value of shares actually paid or six months' pay whichever is less. It is stated that in a good many of these societies members borrow up to the maximum limit permissible and that book adjustments of loans are also noticed.

In South Orissa, societies can borrow either by way of deposits from members and non-members or loans from central banks up to five times the paid-up share capital and reserve fund. Members are given loans up to three or four times their monthly salary or five times the paid-up share capital whichever is less; and deductions towards the instalments of loans are made from their monthly pay bills.

24. *Weavers' societies.*—The first weavers' society to be started on the basis of purchase and sale in Orissa was the Bhogamadhab weavers' co-operative society in the year 1914 in the Jajpur area in order to improve the economic lot of weaving classes through encouraging the production of cloth and finding sale for their finished products. It was followed by the Narsimhapur weavers' society in the same area. They worked for some time but owing to the dishonesty of members and unbusinesslike methods of working they were liquidated in the years 1926-30. The Jajpur Central Bank suffered a loss on account of its investment in the Narsimhapur weavers' society. On the 30th June 1937 there were 47 weavers' societies with a membership of 787 and a working capital of Rs. 45,000. Of these 47, forty-four are only credit societies with unlimited liability, and are distributed over the Province as shown below :—

Bargarh	...	...	...	11
Khurda	...	...	...	8
Cuttack	...	...	...	5
Banki	...	...	...	5
Nimapara	...	...	...	5
Puri	...	...	...	4
Sambalpur	...	...	...	4
Angul	...	...	...	2

Of these, the Rausapatna weavers' society in the area of the Cuttack Central Bank and a few in the area of the Bargarh Central Bank are carrying on some work.

Under the Government of India scheme for the promotion of hand-loom industry, three weavers' societies were registered during the year 1936-37, two in the Cuttack subdivision and one in the Khurda subdivision and are affiliated to the central banks concerned. The members numbering 42 carry on their work with fly-shuttle looms. The societies are intended to supply the weavers with mill yarn at the

minimum price and arrange for the disposal of their finished goods. The societies are given cash credit accommodation by the central banks concerned. Two weaving supervisors with technical knowledge are in charge of the societies. Their duties are to maintain the accounts of yarn purchased and supplied to members, to guide the weavers in the manufacture of cloth according to the specifications given, to execute orders placed with the societies, to control production and pay wages to the weavers. There is a Weaving Organiser who regulates the work of the supervisors and carries on propaganda for the organisation of new societies.

The two societies so far purchased yarn worth about Rs. 2,228, supplied to the Bihar Cottage Industries goods worth about Rs. 1,145 and sold in the local markets goods for about Rs. 980 and the stock on hand is estimated at Rs. 253. The societies were till lately under the control of the Bihar Marketing Organisation.

On the 30th June 1937 there were in South Orissa 3 societies with 167 members on rolls and a working capital of Rs. 6,835. They are doing only credit business.

25. *Fishermen's societies and stores.*—During the year 1918 and the following years a number of societies were organised for fishermen. The following extract from the Registrar's report on the working of co-operative societies in Bihar and Orissa for the year 1919-20 on the formation of fishermen's societies may perhaps be interesting:—

“For the improvement of the fishing trade it has been considered most useful to form societies amongst the fishermen living along the Bay and round the Chilka Lake. Their colony extends from Puri to Balasore and large quantities of fish are exported to Calcutta and various other places by wholesale dealers. The condition of the fishermen is as bad as could be imagined. They are extremely poor, improvident and entirely under the control of money-lenders and middlemen. At my request the Khurda Central Bank undertook to open some societies amongst the fishermen living along the banks of the Chilka after some hesitation. They urged that these men had practically no assets, they were improvident and addicted to drink and that it was unsafe to invest money for them. The result of one year's work shows, however, that their fears were unfounded and that co-operation could bring a message of hope even to those who were not trusted by any one. Four societies were started during the year and three more have been started since the close of the year based on share system. The main object was to teach people thrift and to build up their capital from their own savings. I visited these societies in June last and I was agreeably surprised to

find that these people had done far better than the members of agricultural societies. They had paid their monthly instalments regularly, had made regular deposits and those who were mere labourers had acquired boats, nets and other appurtenances and had also taken fishery leases. It is proposed to push on the formation of these societies and a co-operative syndicate is being formed to organise the trade of these men with arrangements for drying and curing fish."

The first society was formed in the year 1918 and in the following two years 12 more were registered and by 1927 there were 54 fishermen's societies in the Khurda Central Bank area. During the year 1920-21 five such societies were started in Puri amongst the Nulia fishermen and were financed by Government and supervised and controlled by the District Fishery Officer assisted by a clerk. The Khurda Central Bank received a monthly subsidy of Rs. 25 from Government for the maintenance of an inspecting clerk for the supervision of these societies on the Chilka Coast. The rapid formation of this difficult type of societies shows the enthusiasm of the officers concerned as revealed in the extract quoted above from the administration report for the year 1919-1920.

The Nulia fishermen societies were taken over by the Puri Central Bank in about 1923 and financed by it. Seven societies then existing were amalgamated at the suggestion of the Fishery Officer and the loan due to Government by one of the societies was partly paid out of the money lent by the Central Bank. Loans were given from time to time, rather reluctantly by the Puri Central Bank. Though the societies were at first more or less regular in their payments to the bank, later on they began to default and on the 30th June last they owed over Rs. 15,000 to the Puri Central Bank. The present state of affairs of the Nulia fishermen's society at Puri is thoroughly unsatisfactory.

The societies on the Chilka Coast, too, have not been satisfactorily working and they owe about Rs. 31,000 to the Khurda Central Bank.

There are three fishermen's societies in the area of the Kujang Central Co-operative Union and another in the Banki Union. All of them are not working properly.

In 1923 a co-operative stores known as Balugaon Fishermen's Co-operative Stores was started on the Chilka Coast in the Khurda Central Bank area. It carried on trade in fishing tackle and food grains. Having failed in this business, it undertook the export of fish, but this also not a success and the loss sustained exceeded Rs. 26,000 in the year 1932. There was a fraud followed by conviction of the offenders. Later on, however, the stores undertook prawn business and though it experienced difficulties owing to the opposition of interested parties, it carried on the business successfully. It has recouped

its loss to the extent of about Rs. 20,000 and at present it owes to the Khurda Central Bank Rs. 10,409 out of a total amount of Rs. 46,937 borrowed.

On the 30th June 1937 there were in all 52 fishermen's credit societies and one stores (at Balugaon). The following are the particulars about the working of these societies :—

<i>Fishermen's societies (credit)</i>	...	...	52
Members	...	...	1,041
Share Capital	...	Rs.	1,905
Deposits	...	"	3,821
Central Bank loan	...	"	47,337
Reserve and other funds	...	"	7,863
Working capital	...	"	60,946
Loans outstanding against members	...	"	40,937
Amount overdue	...	"	39,466
Book profit	...	"	2,141

Balugaon Fishermen's Stores—

Members	...	...	142
Share capital	...	Rs.	632
Loans from Central Bank	...	"	10,809
Reserve and other funds	...	"	722
Working capital	...	"	12,163

In South Orissa there were on 30th June 1937 three fishermen's societies carrying on only credit business. Their position may be gathered from the following particulars :—

Members	...	...	116
Paid-up share capital	...	Rs.	716
Central Bank loan	...	"	2,659
Reserve fund...	...	"	252
Working capital	...	"	3,657

26. *Stores societies.*—The Orissa Mutual Co-operative Stores at Cuttack was the first stores society of its kind in Orissa and was registered in April 1917. It started work on a big scale and dealt in oilman's stores, rice, dal, etc.; but three years later it failed owing to bad management and was liquidated. In the year 1920 four more stores were started at Cuttack, Bhadrak and Banki; of these, one was the Ravenshaw College Co-operative Stores intended for the benefit of the students of the college.

The Utkal Seva Samiti Co-operative Stores at Cuttack did not at all function and was, therefore, liquidated. The Bhadrak Co-operative Stores carried on business in yarn, cloth and sundry stationery articles but owing to failure to keep proper accounts, mismanagement and fraud it was liquidated in the year 1927 and the manager was prosecuted and convicted. The members lost their share capital and the central bank had to write off Rs. 3,000 (principal) and Rs. 609 (interest). The Ravenshaw College Co-operative Stores began well and the Registrar also offered his blessings to it in 1920-21 and wrote:— "The uniform success of these stores organised and managed by school and college boys should be an object lesson to those managed by their elders. It can be confidently hoped that when these boys grow older and have to fight the battle of life, they will exhibit great business qualities and will help the formation of much larger stores and work them out successfully." But owing to dishonesty of the store-keeper, bad account-keeping and lack of interest on the part of its members, it went into voluntary liquidation in the year 1932. The Charchika Co-operative Stores at Banki sustained heavy loss on account of the dishonesty of its salesman and was wound up in the year 1924; it repaid all its loans to the central bank though the shareholders could not get their full share capital.

The Delang Co-operative Stores registered in 1922-23 in the Puri Bank area was originally intended to organise mainly the sales of cocoanuts of its members who owned coconut gardens. It did not, however, carry on this trade. The stores undertook the purchase and sale of paddy in which it suffered heavy loss. Thereafter it carried on extensive business in cloth, yarn and stationery articles. The central bank, too, financed the stores rather liberally. But owing to bad management, lack of supervision, credit sales to non-members and lack of honesty on the part of workers, the registration of the stores was cancelled in the year 1926. It is still undergoing liquidation. The assets which remained uncollected on 30th June 1937 amounted to Rs. 36,463 and the liabilities remaining unpaid exceeded Rs. 18,700. The whole of it is payable to the Puri Central Bank.

The Balugaon Fishermen's Co-operative Stores which is on the Chilka Coast is still on the rolls having been started in the year 1923. An account of its working is given separately under fishermen's societies.

It may here be mentioned incidentally that in the year 1924 a detailed examination was made into the causes of failure of the Stores Societies and the results were reported to Government. "The position of the stores was examined by the Government", wrote the Registrar, "and certain conclusions were arrived at. There seems to be little scope for stores for the supply of necessaries of life in the larger towns. At any rate, such stores cannot succeed unless the organisers give more time to supervision and trained staff is available. These stores cannot also succeed if they find capital too easy. Hence

it has been decided that such stores should not be allowed to borrow or seek deposits from non-members except with the special orders of the Registrar."

There were on 30th June 1937 seven stores societies in South Orissa—six school and college stores and one *Khadi* stores. The former deal mainly in stationery articles required by the students of educational institutions. They had 333 members and 315 associates and paid-up share capital of Rs. 436; the value of stock purchased during 1936-37 was Rs. 3,028 and value of stock sold Rs. 2,974. The *Khadi* Stores had 58 members on its rolls with a paid-up share capital of Rs. 348; the value of stock purchased was Rs. 1,057 and the value of stock sold Rs. 1,226.

27. *Bell-metal workers' societies*.—Between the years 1922 and 1925 seven bell-metal workers' societies were registered and started; in 1935, one more was added. Of these, five were subsequently liquidated, and there are now three societies of which one is purely a credit society. The following statement shows the position :—

Name of subdivision.	Number of societies started.	Number of societies liquidated.	Number of societies on date.
Jajpur	3	1	2
Cuttack	2	2	...
Puri	1	1	...
Sambalpur	1	1	...
Bargarh	*1	...	1
Total	8	5	3

This was the period during which the department seems to have taken the initiative in the starting of societies for artisans such as weavers, bell-metal workers, fishermen and others. The main objects of the bell-metal workers' societies closely followed those of stores societies, and are stated to be—

- (i) to assist the members in purchasing at reasonable rates such commodities as are generally required by them and to organise the sale of the manufactured products by opening branches and establishing markets and by similar other means, and

*This is only a credit society.

(ii) to carry on, in common, trade, both wholesale and retail, for the benefit of members.

The managing committees are empowered to acquire, construct or hire shops for the storing and sale of goods. Sales are for cash only and may be made to non-members also, but the committee can exempt 'approved members' from this restriction and authorise the salesmen to allow them credit up to specified amounts for a fixed time on definite conditions. The by-laws do not lay down any other principles or methods of business. The societies were supervised by a bell-metal supervisor paid by Government. The central banks concerned deputed their clerks or directors from time to time to report on the working of these societies.

The first society registered was the Baidyarajpur Co-operative Kansari Society in the year 1922 in the Jajpur Central Bank area. The society stocked raw materials, advanced them to members for manufacture of utensils and arranged for the sale of finished goods through hawkers or salesmen. It also made advances to the members towards their wages. The Jajpur Central Bank helped the society with a cash credit loan. The society worked well for a time and drew the appreciation of the Registrar in the second year of its working as follows:—

“Of the other artisan societies the bell-metal society at Baidyarajpur needs special mention as it has achieved conspicuous success. It has wrought a great change in the life of the bell-metal dealers.”

Fall in the price of raw materials, poor sales and disloyalty of members have later contributed to the decline of the society. It owes to the Central Bank Rs. 13,600.

Two more societies were also registered in this area in the year 1924, but owing to mismanagement one of them (Balipatna Kansari Society) was liquidated. The amount due from the society to the central bank is roughly Rs. 20,000. The other society (Kunsapatna Kansari Society) was also mismanaged. The society is still lingering and it owes the bank about Rs. 20,600.

The Batimunda Bell-metal Society was registered in the year 1923 and the Chauhiagunj Brass Metal Society in the year 1925 in the Cuttack Central Bank area. The former was at first given a cash credit of Rs. 10,000 by the central bank and in 1924 this was enhanced to Rs. 25,000 on the recommendation of the Assistant Registrar and the Registrar. Reckless grant of raw material to workers without the necessary safeguards, sale of articles on credit, production of certain articles not having immediate market for them and fall in prices contributed to the deterioration of the society, and in the year 1931 on the recommendation of the Assistant Registrar, the Deputy Registrar cancelled the registration of the society. The society owes to the central bank about Rs. 18,000.

The Chauliganj Brass Metal Society was given a cash credit of Rs. 5,000 and carried on its work on the lines of the Bhatimunda society. In June 1930 it was put under liquidation as it did not work satisfactorily owing to credit sales, large advances of raw materials and monopoly of big sums by the *panches*. The bank wrote off about Rs. 3,200 as irrecoverable, but after liquidation about thousand rupees were recovered.

The Balkati Bell-metal Society was started in the Puri Central Bank area in the year 1924 and was financed by the central bank through cash credits. The cash credits were enhanced from time to time and excluding the irregular repayments made by the society, it owed to the bank Rs. 39,362 on 30th June 1937. The society was mismanaged; it, too, suffered for causes more or less similar to those already described. In addition, the by-laws permitted the grant of loans to members to pay off their prior debts; this also largely contributed to the failure of the society. The society was liquidated in December 1936.

The Jagannath Bell-metal Society in Sambalpur was registered in the year 1935 and financed by the Sambalpur Central Bank. Subsequently it converted itself into a credit society and as its working was not satisfactory, it was liquidated in July 1937. A sum of Rs. 636 is due to the Central Bank from the society.

28. *Societies for depressed and backward classes.*—On the 30th June 1937 there were ten societies for depressed and backward classes in North Orissa. Five of them were organised among the depressed classes for the promotion of poultry-breeding, two for the benefit of the Pans in Bhadrak and one for the Betras (basket-makers) in Puri area. All of them are credit societies with unlimited liability and some of them being bad are awaiting liquidation.

The two other societies are intended for the municipal sweepers at Puri and Cuttack. They seek at once to perform thrift, welfare and credit functions. Their objects appear socio-economic and are intended to bring about an all-round improvement of the sweepers by inculcating habits of thrift and economy, reforming them through the prevention of the habit of drink, arranging for proper medical aid to members, settling disputes and generally raising funds to be lent to members in need. There is provision for compulsory deposits by members at six pies per rupee of their pay per month and each member is required to authorise the pay-disbursing officer to make deductions. They can borrow up to three times their monthly pay and the instalments of loans are deducted from their monthly pay bills. The society at Cuttack had on 30th June 1937 a membership of 343 and a working capital of Rs. 2,133, composed of members' deposits only. There were no loans outstanding against any member. The Puri Society had a membership of 249 and a working capital of Rs. 3,356, the members' deposits being Rs. 3,224 and reserve fund Rs. 112. The loans outstanding against members were Rs. 1,673.

In South Orissa, there were 15 societies for depressed and backward classes. Of these, 9 consist of hill tribes in the Ganjam and Koraput

Agencies and three of them carry on non-credit activities, too, more or less on the lines of stores societies. The position of these societies on the 30th June 1937 may be gathered from the following particulars:—

Number of members	...	5,428
		Rs.
Paid-up share capital	...	27,819
Deposits	...	16,817
Reserve Fund	...	10,088
Working capital	...	62,774
Loans from members	...	41,945
Overdues from members	...	16,159
Stock purchased	...	28,352
Stock sold	...	31,128

Of the remaining six societies, two are for municipal scavengers, three for fishermen and one for shoe-makers. All of them are doing credit business. The three fishermen societies had 116 members on the rolls with a working capital of Rs. 3,657. Of the two societies for municipal scavengers at Berhampur and at Parlakimedi, the former is working with its deposits. The shoe-makers' society is moribund.

29. *Building societies.*—In South Orissa there are two societies—one at Berhampur and the other at Russelkonda. The society at Berhampur is doing some work and the one at Russelkonda is not doing any work. On the 30th June 1937, the two societies had 37 members with a paid-up share capital of Rs. 8,165, Government loans of Rs. 18,995, deposits of Rs. 3,000, reserve and other funds of Rs. 2,775 and a working capital of Rs. 32,935. The loans outstanding against members amounted to Rs. 31,244 of which Rs. 3,217 were overdue.

There are no societies of this type in North Orissa.

30. *Village welfare societies.*—Six village welfare societies and public health societies were registered in North Orissa with the object of bringing about social and economic reconstruction of villages through co-operative efforts. Their objects are stated to be to improve the condition of members by introducing suitable crops and improved methods of agricultural facilities, by establishing village schools and libraries, by improving village sanitation and health through the supply of pure drinking water and distribution of medicines and constructing village roads etc. The objects are indeed very ambitious. Of the eight societies that were registered two did not at all function and four others did not live long. There are at present two societies—one in Puri Bank area and the other in the Banki Union area. The former is doing some work.

There is one better living society for the Dandasis at Berhampur and its main activity is the settling of caste disputes amongst them.

31. *Co-operative press.*—There is one co-operative press at Cuttack known as Sri Radhanath Co-operative Press Society. It was registered with limited liability in the year 1922 but the liability was converted into unlimited liability in the year 1924. The society has had chequered career. Originally it was composed of capitalists and labourers but later

it came to be confined only to workers trained in printing business. In recent years, however, the working of the society has shown marked deterioration. Fall in membership and in the volume of business, heavy stock of unsold books, the establishment of a number of private printing presses and severe competition from them and lack of support on the part of central banks have all, it is said, contributed to this result. The society is now in a moribund condition.

32. *Central banks.*—I have already indicated the origin of the central banks. On 30th June 1937, there were 15 central banks including the two banks in South Orissa. Of the 13 banks in North Orissa, four are banking unions and nine central banks.

Objects.—The objects of the banks, as stated in their by-laws, are—

- (i) to develop co-operative societies in the areas;
- (ii) to finance co-operative societies and generally to carry on the banking business with such societies;
- (iii) to control its affiliated societies by careful and regular inspection; and
- (iv) to settle all matters of common interest, to advise and assist such societies and to further their interest in every way.

Membership.—It has already been stated that the banks divide themselves into two classes, viz. 'banking unions' and 'central banks' * the former consisting of societies and a very limited number of individuals (special share-holders, as they are called) to supply business experience necessary for management and the latter consisting of societies and individuals (styled preference share-holders). Of the 13 financing agencies in North Orissa, 4 are central banking unions and the remaining 9, central banks. The two in South Orissa are central banks. In the four banking unions there were in all 15 special share-holders, the number varying between 3 and 5 in each of them. The admission of special share-holders is subject to the previous permission of the Registrar who is also empowered, under the by-laws, to nominate such members of his own motion.

Liability.—Provision has recently been made in all but one central bank for the payment of the same rate of dividend to preference share-holders as that payable to societies, viz., a rate not exceeding 9 3/8 per cent. In both types of banks, the liability of an affiliated society for the common debts of the bank will be limited to five times the face value of the shares held by it. The liability of special share-holders in banking unions is limited to the face value of their shares while the liability of preference share-holders in central banks is limited to twice the face value of their shares. In the two central banks in the Ganjam district, which follow the Madras practice, the liability of an individual or of a society member is limited only to the share capital subscribed by such member.

*The expression 'central banks' is used in the report to denote both types of financing agencies.

Management.—The administration of the banks is vested in a board of directors. Provision is also made for a working committee to whom the board may delegate all or any of its powers. Most of the North Orissa banks provide for appointment of ex-officio directors who are generally the Subdivisional Officers or Deputy Magistrates or Tahsildars stationed at the headquarters of the banks. The board consists of preference or special share-holders and representatives of affiliated societies. The total strength of the board is fixed in the by-laws except in one bank where it is left to be fixed by the general meeting. The number is usually not less than ten. In practice the number varies from 10 to 21. The number of preference and ordinary share-holders to be elected to the board is left for the annual general meeting except in the case of one bank. All the directors are elected at the annual general meeting consisting of both society members and individual share-holders except in the case of one bank in which one-half of the members of the board are elected by the preference share-holders from amongst them and the other half by the delegates representing societies from amongst the members of affiliated societies. Generally the directors retire annually and they are eligible for re-election. No director can, however, hold office as a member of the board continuously for more than three years without the previous sanction of the Registrar. The provision was introduced, it is said, in the year 1925 mainly to break down the monopoly of office in central banks by any handful of interested members. Recently a provision has also been made in seven of the thirteen banks disqualifying the delegates of societies being on the board if they are in default of *kists* to their societies.

The working committee is constituted by the board from among its members and specified powers are delegated to the committee from time to time to carry on the administration of the bank. The working committee consists of not less than three members. In actual practice, the number ranges from 4 to 8. While some banks take a specified number of society directors to the working committee, others do not make any such provision. The board may also delegate its powers to the Secretary, Chairman or Deputy Chairman but the exercise of such powers requires the confirmation of the board.

In nine of the thirteen North Orissa central banks, subdivisional officers or Deputy Commissioners (Collectors) are ex-officio chairmen. Twelve of them have honorary secretaries while the remaining one has a paid secretary (who is a Sub-Deputy Collector on deputation.) Of the twelve honorary secretaries, two are Tahsildars.

The Boards of Directors of Berhampur and Aska central banks consist of 13 and 17 members respectively of whom the individual share-holders are 6 and 7. The society directors are elected at general meetings of supervising unions while the individual directors are elected by the individual share-holders of the banks at a meeting convened for the purpose. There are executive committees consisting of not more than five directors and they exercise only such powers as are delegated to them by the boards of directors. There is no bar to the directors continuing in office for any length of time if the general body elects them. Of the two banks, the Aska bank has a paid secretary.

The following statement shows the growth of the central banks and their financial position:—

Year.	No. of banks.	No. of members.		Share Capital.	Deposits of societies and individuals.	Borrowings from Provincial Bank.	Borrowings from Government.	Reserve and other funds.	Working Capital.	Loans outstanding against societies and individuals.	Book profit.
		Individuals.	Societies.								
1	2	3		4	5	6	7	8	9	10	11
				Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)
1913-14	9	...	82	71	89	...	...	70	114	95	73
1915-16	8	149	151	37	209	69	...	14	329	64	11
1918-19	8	561	359	64	343	85	...	38	530	470	12
1921-22	11	779	1,097	136	1129	162	...	67	1588	...	89
1924	14	481	1,567	270	2092	495	...	221	3088	2822	39
1926	18	484	2,092	395	3169	490	704	217	4075	3685	68
1927	13	481	2,138	442	3986	429	703	229	4459	4077	129
1928	13	499	2,307	474	3298	424	708	393	4532	4238	154
1929	13	517	2,161	507	3482	478	702	188	4657	4469	146
1930	13	558	2,236	543	3626	446	702	468	5084	4615	151
1931	13	573	2,289	552	3651	701	701	414	5219	4587	85
1932	13	580	2,194	551	3513	614	701	515	5194	4396	45
1933	13	573	2,102	541	2558	600	...	471	5176	4258	61
1934	13	588	2,149	538	3542	586	...	473	5139	4139	76
1935*	13	625	2,166	534	3334	619	...	514	4934	3938	91
1936-37 North Orissa	13	636	2,140	533	3084	692	...	491	4780	3826	89
1936-37 South Orissa	9	122	509	168	786	64	...	164	1162	873	19

*The figures relating to South Orissa are not included up to 1935.

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Size of the banks.—The fifteen central banks are distributed throughout the whole Province as shown below:—

Cuttack district	...	6
Puri district	....	3
Balasore district	...	2
Sambalpur district	...	2
Ganjam district	...	2
Total	...	<u>15</u>

The striking growth of central banks in Orissa as well as in Bihar (and some other provinces in India) is at variance with the arrangements in Madras where, as a general rule, there is one central bank for each revenue district. The average number of societies affiliated to a central bank in North Orissa works out to 165, the minimum number of societies affiliated to any one bank being 86 (Angul) and the maximum 267 (Cuttack). The average for South Orissa is 254, the number of societies affiliated to the Aska Central Bank being 330 and that affiliated to the Berhampur Central Bank being 1.9. The average for the whole province is 177. Madras gives an average of about 400 societies per central bank.

Working capital.—The owned capital of all the banks (share capital and reserve fund) works out to 17.21 per cent of the total working capital (Rs. 59.62 lakhs), the percentages for North and South Orissa being 17.03 and 17.93 respectively; the deposits from individuals and societies represent 64.56 per cent of the working capital, the percentages for North and South Orissa being 64.10 and 66.49 respectively; the loans and cash credit from the Provincial Bank work out to 12.67 per cent, the percentages for North and South Orissa being 14.48 and 5.41 respectively.

Deposits and loans.—The central banks in North Orissa receive fixed and savings deposits and provident fund and security deposits of the employees. They are not permitted to take current deposits. The two South Orissa banks receive fixed, savings and current deposits in addition to deposits from local bodies (district boards and municipalities); the security deposits relating to the Forest, Abkari, Jail and other Government departments are also permitted to be lodged in these banks by Government.

The rates of interest paid by the central banks on fixed deposits in the past years were as high as 8 per cent in North Orissa and about 6½ per cent in South Orissa. When the central banks in North Orissa felt unable to repay the matured deposits, they were forced to reduce the

rates further. The rates in the North Orissa banks now vary from 4 to 8 per cent and in the South Orissa banks from 3 to 6½ per cent (7 and 8 per cent being very rare.)

The rates of interest on loans and cash credit from the Bihar and Orissa Provincial Bank are fixed at 6 per cent. Of the amount of Rs. 5.26 lakhs due to this bank on 31st December 1937, the central banks were overdue to the extent of Rs. 3.53 lakhs and the overdue interest exceeded Rs. 29,000. The cash credit drawn by banks and outstanding on the same date was Rs. 1.50 lakhs.

The fixed deposits in good many central banks in North Orissa till recently were based on what is known as 'one date deposit system'; that is to say, all fixed deposits are repayable on a single date—in most cases on the 31st May of every year subject generally to two months' previous notice for withdrawal. (Some banks require three months' notice). The practice still prevails in some banks. The advantages claimed for this practice are that it facilitates repayment of deposits at a time from out of collections made from societies during the season and that it reduces the need for vigilance by the banks' executives as well as the requirement of fluid resources.

Very small amounts of loans are also advanced on the security of deposits though the practice is not common. To mitigate the rigour of one date system, the withdrawal of deposits before maturity was from time to time permitted in the past. It has, however, recently been realised that the balance of advantage lies in permitting depositors to borrow on the security of their deposits instead of permitting them to withdraw before the deposits matured.

Of the amount of Rs. 29.57 lakhs of fixed deposits outstanding on 30th June 1937, the amount which matured and could not be repaid by the central banks was Rs. 13.96 lakhs.* The interest due and unpaid in respect of the deposits on the same date was Rs. 93,241. Of the 13 banks in North Orissa, eleven banks were involved in this default on the 30th June 1937 and subsequently another bank also entered the list. This is a most disquieting feature of the working of these banks to which I will refer again later.

None of the two central banks in South Orissa is in default of payment of matured deposits.

*The figures do not show the real position as some of the central banks have not furnished correct amounts; though the banks are not in a position to repay deposits on maturity, such deposits have not been included in the figures furnished for the very technical reason that the depositors have not given the required two or three months' notice. Even if such notice were given, the banks could not have returned the deposits.

Some of the central banks used to lodge their surplus funds with other sister banks in the Province; all except one bank withdrew the deposits in due course. The Balasore central bank has still a fixed deposit with the Kujang Central Bank amounting to Rs. 11,610.

The total liabilities of central banks in North Orissa by way of deposits and loans should not exceed ten times their nominal share capital. On 30th June 1937 the proportion of owned capital of all the central banks to outside liabilities was 1 to 3.7. In South Orissa, the outside liabilities shall not exceed ten times the owned capital of the banks (viz. paid-up share capital plus reserve fund). On 30th June 1937 the proportion of owned capital of South Orissa central banks to total outside liabilities was 1 to 2.56.

Fluid resources.—It has not been the practice with the North Orissa central banks to maintain fluid resources by way of any separate investment in Government securities or otherwise. On 30th June 1937 three of the thirteen banks held Rs. 11,323 in postal cash certificates or savings bank account. They depended solely upon the Bihar and Orissa Provincial Bank for the fluid resources required. The Bihar and Orissa Committee on Co-operation (1931-32) recommended that fluid resources should be maintained to the extent of 12½ per cent of the amount of fixed deposits payable on the next due date under the one date system and 2½ per cent of the savings deposits.

The two South Orissa central banks are required to maintain in the form of fluid resources 50 per cent of fixed deposits falling due within the next 30 days, 25 per cent of savings deposits and 50 per cent of current deposits and 50 per cent of the amount of cash credits allowed to other societies as cover for deposits in them. The fluid resources may consist of (i) cash balances, (ii) undrawn cash credit with the Madras Provincial Co-operative Bank, and (iii) 80 per cent of the current market value of the Government promissory notes. The banks send to the Registrar quarterly financial statement showing in detail that the rules are observed.

Loans to societies.—The funds are used by the banks mainly in making loans to primary societies. The most usual rates of interest charged on loans are 10 per cent, 11 per cent and 12½ per cent in North Orissa and 7½ per cent and 8 per cent in South Orissa. The bulk of the loans, however, carried 12½ per cent in North Orissa. The amount of loans outstanding against societies of all kinds on 30th June 1937 was Rs. 46.70 lakhs. Of this, Rs. 7.92 lakhs were for 12 months and Rs. 38.78 lakhs were for periods exceeding 12 months. In the earlier years the societies put in loan applications to the banks showing the

name of borrowers, amount required for cultivation, for the purchase of cattle, for payment of debts or for other purposes, the total amount of loan required and the amount outstanding against members. In 1931 the loan application form was revised and further particulars were required to be furnished. The revised form I have seen in one of the banks contains the following particulars—serial number, name of member, total land, value of land, outside debt, nature of outside debt, loan from society (previous outstanding loan, loan advanced during the year and whether covered by mortgage bond), default of *kist* at the beginning of the year and up to date, number of shares subscribed and paid up, deposit held, loan sanctioned in the general meeting, loan taken after the general meeting, loan asked for and the purpose of loan. It is significant that in neither of these application forms such details as the gross annual income of the member, his expenditure, his net income, repaying capacity, etc., are required to be furnished. More emphasis was laid upon the assets than the income or the repaying power of members, and to this, as will be pointed later, most of the evils in village credit societies such as overfinancing may be traced.

During the year 1936-37 out of a principal demand of Rs. 37.55 lakhs only Rs. 2.53 lakhs could be recovered, the percentage of overdues being 93. The interest arrears on the 30th June last amounted to Rs. 29.78 lakhs, the percentage of overdue interest being 86.7. The position is extremely serious, and I will later discuss the matter in further detail. The percentage of arrears under principal and interest in South Orissa was 67.94 and 59.11 respectively.

Miscellaneous activities of the banks.—Apart from banking activities, it is interesting to find that the central banks in North Orissa did something in the days of their prosperity—owing to financial difficulties the banks either stopped or curtailed the activities since—to stimulate and promote improved agricultural methods, introduction of remunerative crops and vegetables like sugarcane, potatoes, cabbages and cauliflower, distribution of improved varieties of seeds and implements, eri-rearing, etc. Free distribution of sugarcane crushing mills and pans was made to societies in cane-growing areas. The banks rendered help in the reclamation of waste lands, excavation of channels or repairs of tanks or construction of bunds for protection of lands from sea water. Some of the central banks are reported to have taken interest in sanitation and medical relief in villages through distribution of medicines, inoculation of cattle and cleaning of village roads or in the sinking of wells for drinking purposes. The banks also participated, by making contributions to, the promotion of village education—the starting of night schools and of circulating libraries and the construction of school houses. Some of the banks maintained 'development supervisors' who devoted their time to rural reconstruction activities.

The following statement bearing on this topic may perhaps be interesting:—

Amount spent by central banks for agricultural improvements, or adult education, etc., from the time of the starting of the banks up to date.

Name of the bank.	Amount expended on—											Total.
	Donations to primary and secondary and adult or night schools.	Stipends for poor students.	Construction of school buildings.	Introduction of remunerative crops or vegetables as sugarcane, potatoes, cabbages, cauliflower, onions, etc.	Improved variety of paddy.	Purchase of sugarcane crushing mills.	Employment of agricultural overseers or development supervisors for carrying on propaganda.	Digging of wells and construction of bunds.	Public health activities and sanitation.	Cattle improvement.	Miscellaneous activities.	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Banki	6,303	2,921	7,670	2,348	11	4,016	17,154	1,574	217	1,042	7,650	50,906
Kujang	137	160	3,533	...	6,489	1,810	...	...	...	50	...	12,179
Jajpur	432	...	80	...	1,130	353	...	...	...	...	987	2,982
Kendrapara ... ..	...	12	25	76	...	...	969	...	...	...	1,447	2,529
Angul	358	326	539	38	...	...	1,669	200	47	...	2,060	5,132
Nimapara	448	...	75	125	...	1,643	51	10	15	...	...	2,361
Balasora	1,669	26	125	3,209	275	...	...	650	238	...	2,389	8,791
Bhadrak	2,276	126	500	227	3	685	6,839	...	353	50	299	11,358
Sambalpur ... ..	...	...	...	37	20	...	432	...	...	...	...	489
Cuttack	1,467	...	...	1,467	51	...	4,790	465	289	...	2,564	11,273
Khurda	45	...	378	4,129	...	400	19,309	...	...	...	4,041	21,309
Bargarh* ... ..	...	...	...	...	...	...	...	...	...	...	...	...
Puri* ... ..	...	...	...	...	...	...	...	...	...	...	...	...
Berhampur
Aska	249	22	...	35	306

* The two central banks have not furnished the figures.

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33. *The Orissa Provincial Co-operative Bank.*—All the central banks in North Orissa are indebted to the Bihar and Orissa Provincial Co-operative Bank either by way of loans or cash credit taken from it. In pursuance of a general desire for the constitution of a separate Provincial Bank for Orissa, the Orissa Provincial Co-operative Bank was registered in August 1936 under the Bihar and Orissa Co-operative Societies Act. The main objects of the Bank are to finance co-operative societies and to act as a balancing centre for the surplus funds of such societies in Orissa and generally to carry on banking business. The bank has not yet been started on work.

34. *Supervision—Honorary organisers.*—I have already made a reference to the earlier agencies of supervision of societies. Honorary organisers were at first appointed to attend both to organisation and supervision of societies.

Guarantee unions and their failure.—With the expansion of the movement the need for a better agency was felt. The Registrar, who visited Burma in the year 1915, issued a circular, explaining the system of guarantee unions in force there and recommended the adoption of the system in Bihar and Orissa as he held that those unions were "of the greatest benefit both to central banks and to their affiliated societies." "After careful consideration, therefore," he stated in the year 1917, "the Registrar has determined, unless in any case special exception is made, to decline to register any more societies in any area where the directors will not undertake to organise one or two experimental unions before 1st February 1918." The first guarantee union was under these circumstances formed in May 1918 in the Jajpur Central Bank area. By the end of the year 1922 there were 13 unions in Orissa. The unions were expected to strengthen the credit of societies, to guarantee the loans advanced by the central banks to the societies forming the union, to control the societies by careful and regular inspection and to enable them to receive loans promptly from the central banks as the latter "would not need to scrutinise the loan applications". These high hopes were not, however, actually realised. The existence of these unions tended to inspire the central banks with a false sense of security in regard to the societies concerned. The illusoriness of the guarantee of the loans made by central banks to societies soon became evident; it was realised that the societies were bodies corporate and that the liability of the members could not be enforced under the law then in force against them individually except on liquidation. They also failed to ensure effective supervision of societies and to reduce the cost borne by the central banks in the employment of inspecting clerks for this purpose while on the other hand the contributions from societies required for the upkeep of the unions proved a drain upon their resources which they could ill-afford; in some cases at least, the societies themselves regarded the unions as a mere incubus and were disposed to get rid of them. Gradually, therefore, most of the unions were liquidated. There are at present only two unions which are moribund and are awaiting cancellation of registration.

Federation.—After the separation of Orissa, the Bihar and Orissa Co-operative Federation ceased to have jurisdiction over this Province. There is at present no provincial co-operative propagandist body in Orissa.

Inspecting clerks.—The third agency—and in point of time earlier than the guarantee unions—is the staff of inspecting clerks appointed by the central banks for the supervision of societies financed by them. Originally each inspecting clerk was put in charge of about 30 societies but as it was felt to be too heavy a charge for an inspecting clerk the number was later on reduced to 20. As this in its turn entailed heavy expenditure on the banks, they have generally raised the number from 30 to 35 societies for each inspecting clerk. There is, however, considerable variation in respect of each bank. In one bank the average number for an inspecting clerk comes to 76 while in another bank it is 41. For about 100 societies the banks employed a manager who controlled the work of the inspecting clerks. After the depression set in, the banks effected a reduction in the number of inspecting clerks and a few of them dispensed with the services of managers.

The Bihar and Orissa Committee on Co-operation suggested that the field staff of central banks might be put under two categories—'Banking Supervisors' and 'Development Supervisors'. A few of the banks in Orissa carried out this suggestion but others could not do it for want of funds. No distinction is now made between the two classes of supervisors as all of them are employed in recovering arrears in the societies in their charge. The entire cost of the staff of inspecting clerks is borne by the central banks themselves.

The statements furnished by the banks show that most of the inspecting clerks passed or studied up to the matriculation class while others do not possess even this standard of education. A good number of them are stated to have received co-operative training in the Cuttack Co-operative Institute and passed the examinations held by it. The scales of their pay range from about Rs. 30 to Rs. 50 a month, and in recent years owing to financial difficulties the central banks imposed a cut on their salaries. New entrants are paid even less than Rs. 30.

In South Orissa there are ten local co-operative supervising unions and four 'superivising circles' with a staff of supervisors under the control of the two central banks. The work of the supervisors is watched and regulated by the secretary or the manager of the central bank.

34-B. Audit.—The audit of the accounts of all societies registered under the Co-operative Societies Act is a statutory duty of the Registrar. At the inception of the movement and for some time later Government undertook the audit of accounts of societies registered under the Co-operative Societies Act, but in the year 1915, the Registrar submitted for the approval of the Bihar and Orissa Government a scheme of audit by a paid non-official staff employed by a provincial federation.

The two considerations which prevailed with him then were that the Government paid staff in charge of the movement was to be kept as low as possible and that the central banks which were the only non-official institution at the time which could undertake the work should not be entrusted with the duty of auditing their own affiliated societies. He held that as the central bank depended upon the welfare of the societies, it might at any time be interested in concealing the true state of affairs of its affiliated societies from the public if they were in an unsound condition and that if the public was to have complete confidence in the movement the societies should be audited by an agency independent of the banks; if it was so, three possible alternative organisations suggested themselves—(i) a staff paid and controlled by Government, (ii) a staff paid for altogether or in part by the societies and controlled by Government; and (iii) a staff paid and controlled by the societies.

The first, as a permanent measure, was dismissed as appointment of the whole staff indefinitely even when the societies could well afford to contribute towards the cost of audit was not considered desirable. As between the remaining two alternatives, it was held that though a Government-controlled staff would command greater confidence of the investing public, even under the third arrangement the auditors appointed by a non-official agency would be licensed by the Registrar, that the Government would always provide a staff sufficient to control the auditors and satisfy themselves through the Registrar that the audit was being efficiently carried out and that the staff would thus be under the Government control and would satisfy the investors. It was, therefore, finally decided that a federation of all societies mainly for audit and secondarily for other purposes would be desirable.

The proposal was accepted by Government and audit was handed over to the Bihar and Orissa Co-operative Federation. The Registrar was the ex-officio Governor. The Federation employed local auditors for the audit of primary societies and divisional auditors for the audit of the central banks and other limited liability societies. Societies were levied a fee for the audit of their accounts and Government gave a subsidy to the Federation to make up the cost of the audit staff. A Government officer styled Chief Auditor on a high pay was appointed later on to check all audit work and to advise and assist the Registrar in the discharge of his audit and banking functions. Ten per cent of the societies audited by the local auditors were test audited—5 per cent by the Assistant Registrars and 5 per cent by the divisional auditors; the test audit of central banks and limited liability societies was conducted by the Chief Auditor. Opinions were expressed before the Bihar and Orissa Committee on Co-operation (1931-32) that this system placed the auditors under the influence, if not control, however indirect, of the institutions audited by them; and some urged the transfer of the control over the auditors to the direct authority of the Registrar. Government, however, held that they

had no reason to be dissatisfied with the manner in which audit was conducted by the Federation, that it appeared unnecessary to divest it of its powers over the auditors or to make any radical alteration in the arrangement to meet the cost of audit.

Immediately before the separation of Orissa the representatives of central banks decided unanimously that there should be no co-operative federation in Orissa and that the audit of co-operative societies should be taken over by Government and this view was further supported by the co-operative conference held at Puri in 1936. Accordingly a scheme of reorganisation was decided upon and after approval by Government, took effect from the 1st July 1937. The audit staff employed by the Bihar and Orissa Co-operative Federation in Orissa was taken over by Government. The present audit staff in North Orissa consists of—

- (i) two sub-assistant registrars (formerly designated as divisional auditors);
- (ii) three senior inspectors (formerly designated as junior auditors); and
- (iii) twenty-three junior inspectors (formerly designated as local auditors).

The sub-assistant registrars are permitted to draw the pay which they were getting under the Federation. The senior and junior inspectors are in the scale of Rs. 30—75 and Rs. 75—90 respectively. The two sub-assistant registrars are graduates and received training in audit before they entered the Federation service. One of the three senior inspectors is duly qualified under the Madras Service Rules and the other two were promoted from the grade of local auditors on the results of a competitive examination. The bulk of the junior inspectors have passed the Matriculation examination. Barring a few, they received no regular training; nor were they required to pass any test. They were either directly recruited or promoted from among inspecting clerks and attached to local auditors for three months' training.

The sub-assistant registrars conduct the final audit of the accounts of central banks and the test audit of 5 per cent of the accounts of primary societies, (The Assistant Registrars also test audit the accounts of another 5 per cent of the societies.) The senior inspectors do the two-monthly audit of central banks and the final audit of all limited liability societies. The junior inspectors audit the accounts of all unlimited liability primary societies.

In South Orissa the audit of societies of all types has always been carried out by Government staff and at present the staff consists of—

- (i) one senior inspector for the concurrent and final audit of central banks;
- (ii) one junior inspector for the concurrent audit of limited liability societies; and

- (iii) eight junior inspectors for the audit of accounts of village credit societies.

No set form is in use in North Orissa to exhibit the results of the two-monthly and final audit of central banks and of limited liability societies. The two-monthly audit is more or less mechanical and during the final audit of banks by sub-assistant registrars, a test audit is made of the work of the senior inspector who does the two-monthly audit. Three copies of the final audit notes of central banks are made out. One is sent to the Bihar and Orissa Provincial Co-operative Bank to which the central banks are affiliated—one is sent to the central bank concerned and the third copy is forwarded to the Assistant Registrar of the circle. The latter sends it to the Chief Auditor attached to the Registrar of Co-operative Societies, Bihar, who returns it with his comments to the Deputy Registrar. This note is finally sent to the bank for its information and necessary action on the suggestions made. No formal audit certificate is issued by the Registrar or the Deputy Registrar on the audit note submitted by the sub-assistant registrars; the latter themselves certify as to the correctness of the balance sheet.

The accounts of primary societies in North Orissa are audited once a year in set forms. While the final audit is done up to the end of the previous year, the audit is also simultaneously carried out from the beginning of the following co-operative year up to the date of the inspector's visit. Two sets of receipts and expenditure are made out—one for the co-operative year and the other for the period commencing from 1st July up to the date of audit. Each auditor is generally allotted 120 societies for audit. The number is, however, reduced in areas where societies are big. The inspectors send a copy each of their audit report to the central bank, the Assistant Registrar and the society. The Assistant Registrar peruses the audit report, makes his remarks and sends the report to the central bank concerned and the latter forwards it to the inspecting clerk for rectification. The sub-assistant registrars work under the direction and control of the Deputy Registrar, Cuttack, while the senior and junior inspectors are under the control of the Assistant Registrars of the circles concerned.

South Orissa follows the audit arrangements in force in Madras. The system of audit can broadly be classified under three heads—interim audit, concurrent audit and final audit; in addition, there is test audit. Concurrent audit is done in central banks and big urban banks where the work involved is considerable. The audit of accounts of these institutions for any one month is not generally delayed beyond the close of the succeeding month. In respect of all other societies interim audit is conducted between two final audits. It is generally taken up from December or January and completed by the end of June. During the interim audit, with the exception of the preparation of the balance sheet and the profit and loss

account, all other points are attended to up to the date of the visit of the auditor, that is, mechanical checking, investigation into administrative matters, preparation of statement of receipts and charges and verification of outstanding loans and deposits. A detailed list of defects is also prepared. A copy of the auditor's report embodying the results of the interim audit in the prescribed printed form is given to the society by the auditor.

The final audit is the annual audit which leads to the closing of the accounts for the year and the preparation of the balance sheet and of the profit and loss account and an examination of overdue assets and liabilities with special reference to the statutory obligation of the Registrar for audit. It is taken up in July and completed by the end of December. The final audit report is prepared in the prescribed form and after scrutiny, the Assistant Registrar issues the audit certificate to the society with a copy of the audit report. The Assistant Registrar, Ganjam circle, test audits the accounts of 5 per cent of the societies taken at random.

35. *Arbitration, execution and liquidation.*—Under section 48 of the Bihar and Orissa Co-operative Societies Act, 1935, disputes touching the business of societies (including claims by societies for debts due to them from members, past members or the nominee, heirs or legal representatives of deceased members or from sureties of such members whether such sureties are members or non-members) are referred to the Registrar for decision. No rules have yet been framed under the Act and the procedure prescribed under Act II of 1912 (India) is still in force in North Orissa. Invariably Assistant Registrars who are vested with powers under this section decide all disputes. The procedure generally adopted is that on receipt of arbitration references from societies the Assistant Registrar causes a notice to be served on the defaulter and his sureties through the central bank concerned. One copy of the notice is returned to the Assistant Registrar with the signatures or thumb impressions of the defaulter and his sureties and signed by two members of the committee of the society. If, after notice has been served, any party absented himself on the date fixed or raises no objection, the dispute is decided *ex parte*: an award is given forthwith and a copy of it is sent to the central bank. When the person proceeded against denies his liability for a debt claimed or raises any point of law or fact, the Assistant Registrar is expected to frame issues in the presence of all parties to the dispute and after hearing the witnesses, if any, and considering any documentary evidence produced on either side, to record his decision in writing with the grounds on which it is based. In practice, however, most of the disputes are decided merely after the issue of notice as a matter of routine.

Formerly awards were given in respect of several loans outstanding against a member irrespective of whether the sureties were different or not, the justification being that as the awards were in practice executed against the principal debtors, the procedure adopted did not

very much matter. That the procedure was defective and wrong was, however, recognised in the year 1933 when instructions were issued that a separate case should be started for each loan and that there should be no consolidation of debts if there were different sets of sureties for each debt. In respect of mortgage decrees a preliminary award is issued directing that the sum due should be paid to the societies within three months from the date of award and that failing such payment, the property mortgaged shall be sold and the sale-proceeds applied to the satisfaction of the dues to the society. If the defendant fails to pay by the date fixed, the society files a petition praying for a final mortgage decree; the amount found due is then decreed by the Assistant Registrar. The societies in South Orissa adopt the Madras system in the matter of obtaining decisions or awards.

Prior to the coming into force of the Bihar and Orissa Co-operative Societies Act, all awards were filed for execution in civil courts having local jurisdiction, but under this Act awards are recoverable as a public demand in any area in which the Bihar and Orissa Public Demands Recoveries Act of 1914 is in force, or as an arrear of land revenue throughout the whole Province. The societies have not taken any great advantage of this provision, as revenue-courts, it is stated, require payment of *ad valorem* fees for executing the awards.

The progress in the execution of awards is very poor as may be seen from the following statement :—

	Number of arbitration references pending decision.	Amount involved in them.	Number of awards pending execution.	Amount involved.	Number of civil suits pending decision.	Amount involved in them.	Number of decrees pending execution in civil courts.	Amount involved in them.
1	2	3	4	5	6	7	8	9
		Rs.		Rs.		Rs.		Rs.
North Orissa	153	53,468	2,364	6,10,816	66	9,818	279	1,32,206
South Orissa	297	25,355	3,227	3,12,999	...	...	151	26,536
Total	450	78,808	5,591	9,23,815	66	9,818	428	1,68,742

The reasons given are that execution through civil or revenue courts is costly and prolonged, that it more often results in the transfer of lands of the judgment-debtors to societies which they cannot satisfactorily manage and that the societies and central banks are reluctant to execute awards against influential members. It may be noted here that generally an employee of the central bank is authorised as the agent of the decree-holder society to conduct execution proceedings.

In South Orissa where the Madras Co-operative Societies Act is in force, execution of awards and decrees is done by a special Government staff under the control of the Assistant Registrar (styled as sale officers). The societies must pay the necessary costs on a scale

prescribed by the Registrar. The scale compares very favourably with that in force in civil courts. This system is popular and is proving effective in the recovery of arrears.

Liquidation.—Sections 42 to 44 of the Bihar and Orissa Co-operative Societies Act, 1935, prescribe the procedure to be followed when for any reason the winding up of a society is ordered and its registration is subsequently cancelled by the Registrar. He is bound under the Act to appoint a person or persons to be liquidator of the society. The liquidator has the powers necessary to recover the assets of the society and pay off the liabilities to its creditors. After the affairs have been wound up, the Registrar cancels the registration of the society and the society then ceases to exist as a corporate body. The managers of central banks are generally appointed liquidators of the societies in their respective areas. In South Orissa the registration of a society is first cancelled and then the affairs are wound up.

On 30th June 1937, there were 147 societies under liquidation in North Orissa. The total assets recoverable from members amounted to Rs. 6.02 lakhs while the total liabilities payable to members and outside creditors amounted to Rs. 5.11 lakhs. The bulk of outside liabilities was the loans which the societies owed to central banks (i.e. Rs. 4.81 lakhs). The central banks estimate that only Rs. 1.74 lakhs are realisable. Of the 147 societies, six societies have been under liquidation since 1926, four societies since 1927, one society each since 1928 and 1929, two societies since 1930, seven societies since 1931 and twenty-eight societies since 1932.

Contribution orders framed by liquidators are in practice sent to the Assistant Registrars who, after scrutiny, forward them to the Deputy Registrar for approval. The orders can be executed through the revenue or the civil courts but greater use is made of the former. The *ad valorem* court-fees charged by the revenue courts are considered unduly heavy.

Liquidators levy 5 per cent on the amounts due from members towards the costs of liquidation; they can also charge up to 17½ per cent, if the recovery of the debts due is made through the courts. Formerly the balance of liquidation costs, after all expenses were met, was given as bonus to the manager-liquidator but now it is paid to the central bank concerned for the services rendered by the manager as liquidator. Creditors are paid interest up to the date of payment if funds permitted it.

In South Orissa, there were on 30th June 1937 sixteen societies under liquidation with assets pending recovery amounting to Rs. 19,886 and the liabilities payable being Rs. 10,005. The Assistant Registrar of the Ganjam circle is the liquidator of all the societies and he is assisted by a liquidation inspector (who is a Government servant). The contribution orders are recoverable in the same manner as decrees or awards of societies.

36. *Government staff.*—Till the year 1916-17 North Orissa was directly in charge of the Registrar of Co-operative Societies, Bihar and Orissa, with no officer under him specially for Orissa. With the increase in the number of societies, an Assistant Registrar for the Orissa Division was appointed from 1st April 1918. In August 1924, the need was felt for a further redistribution and another Assistant Registrar was appointed with headquarters at Sambalpur. The circle comprised of the districts of Sambalpur, Balasore, Angul and a portion of Bihar. In April 1926, a Deputy Registrar was appointed with headquarters at Cuttack and he was vested with all the powers of the Registrar under the Act and placed in charge of the whole of Orissa and a portion of Bihar. He controlled the two Assistant Registrars under him. In April 1928, an additional Assistant Registrar was appointed for Cuttack circle and the work was divided between the two. The position remained more or less the same until the creation of the Province of Orissa when the Sambalpur circle was abolished and North Orissa (excluding Kandamahal) was divided into two charges—Cuttack North Circle and Cuttack South Circle—with effect from 1st April 1936, each in charge of an Assistant Registrar. The Ganjam portion of the Province which was till then under a Deputy Registrar under the Madras arrangement was converted into an Assistant Registrar's charge from April 1936. After 30th September 1937, in pursuance of a scheme of reorganisation sanctioned by Government, an additional Assistant Registrar's circle was opened at Sambalpur.

There are now four circles of Assistant Registrars with headquarters at Cuttack, Puri and Sambalpur in North Orissa and at Berhampur in South Orissa. They are all under the general control of the Deputy Registrar, Cuttack. The present position is that the Registrar of Co-operative Societies, Bihar, is the ex-officio Registrar for North Orissa and the Registrar of Co-operative Societies, Madras, was the ex-officio Registrar of South Orissa till the 23rd November 1937 when the Director of Development, Orissa, began to function as the Registrar for South Orissa.

The following statement shows the strength of the department :—

District.	Deputy Registrar	Assistant Registrar.	Sub-Assistant Registrars.	Senior Inspectors.	Junior Inspectors.	Clerical staff.		Peons.
						Junior Inspectors.	Routine clerks.	
Orissa Province ...	1	...	2	...	...	7	2	4
Cuttack Circle ...	...	1	...	1	7	1	5	4
Sambalpur Circle ...	...	1	...	1	7	1	5	4
Puri Circle ...	...	1	...	1	9	1	5	4
Ganjam Circle ...	...	1	...	2	15	3	3	6
Total ...	1	4	2	5	39	13	37	22

CHAPTER III.

THE PRESENT FINANCIAL CONDITION OF PRIMARY SOCIETIES AND CENTRAL BANKS.

37. *Introductory.*—The terms of reference require me to examine the general condition of the primary credit societies and the present financial position of each of the central banks in the Province. I proceed to make a detailed examination of the position of the agricultural primary credit societies which constitute the bulk of the societies and the foundation stone of the co-operative banking structure. Indeed the financial stability or soundness of the central banks depends upon the condition of their affiliated primary societies which they finance. I will then review the general financial position of all the central banks as a whole and deal with the chief causes for the present financial crisis. In an appendix (no. II), I give a very brief account of the financial particulars of each of the central banks.

38. *General financial position of primary agricultural credit societies.*—The number of all agricultural credit societies with unlimited liability on the 30th June 1937 was 2,434 (1,958 in North Orissa and 476 in South Orissa). The following progressive statement shows the position of the societies at a glance:—

Year.	Number of societies.	Number of members.	Share Capital.	Deposits from individuals and others.	Loans from central banks.	Reserve and other funds.	Working Capital.	Loans outstanding against members.
			Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).
1925 ...	1,578	35,842	0'75	0'65	25'52	3'17	30'09	25'36
1926 ...	1,877	43,568	1'10	0'78	31'66	3'69	37'23	32'48
1927 ...	1,927	47,134	1'56	0'93	35'07	4'96	42'42	36'75
1928 ...	1,874	49,847	1'95	1'10	38'29	4'98	46'32	39'45
1929 ...	2,024	53,401	2'35	1'18	40'87	5'83	50'23	43'04
1930 ...	2,041	45,969	2'69	1'41	42'33	6'53	59'66	45'08
1931 ...	2,047	56,571	2'87	1'63	41'88	7'00	53'38	44'73
1932 ...	2,008	55,784	3'02	1'42	39'42	7'13	50'99	42'21
1933 ...	1,983	55,022	3'04	1'43	37'23	7'54	49'24	40'01
1934 ...	1,968	63,460	3'01	1'45	36'49	7'21	46'16	38'40
1935* ...	1,965	63,886	3'02	1'42	35'59	6'91	46'90	36'57
1936-37 North Orissa.	1,958	52,984	2'83	1'88	33'16	7'52	44'69	34'18
South Orissa.	476	17,397	1'87	0'62	8'10	1'29	11'83	9'35

* The figures upto 1935 do not include those relating to South Orissa.

NOTE.—The figures exclude the transactions of 44 grain golas in North Orissa and 9 Agency societies in South Orissa.

The percentage of the total working capital of these societies derived from share capital, deposits and other sources is as follows:—

—	Total working capital.	Percentage of total working capital derived from—				
		Share capital.	Reserve and other funds.	Deposits from individuals and others.	Loans from central banks.	Total.
1	2	3	4	5	6	7
	Rs. (lakhs.)					
North Orissa	44.89	6.30	15.93	3.03	74.69	100.00
South Orissa	11.88	15.74	10.86	5.22	68.18	100.00

The proportion of the owned capital of agricultural credit societies to the total working capital was 22.23 per cent in North Orissa and 26.60 per cent in South Orissa as against 35 per cent in Madras. A portion of the reserve fund of societies in North Orissa was invested in the shares of the central banks while the balance is merged in their working capital. In view, however, of the present financial position of the central banks and of their inability to pay any dividend on such shares, reserve funds of societies may be termed practically 'paper assets'. As in some other provinces, the societies depended for their finance far too much upon loans from central banks. The North Orissa societies derived 74.69 per cent of their working capital from such loans—indeed a very high proportion; in Madras the percentage on the same date (30th June 1937) was about 59.

39. *Overdues.*—As regards repayments made by members to the societies, figures relating to demand, collection and balance are not unfortunately available in the administration reports of the department till the year 1933 and it is, therefore, found difficult to have a continuous account of the position in this respect. In the following statements I have compared the (principal) overdues to the loans outstanding against members up to and including the year 1933 and thereafter the figures in respect of demand, collection and balance of all agricultural credit societies have been furnished.

Agricultural primary credit societies (North Orissa)

Year.	Amount of (loans) principal outstanding against members.	Amount of principal overdue.	Percentage of overdue loans to the amount of loans outstanding.
1	2	3	4
	Rs. (lakhs.)	Rs. (lakhs.)	
1920-21	10.40	2.35	22.48
1921-22	13.28	3.14	23.87
1922-23	17.50	3.94	22.44
1924	23.48	4.89	20.83
1925	26.86	6.66	24.70
1926	33.15	7.14	21.54
1927	37.64	4.21	11.18
1928	40.54	3.30	8.11
1929	44.30	5.07	11.44
1930	46.06	8.25	17.93
1931	45.97	14.19	30.91
1932	43.22	18.83	43.58
1933	41.11	23.48	57.12

Year.	Principal.				
	Demand.	Collection.	Percentage of collection to demand.	Balance.	Percentage of balance to demand.
1	2	3	4	5	6
	Rs. (lakhs.)	Rs. (lakhs.)		Rs. (lakhs.)	
1934	20.23	1.92	6.5	27.36	93.5
1935	32.18	2.16	6.7	30.03	93.3
1936-37	36.39	2.20	6.0	34.19	94.0

Year.	Interest.				
	Demand.	Collection.	Percentage of collection to demand.	Balance.	Percentage of balance to demand.
1	2	3	4	5	6
	Rs. (lakhs.)	Rs. (lakhs.)		Rs. (lakhs.)	
1934	17.53	3.63	20.7	13.90	79.3
1935	19.47	4.55	23.3	14.92	76.7
1936-37	23.50	3.13	13.3	20.37	86.7

It may be seen from the statement that the percentage of overdue principal did not show great variation till the year 1926; it ranged between 20.83 and 24.70. During the period from 1927 to 1929, there was a big drop and thereafter the increase was steady and perceptible, the percentage of overdue principal to demand for the year ending 30th June 1937 being 94—the highest so far on record.

Revision of kists.—In passing, I may refer to the circumstances which led to a big drop in the percentage of overdue principal to the loans outstanding during the years 1927 to 1929. There was a general revision of *kists* during this period. At a conference of the Registrar of Co-operative Societies of Bihar and Orissa with the Assistant Registrars held in November 1926, a stock was taken of the working of the societies in the Province and of the causes for their deterioration; pointed attention of the officers was also drawn to the following observations of Government in their resolution on the administration report of the co-operative department for the year 1925:—

“ Recoveries from members remained at the low level reached last year, viz., 57 per cent and the classification of societies shows till further deterioration. Whereas in 1922-23, 23 per cent of the societies were classed as ‘model’ and ‘good’ and 9.6 per cent as ‘bad’ and ‘hopeless’ the former figure fell to 20.5 in the following year and 20 in 1925 while the latter rose to 10 in 1924 and again to 12 last year. This steady decline in the condition of agricultural societies which form the backbone of the movement, is a most disquieting feature and unless it can be arrested, the success of the whole movement in Bihar and Orissa will be gravely imperilled. Government trust that the new

Registrar will give this important matter his earnest attention and that he will be able to devise means to mitigate the evil, which is clearly the result of the over-hasty launching of societies without sufficient preparation and inculcation of co-operative principles, followed by reckless financing and laxity of control. Until very considerable improvement has been effected in this direction it is impossible to regard the future of the movement with confidence."

One of the resolutions arrived at by the Conference was that general revision of *kists* should 'immediately' be taken up by the central banks because it was considered that one of the main causes of irregular repayments and consequently of overdues was the fixing of *kists* without due regard to the ability of the borrower to pay. It was laid down that the guiding principle should be that each borrower should be asked to state the *kist* which would suit him and the *panches* should then examine and settle the *kist*, as much as possible, on the basis of the borrower's ability to pay. In pursuance of this resolution a general revision of *kists* extending from five to ten years was asked to be undertaken of all loans *whether overdue or not* on the basis of classification of loans into long term and short-term, the limit for the former being the paid-up share capital of the banks plus the societies' reserves which were not invested in the Banks' shares plus 25 per cent of the deposits. With one or two exceptions all the banks revised their *kists* and granted wholesale extensions to societies, unfortunately without the suggested preliminary classification of the loans as the essential basis of such revision. "These revisions did little except encourage the borrowers in the belief that repayment was unnecessary".* It was this circumstance, as already stated, that showed a big drop in the percentage of the overdues during the years 1927 to 1929. While the Registrar spoke with appreciation of the percentage of collections in the year 1927 (which was 68.2 as against 59 of the previous year) and attributed it to the "result of our endeavours" and stated that for the year 1928 "on the whole collection was not unsatisfactory," the percentage being 64.9, his successor in his report for the year 1930 stated as follows:—

"It is not surprising to find that the standard of collection by central banks from societies was extremely low; the percentage of collection to demand was only 35.3 against the recorded figure of 58.9 last year, but figures given for collections in the past and particularly those for the last few years are not at all reliable on account of the fact that many indulged in wholesale revisions of *kists* and treated the amount covered by these revisions as a reduction of the demands. By this method they were

Paragraph 2 of Registrar's circular no. 4 of 1932.

able to wipe out their arrears on paper and showed a higher percentage of realisation than they could really claim."

The position as regards repayment of interest shown in the statement for the three years from 1934 to 1936-37 is equally bad; there has been a marked deterioration and on 30th June 1937, the overdue interest reached an alarmingly high percentage of 86.7. In other words, the overdue interest of Rs. 20.78 lakhs works out to 57.38 per cent of the total loans outstanding against the members of all agricultural credit societies (i.e., Rs. 36.04 lakhs). If the lending rate on loans to members be taken at 15 5/8 per cent, the interest overdue on 30th June 1937 would be equivalent to the interest due on the outstanding loans against the members for a little over 45 months. Most of this amount had accumulated over a series of years and is practically frozen. Some of it represent the interest compounded during the period of revision of *kists* (1927 to 1929).

The following statement shows the principal and interest arrears of the members to the agricultural credit societies in South Orissa on the 30th June 1937:—

	Demand.	Collection.	Balance.	Percentage of balance to demand.
	Rs. (lakhs.)	Rs. (lakhs.)	Rs. (lakhs.)	
Principal ...	10.15	2.20	7.95	77.34
Interest ...	2.68	1.01	1.67	62.49

The position, too, in South Orissa, is not quite satisfactory.

40. *Position of all (agricultural and non-agricultural) primary credit societies.*—This is so far as agricultural credit societies are concerned but the position does not materially differ even if the primary credit societies of all types—agricultural and non-agricultural—are viewed as a whole. There were 135 credit societies other than agricultural in North Orissa and 37 in South Orissa. These societies are mostly urban credit, weavers', fishermen's and other societies to which reference has been made in the last chapter. The total number of agricultural and non-agricultural societies on the 30th June 1937 was 2,659 (2,137 societies in North Orissa and 522 societies in South Orissa) as against 2,487 agricultural credit societies.

The following statement exhibits the position in respect of overdue principal and interest from members to all the 2,137 societies in North Orissa and all the 522 societies in South Orissa on the 30th June 1937:—

Item.	Demand.	Collection.	Percentage of collection to demand.	Balance.	Percentage of balance to demand.
	Rs. (lakhs.)	Rs. (lakhs.)		Rs. (lakhs.)	
<i>North Orissa.</i>					
Principal ...	37.55	2.53	7.0	35.02	93.0
Interest ...	23.98	3.20	13.3	20.78	86.7
<i>South Orissa.</i>					
Principal ...	14.16	4.53	32.06	9.63	67.94
Interest ...	3.41	1.39	40.89	2.02	59.11

It may be seen therefrom that the percentage of collection of principal to demand in respect of all the societies in North Orissa was only 7 as against 6 in respect of agricultural credit societies while the percentage of interest collected was 13.3 which is also the same in agricultural credit societies. In other words, the percentages of overdues were 93 under principal and 86.7 under interest—a position which is as positively dangerous as in the case of agricultural credit societies.

41. *Background against the overdues.*—It is necessary that for a proper appreciation of the position regarding the overdues, they should be viewed in their proper setting and perspective and I shall, therefore, attempt here a description in as brief a manner as possible of the attendant circumstances bearing on this topic. Of the 2,029 societies indebted to all the thirteen central banks in North Orissa, 1,960 were overdue on the 30th June 1937.

Classification of overdues according to period.—According to the figures furnished by the thirteen central banks in North Orissa, the overdues (principal) from living societies affiliated to them amounted

to Rs. 33.45 lakhs on the 15th November 1937 and classified according to period, they are as follows:—

	Rs. Lakhs.
Overdue below one year	0.60
„ over one year	2.64
„ „ two years	3.63
„ „ three years	4.14
„ „ four years	5.36
„ „ five years	4.89
„ „ six years	3.76
„ „ seven years	4.38
„ „ eight years	1.82
„ „ nine years	1.92
„ „ ten years	0.81
	<u>33.45</u>

Of this amount of Rs. 33.45 lakhs, Rs. 11.01 lakhs were overdue for over three years; Rs. 20.76 lakhs were overdue for over five years. It is well to remember here that a fairly good portion of this is long frozen and much older than may at first appear owing to the general revision of *kists* in the period between 1927 and 1929, when most of the loans then outstanding, whether overdue or not, were spread over five to ten years. The gravity of the situation needs then hardly any emphasis.

Security.—It may also be necessary to repeat in this connection that the bulk of the loans was, in the early stages of the movement, advanced to the members for the discharge of prior debts, purchase of lands or redemption of mortgages and in many cases they were, from what I could see in the societies I visited, beyond the ability of the borrowers to repay; secondly, not infrequently big loans were concentrated in a fewer number of members; thirdly, no regard had ever been paid in the past years to the repaying power of borrowers and the assets on which some reliance would seem to have been placed either had prior encumbrances or were collusively, I was informed, in good many societies I saw, disposed of subsequently for default in payment of rent.

Further, it has already been indicated that out of the total loans of Rs. 36.04 outstanding against the members of the agricultural credit societies on 30th June 1937, in North Orissa, an amount of Rs. 12.57 lakhs was secured on mortgages and Rs. 23.47 lakhs was backed up by sureties. Without a detailed examination of individual loans in all societies, it is extremely difficult to risk an opinion as to whether how much of the mortgaged loans are, in view of the circumstances to which I have just referred, adequately or properly secured, whether the properties are free from prior encumbrances or they are sufficient cover for the loans in view of the present land values. It is equally difficult to say whether how much of the large amount of loans secured by personal security is sound or easily recoverable and whether the sureties are worth their undertaking.

Lands purchased in execution of decrees.—Again, the societies in North Orissa were forced to purchase, in the course of execution of awards or decrees, 4,330 acres of land for Rs. 1.5 lakhs and after disposing of some of the land, they were still in possession of about 3,000 acres on 30th June 1937; the lands fetched a little over Rs. 6,500 during 1936-37; they had yet to take possession of about 900 acres. There were, too, on June 1937, 147 societies in North Orissa under liquidation with assets of Rs. 6.02 lakhs pending recovery; of this, the realisable assets were estimated only at Rs. 1.74 lakhs.

I have said enough to show the financial position of primary credit societies; viewed as a whole and against the background which I have briefly given in the preceding paragraphs, the position is admittedly grave and constitutes a serious menace to the movement. In the rural credit societies which I visited in North Orissa I gathered that in a fairly decent proportion of cases hardly one-third of the loans taken by members was at all repaid over a period extending to fifteen years including that covered by the revision of *kists*. Loans outstanding for such a long period cannot be said to be fully recoverable. I shall feel hardly surprised if a detailed examination of all individual loans in all societies with reference to the present agricultural and economic conditions were to disclose about 50 per cent of the total assets recoverable as bad or doubtful.

42. *Inadequacy of supply of fresh finance and present stagnation.*—I may at this stage examine the question, as required by the terms of reference, as to whether there is an adequate supply of fresh finance required by the primary credit societies and the members of whom they are composed. The following statement shows the position in a nutshell in respect of all agricultural credit societies (limited and unlimited):—

Agricultural primary credit societies (North Orissa).

Year.	Loans outstanding against members.	Loans issued to members.	Percentage of loans issued to loans outstanding.
	Rs. (lakhs)	Rs. (lakhs)	
1925 ...	26.86	8.10	30.19
1926 ...	33.15	12.40	37.41
1927 ...	37.64	10.03	26.65
1928 ...	40.54	9.52	23.51

Year.	Loans outstanding against members.	Loans issued to members.	Percentage of loans issued to loans outstanding.
	Rs. (lakhs)	Rs. (lakhs)	
1929 ...	44.30	10.44	23.56
1930 ...	46.06	8.40	18.24
1931 ...	45.97	3.89	8.46
1932 ...	43.22	1.64	3.79
1933 ...	41.11	1.33	3.23
1934 ...	40.16	1.52	3.79
1935 ...	38.56	1.19	3.08
1936-37 ...	36.04	0.65	1.80

It may be seen therefrom that while there was a fairly good supply of money by way of loans to the members till the year 1930, there has been subsequently a marked deterioration in the percentage of loans issued to the members. The year 1926 recorded the largest amount of loans issued to the members, viz., Rs. 12.40 lakhs. It may be remembered here that this period coincided with the large inflow of deposits into the banks at attractively high rates of interest—as high as 8 per cent. The loans shown as having been issued between 1927 and 1930 cannot be taken as correct in view of the wholesale revision of *kists* which must have resulted in considerable book transactions. During the year 1936-37 the loans issued to the members, as compared with the loans outstanding, worked out to a percentage of 1.8 which is the lowest on record. The amount advanced was a little over Rs. 65,000.

So far as the societies in South Orissa are concerned the position, as disclosed by the following figures, is not bad :—

Year.	Loans outstanding against the members.	Loans issued to members during the year.	Percentage of loans issued to loans outstanding.
	Rs. (lakhs)	Rs. (lakhs)	
1936-37 ...	9.76	1.25	12.81

It may, in this connection, be instructive to note the number of the societies (agricultural and non-agricultural) which have not borrowed at all from their financing banks for varying periods. The following statement indicates the position succinctly :—

Name of central banks.	Number of societies affiliated.	Name of societies which have not borrowed subsequent to their taking the initial (or first) loan.	Societies which have not borrowed for over	
			Two years.	Three years.
1	2	3	4	5
Cuttack	276	3	13	227
Banki	143	1	88	77
Jajpur	139	14	131	134
Kendrapara	100	97	97	97
Kujang	186	9	165	162
Puri	155	14	146	137
Khurda	239	29	174	159
Nimapara	104	23	2	27
Balasore	210	20	3	199
Bhadrak	144	3	143	145
Sambalpur	152	83	1	152
Baragarh	206	17	17	17
Angul	86	..	17	32
Total	2,140	313	997	1,565

The figures speak for themselves so forcefully that it is needless for me to elaborate the point further. It is evident that in the rather vicious circle in which the movement has for sometime past been moving—defaults, heavy arrears, frozen assets, bad debts, cessation of flow of

fresh money—the central banks and societies do not find themselves able to make any new loans even to the few good or deserving members still left in societies. In reply to my enquiries I am informed that the members of the societies have been resorting to the *mahajans* for their requirements and the rates of interest are gradually pushed up again. So far as the movement is concerned there is a complete break-down in the supply of fresh finance and an equally complete stagnation of societies.

43. *Financial position of central banks examined.*—I will now proceed to examine the financial position of the central banks. There are 15 central banks or unions in Orissa (13 in North Orissa and 2 in South Orissa). The following statement shows the general condition of the banks on the 30th June 1937 :—

Particulars.	North Orissa.	South Orissa.
(i) Number of members—		
(a) Individuals	636	122
(b) Societies	2,140	509
	Rs. (lakhs.)	(Rs. lakhs.)
(ii) Share Capital (Paid up)	5.33	1.68
(iii) Loans and deposits held from ...		
(a) Societies	1.07	1.55
(b) Provincial Bank... ..	6.91	0.64
(c) Individuals and other sources	29.57	6.31
(iv) Reserve Fund	2.81	0.44
(v) Other funds	2.10	1.20
(vi) Working capital	47.80	11.82
(vii) Loans due by—		
(a) Individuals	0.26	0.03
(b) Societies	38.00	8.70
(viii) Book profit	0.89	0.19
(ix) Book loss	0.04*	...
(x) Distributable profit ... ..	...	0.12

* This relates to Puri Central Bank.

The percentage of the total working capital of the central banks—Rs. 47.80 lakhs (North Orissa) and Rs. 11.82 lakhs (South Orissa)—derived from different sources is indicated below :—

	Shares.	Deposits.	Loans from societies.	Loans from Provincial Bank.	Reserve fund.	Other funds.	Total.
	1	2	3	4	5	6	7
North Orissa ...	11'15	61'86	2'24	14'48	5'88	4'39	100'00
South Orissa ...	14'21	58'38	18'11	5'41	3'73	10'17	100'00

Owned capital.—The owned capital of the banks to their working capital works out to 17.03 per cent (North Orissa) and 17.93 per cent (South Orissa). Under the orders in force 50 per cent of the statutory reserve of the central banks must be separately invested in the Provincial Bank; generally almost all the banks in North Orissa invested a portion of their reserves in the shares of the Provincial Bank which is permitted. The balance is merged in the working capital of central banks. The Provincial Bank has not for some time past been paying dividend on such shares; further, such shares are not at present negotiable. They are, therefore, not of practical value for the central banks unless the Provincial Bank will set off the value against the loans due to it.

The shares which the societies hold in the central banks carry, as already stated, a reserve liability which is five times the value of shares but in view of the present financial condition of the societies it must be held to be practically of no value now.

The proportion of the owned capital to the total borrowings of the central banks varies from 1 : 8 to 1 : 2.

The total borrowings of the central banks in North Orissa on the 30th June 1937 amounted to Rs. 97.56 lakhs of which the deposits from individuals (members and non-members) were Rs. 29.57 lakhs, the loans from the Provincial Bank were Rs. 6.92 lakhs and the deposits from societies Rs. 1.07 lakhs. It is perhaps a misnomer to call the central financing agencies in North Orissa 'banks'. None of the 13 central banks receives deposits on current account; they can do so only with the previous permission of the Registrar. In strict banking parlance these agencies cannot be styled 'banks'; most of them are no better than big credit societies.

In the past the banks offered, as already stated, very high rates of interest on deposits, 8 per cent being very common. The Provincial Bank, too—on which the central banks almost completely depended for their fluid resources—had no control over the acceptance of deposits. Some of the central banks, situated as they are in the countryside and practically cut away from the urban centres of business and banking, had apparently to induce outside depositors to put in their money by offering attractively high rates. To arrest this process the Provincial Bank in a circular, dated 18th January 1928, advised the central banks to refund all deposits taken by them from outside their districts and proposed to issue new loans at 6 per cent to such of the central banks as agreed to the conditions laid down by it; evidently the Provincial Bank had large surpluses at this time. In the last few years, however, the central banks were obliged, owing to their financial difficulties and their inability to repay matured deposits—a point to which I will presently refer—to bring down the rates on the old deposits (sometimes even without reference to or the consent of the depositors concerned) and some of them now pay $3\frac{1}{2}$ and 4 per cent.

There is reason to suspect that during this period (1924 to 1926) owing to the large surpluses at their disposal the central banks could not withstand the temptation of freely lending to societies; in each of the three years they lent out Rs. 11.62 lakhs, 10.75 lakhs and 12.68 lakhs. There can be no doubt that these large scale loan operations should have to some degree resulted in the over-financing of societies.

• The two central banks in South Orissa had total borrowings of Rs. 8.50 lakhs of which deposits from individuals (members and non-members), loans from the Provincial Bank and deposits from the societies were Rs. 6.31 lakhs, Rs. 0.64 lakhs and 1.5 lakhs respectively.

The loans due by all societies to the 13 central banks in North Orissa on 30th June 1937 amounted to Rs. 38.00 lakhs of which Rs. 3.90 lakhs was classed as short-term and Rs. 34.10 lakhs as long-term in their balance sheets. The loans due by individual members were Rs. 26,936.

44. *Overdues.*—The bad position in respect of repayments by the members to the societies is reflected in the correspondingly very poor repayments by the societies to the central banks. In point of fact the present condition of the societies is a true index of the condition of the central banks. There has been a marked deterioration in the repayments by societies to the central banks in North Orissa as may be seen from the following statement and this should surely be a matter of grave anxiety. Unfortunately the amount of demand for the period prior to 1933 is not available in the departmental administration

reports. The following statement, however, shows the position from the year 1933 onwards :—

Year.	Demand.	Collection.	Percentage of collection.	Balance.	Percentage of balance to demand.
1	2	3	4	5	6
	Rs. (lakhs.)	Rs. (lakhs.)		Rs. (lakhs.)	
<i>Principal.</i>					
1933 ...	21.27	1.46	6.8	19.81	93.2
1934 ...	26.35	1.17	4.4	25.18	95.6
1935 ...	30.44	1.51	4.9	28.93	95.1
1936-37...	34.09	1.65	4.9	32.44	95.1
<i>Interest.</i>					
1933 ...	7.51	3.24	43.1	4.27	56.9
1934 ...	9.09	3.26	35.8	5.83	64.2
1935 ...	11.02	4.22	38.2	6.80	61.8
1936-37...	12.36	2.27	18.3	10.09	81.7

During the last three years the position has become positively perilous, the percentage of collections under principal ranging from 4.4 to 4.9. The overdue interest on 30th June 1937 was over Rs. 10 lakhs and it works out to 26.5 per cent of the total amount of loans outstanding against societies and represents 27 months' interest on that amount (the average lending rate being taken at 11.7 per cent.). The attempts made by the banks so far to stimulate collections through rebate of interest, execution of awards, etc., have not produced any satisfactory results. The banks were forced to bid at the sales of lands in execution of decrees by societies or liquidators and to purchase them. The extent of land purchased by them was about 970 acres; they so far took possession of land measuring 690 acres. This is in addition to about 3,000 acres of land which the societies purchased in similar circumstances. It is clearly difficult to sell the land profitably during these days and often cannot be leased except at a loss; and great difficulty is felt even to get them cultivated. It is not rare that the banks are dragged into litigation in their attempt to take possession of lands.

45. *Failure of banks to repay matured deposits.*—The dangerously poor collections to which I have just alluded have had serious reactions on the general working and reputation of the central banks in North Orissa and served to shatter the confidence of the depositors and the investing public generally. Twelve of the central banks have failed to repay the matured deposits on the due dates. From the statements furnished by banks, I notice that the first default occurred as early as 1927 when the Jajpur and the Kujang central banks failed to repay matured deposits for Rs. 47,074 and Rs. 1,514 respectively.

The amount * of matured deposits which remained unpaid during each of the subsequent years with the number of central banks involved is noted below :—

Year.	Amount of overdue deposits.	Number of central banks involved.	Interest due on deposits and unpaid.	Number of banks involved.
1	2	3	4	5
	Rs. lakhs.		Rs.	
1928 ...	0.73	1	...	...
1929 ...	0.68	3	...	...
1930 ...	1.01	4	...	...
1931 ...	0.23	3	...	...
1932 ...	0.33	4	17,021	1
1933 ...	1.09	7	...	...
1934 ...	3.32	8	60,139	5
1935 ...	8.97	11	52,855	7
1936-1937 ...	13.96	11	93,241	9

* Subsequent to the preparation of this statement another central bank (Banki-Dompara) also failed to repay matured deposits; thus of the 13 central banks in North Orissa 12 have defaulted so far.

The figures do not show, as stated in Chapter II, the real position as some of the banks have not furnished correct amounts; though the banks are not in a position to repay deposits on maturity, such deposits have not been included in the figures furnished for the very technical reason that the depositors have not given the required two or three months' notice. Even if such notices were given, the banks could not have returned the deposits.

This phenomenon which began in 1927 became pronounced from the year 1933 onwards. On 30th June 1937, the deposits which matured and remained unpaid worked out to 49.22 per cent of the total amount of the fixed deposits outstanding.

Apart from the poor collections, the central banks attribute this state of affairs to the non-renewal of old deposits as a result of the reaction which the failure of some of the banks to repay the deposits in the first few years had upon the other banks or the non-availability of adequate financial accommodation from the Provincial Bank. Some of the banks attempted at first to meet the situation by obtaining loans from the Provincial Bank which, so far as may be gathered, accommodated them as far as it could go.

Non-maintenance of fluid resources—'one date deposit system'—and employment of time-deposits in long-term loans.—I may at this stage appropriately refer to the wrong and possibly dangerous banking practices in which the central banks were indulging. The main defect that became quite evident during this period in the financial arrangements of the banks was their lamentable failure to maintain fluid resources to meet the demands of the depositors. The central banks depending as they did on the help from the Provincial Bank and partly on 'the one date' deposit system, failed to keep a proportion of their resources in liquid form or easily realisable assets which the general banking practice required. In North Orissa the banks were not under any statutory rule insisted upon to maintain such resources. The almost complete dependence upon the Provincial Bank for help in case of an emergency proved, as subsequent events had shown, quite unjustified. The 'one date deposit' system, though remarkably simple, failed to stand the banks in good stead when collections fell; the simplicity of the system was both its attraction and its weakness. The third point of weakness which proved injurious to the proper working of the banks at this stage was their departure in the past years from the essentially sound banking practice of employing short-term deposits in short-period investments. Contrary to the accepted banking principle and practice, the central banks employed the short-period deposits in investments of loans in societies for periods extending to five years and more. This might not have affected the banks till about the year 1926 or 1927 when money was freely coming into the banks. In the years 1927 to 1929 there was a wholesale revision of *kists* to which I have already referred in some detail. The period of revised *kists* went up from five to ten years. Ordinary business prudence should have suggested to the banks the need for ample resources before the *kists* were spread over such long period. From the figures furnished by twelve central banks in North Orissa, the loans outstanding against the societies on the different dates of the revision of *kist* amounted to Rs. 38.44 lakhs (of which Rs. 10.24 lakhs were overdue) while the deposits and the loans from individuals and the Bihar and Orissa Provincial Co-operative Bank on the same

dates amounted to Rs. 34.88 lakhs. And it is instructive to note here the amount of loans repayable by societies *before* and *after* the general revision of *kists* and the commitments in respect of deposits and the Provincial Bank loans. The following statement shows the position of twelve banks which furnished the figures:—

Particulars.	In the year of revision.	In the first year after revision.	In the second year after revision.	In the third year after revision.	In the fourth year after revision.	In the subsequent years.	Total.
1	2	3	4	5	6	7	8
	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).
1. Loans repayable <i>before</i> the revision of <i>kists</i> according to the original terms of contract.	15'15	6'94	5'81	4'40	2'94	3'10	38'44
2. Loans repayable <i>after</i> the revision of <i>kists</i> .	1'95	4'80	4'97	4'95	4'82	16'95	36'44
3. Total amount of deposits held by the banks on the dates of revision (Rs. 30'26 lakhs) repayable.	10'08	6'56	3'38	3'06	1'37	8'91	30'26
4. Provincial Bank loan (Rs. 4'62 lakhs) repayable.	1'18	1'01	0'84	0'76	0'90	0'51	4'69
5. Total of deposits and Provincial Bank loans repayable (3 plus 4).	11'26	9'37	4'22	3'84	1'57	4'42	34'88

It may be seen from the statement that when the bulk of the deposits and the Provincial Bank loans was repayable in the year of revision and the following year or two, the bulk of the revised instalments of loans was due from the societies from the third year after the dates of revision. That such a wholesale revision of *kists* by the banks depending as they did upon short-term deposits or short-period loans from the Provincial Bank was thoroughly unsound is too patent to need further comment.

Weakness of financial centralisation.—Evidently the banks relied upon three factors. Firstly, they looked to the Provincial Bank for help in case of an emergency; secondly, they thought along *with the Registrar* "that if the *kists* are properly fixed there is no reason why there should be any defaults"; and thirdly, they counted upon the renewals of old deposits or an inflow of fresh deposits. Their entire dependence on the Provincial Bank for fluid resources for being available

to them in times of need was neither proper nor called for. *Both the weakness and the danger of concentration of fluid resources and financial centralisation in one provincial institution* without having any real control of the deposit or loan policy of the affiliated central banks were never more evident than during the period that immediately followed the general revision of *kists*. I shall do no better than quote what the Registrar had stated in August 1930 on the application of one of the central banks in North Orissa for a loan from the Provincial Bank for the repayment of its deposits.

“I fear nothing can be done to help the bank out of the difficulties it has got itself into by lamentably bad collections accompanied by irresponsible extension of *kists*. The Provincial Bank has no long-term money for loans and if in spite of the warnings the bank has chosen to give long-term money merely in order to cover up its bad collections, I fear it must bear the consequences. I cannot ask the Provincial Bank to do what is financially unjustifiable and endanger itself in order to shoulder central bank's burden. The financial position and mismanagement of this bank raises grave doubts as to the advisability of its continuance. *The existence of these small banks in inaccessible places constitutes a constant danger, as supervision is difficult and managing capacity hard to find. The question of amalgamation with a neighbouring bank may be worth considering.*”

The second expectation that after the revision of *kists*, repayments might be regular did not turn out alright. Economic depression, frequent defaults and increasing overdues followed in quick succession and the loans were got stuck up in societies.

The central banks proved to be equally bad prophets in regard to their calculations about the renewal of deposits. The outgoings in respect of deposits during this period were more than the cash receipts.

46. *Present position in regard to repayment of deposits.*—Thus these several unfortunate circumstances inevitably conspired to produce very serious financial embarrassment from which the central banks have been struggling hard to get out. Some of them have so far attempted to meet the situation partly by *pro rata* distribution of collections among the depositors and partly by transfer or sale to the depositors of the lands in their or societies' possession in full or partial satisfaction of their deposits; while yet some others have repaid the deposits from collections to those who perhaps cried loud or who, in the opinion of the Board of Directors, deserved consideration—this is indeed a definitely untenable position. Many of the banks reduced, as already stated, the rates of interest on deposits and have been endeavouring to

pay at least the interest. In this atmosphere of panic, legislative provision was also made by an amendment of the Bihar and Orissa Co-operative Societies Act in 1935 empowering the Registrar to sanction any compromise or arrangement agreed upon by the banks and a majority in number representing three-fourths in value of the creditors. During my visits to the central banks, I met some of the depositors and had informal talks with them. I was visibly struck by their intensive feelings of fear and anxiety about the safety or the possibilities of the repayment of their deposits; their feelings are as natural and deep as the discredit of the banks is widespread and complete. And it may here be relevant to note the nature and the variety of interests affected. The following two statements have their own tale to tell :—

Classification of depositors of twelve of the thirteen central banks in North Orissa as on the 15th November 1937.

	Rs. (lakhs)
1. Public servants	8.43
2. Landed proprietors	4.73
3. Females	4.29
4. Professional men (other than public servants).	2.50
5. Agriculturists	1.40
6. Money-lenders	1.19
7. Public institutions	0.92
8. Traders	0.65
9. Co-operative societies	0.46
10. Pensioners	0.85
11. Others	0.34
12. Contractors	0.13
Total	<u>25.39</u>

Classification of fixed deposits held on the 31st December 1937 by the thirteen central banks in North Orissa according to amount.

Particulars.		Number of deposits.	Number of banks concerned.	Amount of deposits.	
Rs.	Rs.			Rs. (lakhs)	
Deposits up to	100	...	368	13	0.12
Deposits from	101 to	250	211	13	0.36
Deposits from	251 to	500	188	13	0.69
Deposits from	501 to	1,000	206	12	1.59
Deposits from	1,001 to	2,000	203	12	2.96
Deposits from	2,001 to	3,000	102	13	2.56
Deposits from	3,001 to	4,000	63	13	2.23
Deposits from	4,001 to	5,000	53	12	2.36
Deposits from	5,001 to	10,000	85	13	6.27
Deposits from	10,001 to	20,000	26	9	3.36
Deposits from	20,001 to	25,000	4	2	0.85
Deposits above	25,000	...	10	5	3.64
Total		...	1,519	...	26.99

Of the loans taken by the central banks from the Bihar and Orissa Provincial Co-operative Bank (Patna) from time to time, the balance outstanding on 31st December 1937 was Rs. 5.26 lakhs. The interest overdue was Rs. 0.29 lakhs and the interest due for 1937 was Rs. 0.30 lakhs. The cash credit drawn and outstanding on that date amounted to Rs. 1.50 lakhs. Thus the thirteen central banks were indebted to the Provincial Bank to the extent of Rs. 7.35 lakhs. Of the loans outstanding on 31st December 1937, an amount of Rs. 3.53 lakhs was overdue; the overdue interest was Rs. 29,032. The first default in the repayment of the Provincial Bank loan commenced in May 1931

and in respect of interest the first date of default was December 1933. Most of these loans were taken for the repayment of deposits and bear 6 per cent interest.

The two central banks in South Orissa never failed to meet the obligations to the depositors, but the Aska bank was indebted to the Madras Provincial Co-operative Bank to the extent of Rs. 36,935 and the whole of it has been overdue from August 1935.

47. *High cost of management of banks.*—Another feature which I may record in passing is the high cost of management of the central banks in North Orissa. During the year 1936-37 the banks put their expenditure at Rs. 1.08 lakhs. But the matter needs to be looked at from another point, viz., the total *income* realised and the total expenses. In three of the past four years the total income realised (i.e., interest received) was far less than the total expenses (interest paid, establishment and contingencies) as may be seen from the following statement:—

Year.	Income.	Expenses.	Deficit over income.	Excess over expenses.
	Rs. (lakhs.)	Rs. (lakhs.)	Rs. (lakhs.)	Rs. (lakhs.)
1933 ...	3.32	4.17	0.85	...
1934 ...	3.48	4.01	0.53	...
1935 ...	4.33	3.47	...	0.86
1936-37 ...	2.39	2.62	0.23	...

It is difficult to say how far this is due to the employment by some banks of inspecting clerks perhaps in excess of the requirements of supervision, payment of heavy audit fees or the smallness of the area of the central banks or other causes. There can be no doubt, in any case, that the too small area over which the banks function and the consequently small working capital with which they carry on their business not only render their economical working, extremely difficult but increase on the one hand the burden of their overhead charges and on the other hand the margin between their borrowing and lending rates which is admittedly very high in Orissa. And to a certain degree the high cost of management accounts for the high loan rates in Orissa; they are far higher than in most other Provinces I saw, the most common rate being 12½ per cent.

48. *Book profit and loss of banks.*—For the last three or four years the banks have not been able to distribute any net profit. In their balance sheets for the year 1936-37, twelve of the thirteen banks showed a book profit of Rs. 85,088 and one bank (Puri Bank) a book loss of Rs. 3,942, but if the overdue interest were excluded, all the thirteen banks would show a loss of Rs. 10.09 lakhs.

49. *Break-down of supply of fresh finance by banks.*—The central banks in North Orissa have practically been financially crippled from making any fresh advances to the societies owing to the operation of the many forces which I have already described. They advanced loans exceeding Rs. 10 lakhs in the year 1926 and in the following four years (1927—1930) the advances averaged about Rs. 9½ lakhs per year. During the next three years (1931 to 1933) the annual loan transactions came to only Rs. 1.8 lakhs; in 1934, the loans issued amounted to Rs. 0.53 lakhs; in 1935, 0.52 lakhs and in 1936-37 it was 0.46 lakhs. While in the year 1926 the loans issued to the loans outstanding against the societies worked out to 34.4 per cent, in 1936-37 it was hardly 1.2 per cent. It need hardly be stated that the banks reached a point of complete stagnation and it would seem well-nigh impossible that the banks, as they stand, would be in a position to give any fresh loans to the societies in the near future.

In South Orissa, the two central banks advanced over a lakh of rupees during 1936-37. This is not surely bad.

50. *Break-down of the movement.*—It is clear from the detailed examination in the preceding paragraphs of the financial position of the primary credit societies and of the central banks in North Orissa and from the overwhelming evidence which I received that the co-operative movement in North Orissa has broken down and the financial condition of the societies and of the banks is definitely unsound. The banks have irreparably lost the confidence of the investing public and cannot hope, in the present state of affairs, to attract fresh money into the movement. The loans in the primary societies have long got frozen. The societies have ceased to be a live factor in the rural finance; they have not been able to meet the credit requirements of their deserving members who are in need. While the individual members of societies clamour for immediate relief, the banks, paralysed by their helplessness, look askance; there is gloom and utter despair all round.

51. *The other side of the picture.*—It is true that as a result of the introduction of the movement there was a general reduction in the rates of interest in Orissa as elsewhere in India. The rate which originally ranged from 25 to 37½ per cent now varies between 18½ and 25 per cent. A few witnesses seemed vainly to suggest that this result could not be attributed to the movement. It is, at any rate, undeniable that if not anything else, it has served to keep the *mahajans* in their proper place and thus to control their lending rates.

Apart from a general lowering of the interest rates, the movement generally encouraged or facilitated improved agricultural conditions through the introduction in some areas of new crops such as sugarcane, vegetables, etc., it made contributions towards village or adult education; in some other places attempts were made to promote rural sanitation or medicine, while yet in other places provision for drinking water through the digging of wells or the repair of tanks was made. Where the societies were good—though these are few and far between in Orissa—a desire for associated effort, however feeble, was created. These are no mean results and, to be sure, cannot be forgotten by a sense of the financial collapse and gloom which just now overshadow the movement.

52. *Causes for the break-down analysed.*—Justifiable anxiety and nervousness are, however, discernible on the part of the depositors and the well-wishers of the movement about the safety of the investments made in it and the future of the movement itself, and it is well, therefore, that an account is taken of the main factors which contributed to this result. Many reasons were given me during the course of my enquiry for the financial break-down and the accumulation of the frozen debts in the societies. Many of them may perhaps be common in varying degrees to the other Provinces in India, while there are some others which are purely local. Broadly, the economic depression and the concomitant fall in the prices of agricultural products and of land, bad harvests or failure of crops on account of floods or drought, very low yield of land, high rates of interest, over or bad financing, indifference and apathy of *panches* and office-bearers, wilful default by members, collusive disposal of lands for payment of rent-arrears, deliberate withholding of payment in expectation of remissions, propaganda by interested parties for non-payment of debts, rapid expansion, *inadequate supervision and control by Government staff*, the policy of department in the earlier years for 'full finance' of members including the payment of all their prior debts, prolonged and costly execution proceedings—these are all said to lie at the root of the present troubles. Varying emphasis was laid by the witnesses on different causes. While some put the blame on the department, others attributed the crisis to the economic depression; yet some others make the *panches* and the members entirely responsible for the present troubles. It is hardly realised that no one factor could have prostrated the whole movement. I, therefore, propose briefly to deal with the more important of the causes in the following paragraphs.

(i) *Rapid expansion.*—In some years there was, as I have already indicated, admittedly a rapid expansion of the movement. This was partly due to the enthusiasm of the Registrar and the honorary organisers. Not much preparatory work was done in the villages before the societies were organised; nor were the applicants taught co-operative principles and practices. If, as has been stated, 'the ryots borrow money and drink ghee', great caution should have been taken before the societies were registered in villages.

It seems, however, necessary to correct a mistaken impression which is noticeable in this matter in some quarters. The rapid growth of societies has been so consistently urged as to make it appear that it was the main cause for the many evils from which the movement had suffered and has been suffering. Though a lessening of the speed might have resulted in the slower growth of the movement, it could not have surely prevented in an effective manner the deterioration that set in. The ultimate borrower in the primary society knew at the time when he borrowed from the society that a loan meant repayment and whether the organisation of societies was rapid or slow, this essential knowledge could not have been absent from his mind. It may be that the member failed to make proper and productive use of the money or to repay the loan punctually but experience shows that the failure in these respects is noticeable in societies which were hastily organised as well as those where propaganda and education preceded registration. The truth of the matter is that more often than not the success of the societies depended upon the disinterested services of local men of influence and reputation and their wise management; and where these were wanting societies came to grief. Probably less speed and greater caution might have prevented the formation of societies in villages or areas which detailed enquiries might have disclosed as economically unsuitable.

(ii) *The policy of 'full finance' and redemption of old debts.*—The loan policy of the department during the initial stages of the movement has come in for a good deal of criticism. I find that there was considerable discussion in the earlier year as to whether the new members admitted into the society should clear off all their debts or not. It was urged that if they were to learn the value of thrift and self-help, the process of salvation from the money-lender should be slow and even arduous. If they got money too easily, they would not realise their position and would fall into arrears with repayments. Others argued that unless members were at once cleared of all their debts, the society was never safe and the money-lender was left with a lever to overturn it. It was felt that when the new members were heavily indebted and the money-lenders dominated the village, it would probably usually be best to start the society by settling all old debts. In addition, members were to be financed fully for all other purposes as well. It is this policy that has been criticised by some of the witnesses. My enquiries in the societies I visited indicate that a good proportion of the loans was advanced to members either for the repayment of old debts or for the purchase of lands. Under the normal circumstances of agricultural economy in this country, it was clearly impossible for the members to repay their loans given for these purposes in a period of about three to five years while at the same time meeting their current agricultural needs from their harvest, particularly if the amounts involved were big. The result is that the loans continued to remain unpaid for years together and in some cases which came to my notice in societies I saw the loans rolled on for fifteen years and more.

Unfortunately, the main object of the Government of India in placing the Co-operative Credit Societies Act on the statute book in the year 1904 was evidently lost sight of. In a resolution explaining the position in April 1904, the Government of India stated :

“ At the outset it is important to remember that the question of agricultural banks is quite a different matter from that of co-operative credit societies and that it is the latter only which are now being dealt with.....the object of the societies contemplated by this Act is far more special and limited.....Their operations are confined within the limits of the society, and they will be *‘small and simple credit societies for small and simple folk with small and simple needs and requiring small sums only’*.”

and later on the resolution stated—

“ it is exceedingly inadvisable that these societies should be allowed to lock up their limited capital in a form in which it is not readily available ; their most useful form of business will probably be *small loans for short periods with prompt recoveries.*”

It is thus clear that what the Act contemplated was the provision of “ some means of obtaining the capital required for *agricultural operations* otherwise than at usurious rates of interest.” These were sound principles which, if faithfully followed, could have prevented the movement from imperceptibly sliding itself into the financial entanglement which the policy of ‘full finance’ in the long run landed it. This policy of ‘full finance’ and the redemption of the members from their prior debts may perhaps be laudable as ‘co-operative idealism’ but this was and could not be achieved within the frame-work of the co-operative credit structure depending as it has been purely on the basis of deposit banking. Experience showed the need for, and the wisdom of a retreat from, this idealism.

(iii) *Bad and over-financing.*—In certain areas of the Province—particularly in coastal districts—cases of over-financing of the members of village credit societies are definitely visible. More than one circumstance facilitated this. No maximum limit for individual loans of members was unfortunately fixed in the by-laws as in the case of South Orissa societies. The amount of loan that a member took from the society was regulated by the general meeting of the society. Secondly, the guiding principle for the giving of loans to members was more the assets of the members than their income or repaying power. I came across cases of members of village societies who were advanced loans up to Rs. 2,000, Rs. 3,000 or even Rs. 5,000 or more. It might be that the number of such members was small but the weakness of this lies in the smallness of the number. Money having been locked up in a fewer number of members, risk gets concentrated and when a disaster occurs, money would be easily lost ; if the risk is spread over a large number of members, loss might possibly be small. Repayment

became difficult when, as just now stated, no regard was paid to the income or repaying capacity of members. Cases of bad financing, too, were noticed. A member was given a loan of about Rs. 3,000 for the purchase of an estate even when it was evident that the loan could not be paid from the income from the estate. Subsequently he sold away a good portion of his property, repaid a portion of his debt, but he was still heavily in default to the society. In another village society a member tried his luck in cloth business; from the account he gave me he was not well qualified for undertaking the business. This loan was forced upon him, it is said, by a director of a central bank. In all he borrowed Rs. 1,900 twelve years ago, sold away subsequently twelve out of the fifteen acres of lands he had, repaid from his income and sale-proceeds of his land Rs. 1,017 towards principal and Rs. 2,323 towards interest and still owed to the society on the date of my visit Rs. 883 towards principal and Rs. 682 towards interest. He had only three acres of land left which would not be sufficient to pay off the remaining debt to the society. In another society, a member borrowed in all Rs. 9,620 which he invested in teak wood trade for which he was admittedly not qualified. He repaid nearly Rs. 9,000 towards principal and interest and still owed nearly Rs. 12,000 (Rs. 6,200 towards principal and Rs. 5,780 towards interest). Such instances can be multiplied. It is not necessary to elaborate this further. The point is that even at the time of giving the loans it should have been evident that the members could not pay such big loans from their income and that the loans, too, were too big to be given to anyone member out of the resources of the small village societies or even of the central banks.

One of the central banks has given very instructive figures bearing on this point and it may be interesting to refer to them here. Forty-eight societies are indebted to the bank and their overdues to it exceeded Rs. 3.65 lakhs while the overdues of members to the societies were Rs. 4.41 lakhs. The bank refers to two groups of societies in its area in which very big borrowers were heavily in default. The first group consists of four societies in which 627 members were borrowers who were overdue to the societies to the extent of Rs. 96,132 (principal and interest). Of the 627 members, 28 owed Rs. 50,639; in other words, the overdues of 4.4 per cent of the members in the four societies concerned worked out to 52.6 per cent of the total overdues. In the second group of three societies, the number of borrowers was 608 and they were overdue to the societies to the extent of Rs. 67,919 (principal and interest); 22 of them were overdue to the extent of Rs. 19,712; in other words, 3.6 per cent of the members were responsible for 28.4 per cent of the overdues. In the first group of societies the average overdue amount in respect of the 28 members exceeded Rs. 1,800 while in the second group of societies the average overdue amount in respect of 22 defaulters was about Rs. 900. Seven of the 48 societies were indebted to the bank to the extent of Rs. 1.44 lakhs; about one-half of this amount was overdue from 50 out of 1,235 defaulters in seven societies. The position needs hardly any comment.

(iv) *Inefficiency and apathy of the panches.*—The indifference of the *panches* and their neglect in the discharge of their responsibilities both in the matter of recommending and recovering loans were also frequently pointed out. This is true not only of societies in Orissa but of those elsewhere in India. The fundamental defect in the actual working of most village credit societies lies in the fact that the recommendation, sanction and disbursement of loans to individual members rest with the *panches*, and they are more often deflected from the strict principles of business by feelings of relationship, friendship or neighbourliness. The creditor bank looks up to the *panches* for the safeguarding of its and the society's financial interests because the *panches* have a full knowledge of the economic circumstances or character and credit-worthiness of the members—a knowledge which is not so readily available to an outside agency. This is inherent in the co-operative theory, viz., the proximity between the creditor and the debtor. This is both the essence and the weakness of the democratic management of village credit societies. The financing banks in Orissa, as elsewhere in India, naturally relied upon the capacity of *panches* to manage their societies. This is all right so long as the *panches* showed a really co-operative and business spirit. But in actual working, however, these expectations were not fulfilled. The *panches* of societies were influenced by such feelings as those just referred to rather than considerations of business prudence. Unless measures are concerted for the elimination of this most vital weakness in the actual working of the societies, no great improvement appears possible. It is true that this weakness is seen in a marked degree in the societies where co-operative spirit or business aptitude is lacking and until that is developed, this weakness should be kept under control and should not be allowed to militate against the sound working of the societies. I emphasise this aspect of the matter because I base my fundamental recommendations in the next chapter upon an appreciation of this circumstance. In Orissa, as elsewhere, this neglect and indifference on the part of the *panches* had full play and themselves having heavily borrowed and defaulted, they ceased to interest themselves in the recovery of overdues.

(v) *Wilful default by members.*—Many of the witnesses referred to the wilful default and dishonesty of some of the borrowers who could have paid but did not pay. In some of the rural societies I visited, I was frequently reminded of members who were deliberately guilty of collusive sales of lands for payment of rent arrears. This is what one of the banks states: "These heavy defaulters are generally the bigger agriculturists with economic holdings who dominate in the management of the societies. The defaults in their cases are due more to dishonesty than any other cause and the example set by them has encouraged the smaller debtors to withhold payment of their liabilities." Stringent action is clearly called for in such cases; the *panches* cannot generally be expected to do this.

(vi) *Propaganda for postponement or non-payment of debts.*—It was consistently urged before me in almost all the banks in North Orissa that the general defaults of members though partly brought about by other factors, were encouraged by interested parties who carried on persistent propaganda for the postponement or non-payment of debts with a view to secure remissions. I was told that this had serious psychological reactions on the rural debtors and largely contributed during the last three years to the hopelessly negligible collections. It was also stated that because some of the banks and societies gave or promised rebates to members under certain conditions, they withheld payments in expectation of bigger rebates or liberal remissions. It was not obviously possible for me to go into the details of these statements and cannot, therefore, venture to comment on their veracity but in most places I found a large body of borrowers in a mood of expectancy. At the headquarters of one of the central banks there were present at the time of my visit about three hundred members of societies. At another place there were about 400 members. They all in one voice demanded large concessions in the matter of repaying their dues.

(vii) *Enthusiasm of the officers of the department and reckless or unsound financing of artisans' or industrial societies.*—In a few banks the present muddle is to some extent due to the unsound methods of financing which, at the instance of the enthusiastic officers of the department, they were rather reluctantly obliged to undertake. In the previous chapter I referred to this under different classes of societies. During the years 1920 to 1925 a number of artisans or industrial societies, such as bell-metal workers' societies, fishermen's societies and stores societies were started in some places and practically all of them flourished on the capital liberally supplied by the banks, more often at the instance of the departmental enthusiasts who pushed through the formation of these societies. Adequate safeguards were not taken by way of the proper utilisation of the money given, or the limiting of advances, or the taking of possession of the goods made as security or suitable arrangements for sale of goods or prompt recoveries of advances. The societies were allowed to operate freely upon the cash credits allowed to them from time to time and the central banks had little knowledge of how the moneys were being used. The officers themselves, I am led to believe, had hardly the requisite technical knowledge which is so very necessary for the successful conduct of these societies and could not, therefore, guide the banks or societies in the carrying on of their business with safety. Under circumstances such as these, there is, I think, some measure of truth in what one of the witnesses stated before me:—

“At their (officials') instance limited liability societies were started which have failed. One official having certain hobbies comes and forces his hobbies upon the banks. When he is transferred, another official with another set of hobbies comes. If the non-officials sometimes disagree with

the opinion of the officials, they incur the displeasure of the officials. They have no responsibility. The worst that can happen to them is a transfer to the general department. They have no knowledge of banking or co-operation but they rule over and dictate terms to veteran and experienced non-official co-operators."

(viii) *Insufficient supervision and control by the department.*—One of the reasons which some of the witnesses advanced for the present state of affairs is the inadequate supervision and control by the officers of the Co-operative Department over the societies generally. Apart from the fact that co-operation is essentially a non-official movement managed and supervised by non-official agencies and must, therefore, always rely upon themselves, it might be noted here that the whole staff of the Co-operative Department in Orissa consisted of two officers for a long time and just before the formation of the Province there were two Assistant Registrars with a Deputy Registrar in charge of about two thousand societies. They had no subordinate staff except the auditors who were employed by the federation for the purpose of the statutory audit of the accounts of the societies. It was clearly impossible for two or three officers to supervise effectively two thousand societies scattered over the whole of the Province. It is also not desirable that they should directly supervise primary societies. Dual control will not do any good to societies. The whole responsibility for supervision must rest with the societies themselves. I have dealt with the question of what should be the relationship of the officers of the department with societies elsewhere in this report.

(ix) *Very high rates of interest.*—One other reason which was urged during my enquiry and with which I was struck is the very high rate of interest charged by the societies as well as by the central banks. The usual rate charged on loans to members is, as already stated, 15½ per cent, while a fairly good portion of the loans outstanding carries interest at 12½ per cent; in other words, a loan will get itself doubled in six or seven years, and whatever payments the members made or might choose to make from time to time towards their loans were and are practically swallowed up by interest. It is no wonder that in such circumstances members repaid in most cases much more than the principal but still their loans are outstanding. A number of instances came to my notice. The case of the member I have referred to already in (iii) above is illustrative of the position. Many such cases are found in societies, and there is no denying that members are weighed down by these heavy rates of interest which are probably the highest I have known in co-operative societies. Everywhere throughout my tours, the members of village societies confronted me with a consistently unanimous demand for the complete wiping out of all outstanding interest. While the principal amount of loans

outstanding against members in working and liquidated societies on 15th November 1937 amounted to Rs. 39.37 lakhs, the amount of interest was Rs. 26.21 lakhs.

This is an economically unsound position. I endeavoured during my tours to know the reasons for these high money rates prevailing in Orissa. The most common answer given to my enquiries is that money is scarce in the Province and is not available in the required measure. A few suggested that the interest rates were closely linked up with the nature of the security offered and the lands in parts of Orissa being either poor or subject to restrictions as to free transferability, it is possibly likely that the money rates are generally pitched high by creditors. With my limited experience of the Province I do not feel competent to offer a definite opinion on the factors which have contributed to the high money rates in this Province but I must state that this is a matter which should engage the attention of Government and of co-operators.

In the earlier years the central banks in North Orissa offered even 8 per cent on deposits and though they did not alter the rates between the years 1927 and 1929 in response to the change in the money market, they were forced during the last two or three years to lower the rates, as already stated, with or without the consent of depositors. In any case, the present margin both in the central banks and in the societies needs to be considerably narrowed down.

(x) *Land laws and restrictions on the transfer of lands.*—Some of the witnesses suggested that the land laws and the restrictions on the free transfer of land prevailing in some parts of the Province operated against the satisfactory progress in the collection of arrears in societies. My own feeling in the matter which was supported by my enquiries is that in portions of the Province where such restrictions exist rural indebtedness has been generally less than in the places where such restrictions do not prevail. For instance, it has forcefully been impressed on me that if the land laws in Sambalpur district were amended permitting the free transfer of land, co-operative arrears would be realised in a period of about 5 years; otherwise, it was stated, big losses were apprehended and in support of this the indirect transfers of land which are said to have been going on in the district were pointed out. I learn that the question of amending the land laws in different parts of Orissa is now engaging the consideration of Government, and I do not, therefore, propose to cover this ground. I may, however, say a word about this. There is a tendency at present noticeable all over the world to put restrictions on transfer of land for payment of debt. Even in areas where land is freely transferable, legislation has been or is sought to be undertaken to keep a minimum holding with the debtor, which is not attachable by a creditor. This fact may be borne in mind if Government choose to alter the existing land laws in the Province.

(ri) *Floods and the damages caused by them.*—I may also refer here to a group of factors which are beyond the control of either the societies or the central banks but which, in their cumulative effect, have in some degree contributed to the present difficulties of the members of the societies. The three coastal districts of Puri, Balasore and Cuttack contain eleven of the thirteen central banks in North Orissa and most parts of these districts are, as is well known, affected by floods; ten of the eleven central banks in the three districts are in the flood-affected area. "Briefly, at certain seasons the natural drainage system of the country", it is stated, "is unable to deal with the water entering the deltaic tract from the uplands of the Orissa Feudatory States and of Chota Nagpur, and this defect is aggravated by local attempts at protection by means of embankments. This is a big factor in the economy of Orissa."* The position in this regard in the three districts is briefly as follows:—

Cuttack district.—"An elaborate network of rivers is spread over Cuttack district, and a large part of the district is affected by floods in greater or less degree."*

Balasore district.—"The parts of Balasore district most severely affected by floods are the extreme north and the extreme south."*

Puri district.—"The Flood Committee remarked that the flood problem of Puri district was the most difficult with which they had been confronted. Deltaic action is here more backward."*

In most of the central banks I visited in the coastal districts a common representation made related to the havoc caused by floods to the crops—the mainstay of the people—and the consequent inability of the members of societies situated in those tracts to repay the loans which they took in good faith. During floods the crops are washed away and some of the cultivable lands are deposited with sand. In some cases instances were given where the landed property offered as security for the loans taken no longer exists and consequently such loans were rendered insecure and the central banks concerned expect losses. "In the societies noted in the margin," states a central bank in speaking of the probable losses, "which are situated by the side of the river Mahanadi the lands of the members in most cases have been filled with sand as there is no embankment of the river. Besides, 75 per cent of the area is affected by floods. So the members generally suffer from loss of paddy and sugarcane crops from time to time."

"There was much difficulty," says another bank "in collecting dues from societies as the financial condition of the members most of whom are agriculturists deteriorated day by day owing to repeated floods."

* Final report on the Revision Settlement of Orissa (1934).

"The major portion of the union's area of operations," states a third bank, "is subject to heavy annual floods and the crops are uncertain. Most of the societies stated above are situated in the worst flood-affected area and have been heavily financed."

It does not appear necessary to elaborate the matter. I have stated enough to indicate the disastrous effects of the floods upon the general working of the societies in the areas concerned. This is indeed a very serious aspect of the agricultural and economic conditions of the three coastal districts, and I am aware that the problem is engaging the earnest attention of the present Government and their experts. I also learn that the question as to how far the waters of the Mahanadi can best be utilised for the development of the irrigation facilities of the districts concerned is under consideration of Government.

The unsuitability of the unprotected parts of Orissa for the cultivation of ordinary varieties of paddy has been recognised and it is gathered that attempts are being made not only to introduce special strains of paddy that are better suited to these areas but also more particularly to encourage the growth of *rabi* and special crops. It would appear that the Agricultural Department has already found flood-resisting paddy (which shows promise) as well as paddy suited to saline lands.

These are, however, matters beyond the scope of my enquiry, but I am obliged to refer to them in so far as they have a close bearing on the general economic life of the people who were brought into the influence of the co-operative movement in these tracts. So long as a way has not been found from the damage caused by floods, so long does their position continue to be bad and the people in the affected areas will constitute a very poor and not altogether dependable material, and it is an open question whether the movement can thrive on such soil.

(*xii*) *Economic depression*.—The effects of the continued world-wide economic depression and the catastrophic fall in the prices of agricultural commodities and of land during the last six or seven years are too well known to merit a detailed discussion here. The agriculturists of Orissa as of other countries have not escaped the results of the depression. Everywhere in the province, this was given as the main reason for the inability of the borrowers to repay their debts and consequently for the increasing overdues and it is on this ground mainly that the general demand for relief to borrowers is based. From the figures available it is seen that while in the year 1920, 6 to 6½ seers of rice were sold for a rupee, the decline in prices was so rapid that at the end of the year 1931, 16 to 18½ seers were sold for a rupee*. There was also a gradual fall in the value of land alongside of the

* Final report on the Revision Settlement of Orissa (1934).

decline in the prices of agricultural produce and compared to the 1925 level, the prices of land are still low as may be seen from the following statement:—

Statement showing the raiyati holdings having occupancy rights transferred by registered deeds of sale.

Year.	Total area transferred during the year.	Consideration money.	Purchase price per acre.
	Acres.	Rs.	Rs.
<i>Puri district.</i>			
1925	7,740	13,02,530	168
1930	7,982	15,41,527	193
1935	10,204	12,98,327	127
1937	9,901	13,96,927	141
<i>Cuttack district.</i>			
1925	12,308	16,92,529	138
1930	10,679	16,29,148	153
1935	14,067	14,23,648	101
1937	13,454	13,14,285	98
<i>Balasore district.</i>			
1925	9,024	7,04,306	78
1930	8,126	7,32,788	90
1935	10,636	6,05,713	57
1937	11,048	6,54,296	59

Year.	Total area transferred during the year.	Consideration money.	Purchase price per acre.
	Acres.	Rs.	Rs.
<i>Sambalpur district.</i>			
1925	212	22,907	109
1930	147	17,012	116
1935	320	13,045	41
1937	180	13,937	77

There is no doubt, therefore, that the financial condition of the cultivators has considerably deteriorated owing to the depression, and this has certainly affected the repaying capacity of borrowers.

(xiii) *Poor return from land, costs of cultivation, etc.*—One other factor which closely affects the economic life of the agricultural classes in Orissa and, therefore, their repaying capacity is the very poor yield they get from land. The crop-cutting experiments made by the officers of the Public Works Department during the twelve years from 1917-18 to 1928-29 showed * that the average outturn of paddy per acre for the irrigated lands was 23 maunds 33 seers and for the unirrigated lands 17 maunds and 16 seers. The average outturn of paddy in all these three coastal districts according to the crop-cutting experiments done at the last settlement was 14 maunds and 36 seers. I append a statement showing the outturn of paddy, costs of cultivation, value of the net yield, etc., in some select villages furnished by the Sub-divisional Officers and the Deputy Director of Agriculture, Cuttack. It may be seen therefrom that in the wet area in North Orissa the outturn of paddy per acre ranges from 11 maunds to 25 maunds, while in the dry lands the outturn is from 8 maunds to 20 maunds, but the outturn, of course, varies from one place to another and must depend upon the soil and other factors. The average costs of paddy cultivation were estimated during the last settlement at about Rs. 14 per acre in an area growing winter crop when all the labour had to be paid for; in actual practice, however, a great part of the labour is often done by the raiyat himself and his family members. Some of the saline lands in the food-afflicted tracts yield six maunds only. The net income in terms of the present prices also varies considerably, as may be seen from the statement appended.

* Figures have been taken from the Settlement Report.

The principal product of Orissa is paddy as may be seen from the following statement relating to the four North Orissa districts :*

District.	Cropped area.	Area under rice cultivation.	Percentage of the area under rice cultivation to the cropped area.
	Acres.	Acres.	
Cuttack ...	12,01,487	11,00,531	91.6
Balasore ...	9,21,707	8,86,996	96.2
Puri ...	4,37,472	3,95,533	90.4
Sambalpur ...	10,28,997	7,78,336	75.6

A regrettable fact is that only 11 per cent of the area in the first three districts is the twice-cropped area while the percentage seems much less in the fourth district. "Catch crops are rarely grown," it is stated "after the winter paddy in Orissa as in Bihar, and the Oriya cultivator is conservative, but there seems room for an increase in the twice-cropped area."

From what has been already stated, the outturn of paddy is very poor; and the economic depression and the consequent fall in prices has made the position worse. Other crops such as cereals and pulses, oil-seeds, sugarcane, tobacco, potato, etc., are, it is gathered, getting gradually popular, and unless the possibilities of alternative money or remunerative crops are investigated and introduced on a large scale and earnestly taken up by the people, the economic condition of the people will not possibly improve and this will naturally react on the working of rural credit societies generally because so much depends upon the income and the ability of the borrowers to repay.

(xiv) *General poverty of the people, pressure of population, and absence of industrial pursuits.*—Emigration of people is often pointed out in support of the poverty of the Orissa villages and of the *raiyats*. "The tendency of villagers to emigrate to industrial centres and earn wages there has increased considerably since the Revision Settlement. Oriya labour in other countries constitutes an invisible export of some importance in the balance of trade of Orissa. In some parts of Orissa there is scarcely a household which does not send one member to Calcutta or elsewhere for some months in the year, while in an area in which the rice crop has been destroyed by a severe flood it is common to

* Figures have been taken from the Settlement Report.

find that the majority of the male population has emigrated and the local post-office receives a steady flow of money-orders. Orissa is notoriously lacking in industries of its own and it is natural that the surplus men, whose labour is not required for the cultivation of the land, should turn their attention to fields of employment outside the province. Calcutta, Jamshedpur and Rangoon are the main centres which receive these emigrants. Different localities are found to favour different industrial centres for emigration."*

It may be interesting in this connection to refer to the distribution of population by occupation as gathered from the following statement taken from the Census Report of Bihar and Orissa (1931) :—

IN THOUSANDS.

District.	Non-working dependents.	Working dependents.	Earners.	
			Without a subsidiary occupation.	With a subsidiary occupation.
Cuttack ...	640	9	275	76
Balasore ...	606	23	277	94
Puri ...	606	29	293	72
Average for the three coastal districts.	617	20	282	81
Angul ...	495	7	437	61
Sambalpur ...	522	76	353	49

It may be seen from it that particularly in the three coastal districts of North Orissa, out of every 1,000 people, there were only 363 earners (i.e., those who help to augment the families' income by permanent and regular work for which a return is obtained in cash or in kind) and 20 working dependents (i.e., those who assist in the work of the family and contribute to support without actually earning wages) while the non-working dependents numbered 617. Of the 363 earners, per thousand population, as many as 282 had no subsidiary occupation. It is also seen that while 301 people depended practically on agriculture, pasture, fishing or hunting, only 70 were engaged in industry (that is to say, preparation and supply of material substances such as textiles,

* Paragraph 10 of the Final Report on the Revision Settlement of Orissa (1934).

hides, skins, wood, ceramics, etc.). Other occupations are very negligible. It is thus clear that the virtual dependence of the people on agriculture, precarious as it is, and the lack of subsidiary occupations to augment their agricultural income or of other industries providing employment for surplus agricultural population, make their position economically bad.

In some of the villages I visited, to my query as to why the members failed to repay their debts there was utter silence while yet in other cases a note of despair was evident. In a village near Banki, in reply to my question to a member about his failure to repay his debts, he pleaded inability, and to my further enquiry he said that he had to feed thirty mouths for which the yield from his land was hardly enough. It appeared as though my enquiry was proceeding beyond the sphere of co-operation and encroaching upon the more complicated realm of economics, viz., the problems of population! The growth of the population of Orissa between 1921—1931 showed an increase by 5.1 per cent and agriculture alone circumstanced as it is in Orissa will feel utterly unable to support the surplus population. This points to an urgent need for the exploitation and development of natural or fresh resources of the Province and for the expansion of commerce and industry in Orissa; proposals for subsidiary occupations to relieve the pressure of the population which relies directly on agriculture for the means of subsistence or the progressive development of fresh resources, or opening up of new avenues of employment are matters which must necessarily engage the attention of Government of the newly born Province. These are so intimately connected with the economic life of the agricultural classes of the Province. Co-operation concerned as it is with the promotion of the economic well-being of individuals might not have great future in the absence of an improvement of the economic resources of the people.

(xv) *Miscellaneous causes.*—Some other factors referred to by a few witnesses as contributing to the present state of affairs in the societies are, delay in the disposal of arbitration references, prolonged and costly execution proceedings and inefficient supervision of societies. There may be truth in these, but I think they are of subsidiary importance and no elaborate discussion seems called for.

To such of the defects in the financial structure and working of the central banks as required notice I have already referred while discussing their present condition and it is not, therefore, necessary to repeat them here.

53. *Responsibility for the break-down of the movement.*—It may be seen from what I have stated so far, how extremely difficult it is to fix the responsibility for the break-down of the movement in Orissa on any one individual or set of individuals. What needs to be appreciated is that *no one* factor could have brought about the break-down of a big movement which has been in existence for over thirty years. A number of forces were, as already stated, at work and each one of them

made in a lesser or greater degree its contribution to the present condition of the movement, and it would be a positively fruitless task—apart from its being definitely impossible—to assess the contribution which each of the factors made to this result. It may be seen from the analysis made in the previous paragraph that some of the factors referred to were and are beyond the control of any agency—economic depression and fall in agricultural prices, damage of crops by floods, etc. There are others still, which are defects in system, policy or method, and I will refer to them, briefly here.

To the major defect in the actual working of rural credit societies I have already referred. The system is admittedly good, but for the satisfactory results in its working it requires good men. If the *panches* realised their responsibilities, we would not have had some at least of the troubles which we are now facing. Firstly, the people were entrusted with the management of institutions before they were fit for it. Secondly, the system affords facilities for bad or undesirable men who can play havoc with borrowed money. It is needless to emphasise this again at length after what I have stated in paragraph 52 (*iv*). But it is difficult at this stage to fix the responsibility on any one individual or individuals in societies. For one thing, this requires a very elaborate and detailed enquiry into the working of societies ever since they were started, and for another, even such an enquiry will not achieve the purpose in view because the *panches* are liable to re-election from time to time and no one group of *panches* can possibly share the responsibility in good many cases. From my general experience I may state that even in individual societies where such enquiries were undertaken in the past, it was found that some of the office-bearers who might be held responsible for sanctioning a particular loan or loans (which had subsequently proved bad) were either no more or financially so bad that even if proceedings had been taken to make them liable for losses and to recover them (losses), it would not have been successful; or, it might happen that even though a loan might have been given with some care and circumspection, the economic condition of the borrower might in course of time have become bad owing to misfortunes and the loan might have been rendered insecure; or, it might be that even though the debtor deliberately proved false to the society, the *panches* might have changed and one set of *panches* might throw the blame on the other set for failure to take prompt action. Such repudiation of responsibility has come to my personal knowledge in the working of societies elsewhere. In my opinion no useful purpose will be served by a detailed enquiry into each of about 2,000 societies and attempts at fixing individual responsibility for any probable losses will not achieve the desired results. I do not, therefore, suggest this fruitless course to be undertaken at this stage.

I may now briefly refer to defects in policy or methods recommended by the officers of the department. I have indicated in paragraph 17, that the rapid expansion of the movement was due to

the enthusiasm of a Registrar and certain honorary organisers. Again, some of the official enthusiasts were responsible for the starting of bell-metal workers' societies, fishermen's societies, stores societies, the working of which resulted in losses to central banks (vide paragraphs 25, 26 and 27). Though the officers had enthusiasm for the work, they had not the necessary technical knowledge and could not, therefore, guide the societies in proper methods of business or finance. The officers who inspected societies and found that they were over-financed and mis-managed could have promptly taken steps to bring about a change in the methods of working or finance. The original records relating to the organisation and starting of these societies were not available. I, however, looked into the papers that could be had. I found that there was no preliminary investigation into the prospects of the successful working of societies proposed to be organised; no details as to the method of business, finance and mode of recovery of advances to be made were decided upon. For instance, the following is a copy of the loan ledger showing the cash credits given to the Balkati Bell-Metal Workers' Co-operative Society:—

Date of advance.	Amount.	Date of repayment.	Amount paid.		Balance.
			Principal.	Interest.	
1	2	3	4	5	6
	Rs.		Rs.	Rs.	Rs.
17th March 1924 ...	3,000	...	...	...	3,000
28th April 1924 ...	2,000	...	...	...	5,000
		31st May 1924 ...	20	75	4,980
3rd July 1924 ...	1,820	...	...	...	6,800
24th July 1924 ...	500	...	...	...	6,800
22nd September 1924	1,200	...	...	...	8,000
6th September 1924 ...	500	...	...	...	8,500
21st February 1925 ...	1,000	...	...	...	9,500
30th March 1925	20,000	...	...	...	29,500
		24th August 1925	...	500	
21st September 1925	5,000	...	...	...	34,500
		9th October 1925	...	200	...
		2nd February 1926	...	240	...
		1st March 1926	...	60	...

Date of advance.	Amount.	Date of repayment.	Amount paid.		Balance.
			Principal.	Interest.	
1	2	3	4	5	6
	Rs.		Rs.	Rs.	Rs.
8th March 1926	10,000	...	...	...	44,500
		9th March 1926	...	100	...
		10th March 1926	...	40	...
		22nd May 1926	...	500	...
		20th January 1927	...	150	...
		16th February 1927	...	1,100	...
		3rd March 1927	...	250	...
		14th March 1927	...	300	...
		16th March 1927	...	200	...
		26th March 1927	...	500	...
		2nd April 1927	...	500	...
		19th April 1927	...	400	...
		6th May 1927	...	110	...
		16th May 1927	...	200	...
		24th May 1927	...	200	...
		30th May 1927	...	200	...
		7th June 1927	...	600	...
		4th July 1927	...	248	...
		6th July 1927	...	685	...
		15th September 1927	...	100	...
		6th October 1927	...	1,110	...
		27th October 1927	...	800	...
		19th November 1927	...	1,000	...
		11th February 1928	120	...	...
		29th February 1928	800	...	...
		8rd March 1928	751	...	...
		5th March 1928	98	...	...

Date of advance.	Amount.	Date of repayment.	Amount paid.		Balance.
			Principal.	Interest.	
1.	2.	3.	4.	5.	6.
			Rs.	Rs.	Rs.
		17th March 1928	823	...	...
		24th September 1928.	500	...	...
		6th October 1928	200	...	...
9th November 1928 ...	4,000	...	...	...	46,211
		29th November 1928.	500	...	45,711
		18th December 1928.	900	...	45,211
31st December 1928 (interest compounded)	4,951	...	...	...	50,962
			9,818	...	...

It may be seen from this that very large amounts were given to the societies from time to time even when big previous loans were outstanding. The raw material supplied to members in such societies could be converted into finished products in a definitely known period, say a week or two weeks, and they could also be sold in about a month or two and utmost in three months. If the advances made to members were not repaid within this time, there should have been something wrong with the management and should have certainly attracted the notice of the officers of the department who inspected the societies from time to time and of the financing bank and even at the very first instance steps should have been taken to arrest the rot. The principle that expansion of business should be by one sure step after another was forgotten. Apparently before one set of workers proved their capacity for business and loyalty to the society another set of persons were admitted and given loans.

Similar was the case with the Delang Co-operative Stores (in Puri Central Bank area). It undertook speculative business and sustained heavy loss. Goods were sold on credit—a violation of one of the fundamental principles of co-operative stores. Here again there was no close supervision or proper guidance as to the method of its work.

Again, the members of a weavers' co-operative society which I visited, were given fairly big loans beyond their repaying capacity at

the very commencement of the society's operations. These weavers were, according to the statements of members who appeared before me, under no obligation to sell their finished products to those from whom they bought their raw material. A man with only one hand-loom was given a loan of about Rs. 350. Only the theory of 'full finance' was remembered, but not the business principles. What was not recognised was that no weaver should have been given at any one time loans, cash advances or raw materials, more than what his loom would require for a week or two. I am led to believe from what I saw that most of the officers of the department and non-official workers were ignorant of the business technique of such societies.

In illustration of what I have stated, I give below an extract of the Registrar's suggestion advising a central bank to invest a big sum in a particular society. Apparently the officer paid a flying visit to the society at the time when it was started and without laying down the necessary safeguards with reference to the conditions of the business which the society undertook or indicating the methods of finance, supervision or mode of recovery of loans, he ventured to make the suggestion :

".....During my last visit to Puri district I visited Balkati society. The society has made a good start but the members seem to be still nervous about the future of the society and many of them, I fear, are still dealing with the old *mahajans*. Unless and until the members are made absolutely independent of the *mahajans* I doubt whether this class of society will materially benefit the members. I would strongly advise the directors to make the following measures :—

- (1) Finance the members to the full extent so as to make them absolutely independent of middlemen.
- (2) No loan should be given to members except for the refund of any advance they might have taken from the *mahajans*.
- (3) It should be impressed on the members that it is their primary duty to create their own capital and not to depend on mere borrowing. For this members should be made to subscribe shares according to their material condition. For instance, members should take shares in proportion to the labour employed in their workshops. Full value of shares should be realised in five yearly instalments and not ten. Interest at the rate of Rs. 9-6-0 per cent should be paid on paid-up share capital. This is necessary to remove the impression that money contributed for payment of shares is not a free gift to somebody but is an investment made for the benefit of the members and brings good return in the shape of yearly interest. *If necessary the central bank can unhesitatingly invest up to a lakh in this society and I cannot see any chance of loss as all the raw*

materials and finished products will be in the custody of the central Bank. I may point out that there is a settled market for articles manufactured by the members and all Beparies who deal in these articles must, if necessary, come to society's warehouse to make their purchase when middlemen will be efficiently eliminated, and so long as this is not done, the society will be a constant source of anxiety to the central bank. I also suggest that the officer in charge of this society or the manager should visit Bidyarajpur society and study its working. This society is being most successfully run because middlemen have been altogether eliminated. In purchasing raw materials quotations should also be obtained from Indian Trading Co., Post Box no. 2406, Calcutta, and if the firm quotes favourable rates, purchases should be made through this firm. The firm will charge 2½ per cent commission."

It should be noticed that these suggestions were communicated to the financing bank on 7th January 1926 when the accounts showed that the society did not pay more than Rs. 775 out of Rs. 34,500 borrowed till then over a period exceeding a year. As a result of this communication, the financing bank apparently gave another loan of Rs. 10,000 on 6th March 1926.

I may give other instances where the officers of the department and also of the banks concerned were keen on getting loans for these societies in utter disregard of all principles of business. The by-laws, too, were violated. I append a note on the working of a fishermen's society prepared by an inspector deputed for the purpose.

The directors of the central banks, too, did not play their part well in regard to these societies. There was no obligation on their part to finance or continue to finance societies even when they knew that they were following wrong methods or when the management of societies was definitely bad. Equally they had no obligation to carry out the orders of the official enthusiasts if they were convinced that such orders or suggestions were not in the financial interests of the banks concerned. For instance, I found that one of the directors of a central bank protested against the sanction of a loan to a fishermen's society in which the departmental officers were interested. He recorded the dissent; probably, he would have convinced his colleagues on the board too, but somehow the loan was sanctioned by the bank. The directors owe to themselves and to the investing public a moral duty and if the official advice was in conflict with their convictions and sense of duty, it is open to them to reject such advice. They could not perhaps have overcome or withstood the all-persuasive official influence, which has been, I find, a marked feature of the working of the movement in North Orissa.

It is not my business to impute any motive to any officer or directors of banks though some complaints were made against some directors about their interest in this society or that. General accusations of this kind do not merit enquiry. What I emphasise is that mere enthusiasm on the part of the directors or officers of the department will not do; it is not safe to risk money taken from depositors on doubtful co-operative enterprises.

CHAPTER IV.

RECONSTRUCTION OF THE MOVEMENT—THE FUTURE OF THE CENTRAL BANKS.

51. *Break-down of the movement—co-operative spirit weak in the primary societies and members.*—I have shown in Chapter III that the movement in North Orissa has broken down and outlined the general causes for the break-down. The primary societies constitute the foundation on which the co-operative structure rests and because they have failed, the central banking structure, too, has collapsed. The point is that the real co-operative spirit was lacking in most societies. By co-operative spirit I mean the appreciation by members of their common needs and their acting together to achieve that objective through self-help and mutual help and instruction; in other words, that spirit which, while trying to promote the individual interests, is also calculated to further the collective good of the members and to make the societies centres of economic, moral and social progress, was wanting. And the absence of such spirit, amongst other things, militated against the success of the primary societies.

I may perhaps illustrate my point by referring to the working of what are popularly known in Madras as 'chits'. Some 10 or 20 women who desire to save money or are in need of it for some purpose or the other, join together and subscribe to a chit, say, at the rate of Rs. 5 per month or more for a period extending to 20 months. All the women members of the 'chit' meet on an appointed day in the month, with their subscriptions and pool them together, and the amount thus subscribed is given out on loan to one of the members of the 'chit' either by lot or by auction. They feel their obligation to pay on the appointed day very strongly and whatever may be their difficulties, they manage somehow to bring in their subscriptions; even if they don't have the money themselves they borrow and get it. The point is that they feel both the want for money for a cherished object and the need for saving; they realise the importance of keeping up to their obligations on the appointed day; no notices are sent round for their meeting; in some cases, not even accounts are maintained. The success of the 'chits' in Madras of which I have personal knowledge is due entirely to the co-operative spirit which prevails amongst these women. This kind of spirit is found wanting in the primary societies and their members as may be seen from the large number of societies

which did not borrow after they took the first or initial loan, the fall in membership and the marked deterioration in their working and their lamentable failure to keep up their obligations, and this in no small measure contributed both to the weakness and the ultimate collapse of the movement in the Province.

It is very unfortunate that even after thirty years of the working of the movement, such spirit could not have been developed among the members of the societies. It may be true that as many witnesses suggested, had the movement proceeded on right lines without having been superimposed on the people before they felt the need, some of the difficulties experienced in the later phases of the progress of the movement would not have occurred. The villagers evidently regarded the societies little better than money-lending concerns, and their relations too, with the societies were hardly better than with the *mahajans*. The fear of unlimited liability, too, did not in practice result in efficient work. The system of finance adopted by the central banks is based upon the theory that the primary societies are really co-operative societies and they can be depended upon to regulate their working on sound financial basis. As the societies have not developed a co-operative spirit as shown above, the whole system has broken down and the central banks are the sufferers for it. In any scheme of reconstruction this point has to be borne in mind.

The future.—In view of the complete break-down of the movement the question arises as to what the future of the movement is. Can it be scrapped? If the movement is to be scrapped what is the alternative? Supposing that the movement is scrapped, what will be the condition of the large mass of the agricultural classes whom the co-operative movement has all along been expected to benefit. I may here briefly discuss certain relevant considerations which may help us in coming to a correct decision. Firstly, the general rate of interest charged by the *mahajans* in North Orissa before the advent of the movement varied, as already stated, from 25 to 37½ per cent per annum and though the rate was reduced for some years, it has gone up again. Secondly, I have made it abundantly plain that the agricultural income of the average tenant or raiyat is meagre and that he can hardly make both ends meet. He is economically in a worse position than the agriculturist in the other parts of India. Thirdly, the raiyat or the tenant in Orissa as elsewhere cannot dispense with credit altogether. My enquiries in the villages I visited unmistakably showed that the members of societies were, since the stagnation of the movement, resorting to the *mahajan* for advances for agricultural purposes or purchase of cattle, etc., and that the rates of interest showed a tendency to rise. It is impossible to keep the agriculturist members without some advances. The Oriya *raiya* is thus faced with high interest rates, very poor returns from land and the need for credit. Borrowing under these circumstances is exceedingly difficult, and in the absence of any organised credit agency in the countryside providing credit at reasonable rates, the only source of help is the *mahajan*.

55. *Alternatives to the scraping of the movement—the money-lender.*—The question is if the *mahajan* can be left as he is after the scraping of the movement? It may to some extent be possible to control his actions. Legislation may be undertaken as in some British Indian Provinces and even in Orissa where a Bill is now under contemplation to license the money-lenders, to regulate the rates of interest and the maintenance of his accounts, etc., or generally to lay down other conditions governing his business. Nevertheless, in the absence of an organised credit agency the *mahajan* is the only source to which the agriculturist will have generally to look for his credit needs although his rates are very high and conditions exacting. And although his business may be sought to be regulated by legislation, his methods of evasion are so subtle that in actual practice it is very difficult to afford permanent relief to the *raiya*s from exactions of the *mahajan* or the high interest rates. The scraping of the co-operative movement will remove from the field the only check upon interest rates. These rates are very high in Orissa and are an anachronism and “no Government claiming to govern on modern lines seem—justified in an attitude of *laissez faire* towards them”. There should be some agency which can, by sheer force of its existence and the economic influences it engenders, keep down the rates of interest as well as keep the money-lenders under restraint.

56. *Possibilities of a State bank or direct financing of agriculturists by Government.*—Other possible alternatives may be the constitution of a State bank, entirely run and managed by Government; or Government may directly finance the agriculturists under the Agriculturists Loans Act and the Land Improvements Loans Act. For more than one reason, direct financing of the tenants or the *raiya*s individually, either through a State bank or the revenue staff, is neither desirable nor expedient. Experience has shown that the *taccavi* loans, however favourable the terms, have not been particularly popular; *raiya*'s have to make petty tips; and what is more important is that they are exposed to considerable delay and vexation during the various formalities that have got to be observed. At each stage the applicant has to obtain the favour of some Government subordinate and there are very many such stages. Further, these two Acts are more or less emergency measures and are intended for the relief of distress in times of scarcity. They do not provide the machinery for the supply of agricultural credit requirements in normal times; even if the machinery is so altered as to meet the requirements of normal rural credit, it cannot encourage amongst the recipients of loans any spirit of self-help while it may probably prove destructive of all endeavours for common action.

Nor is a State bank, run and managed by Government as a permanent measure, a suitable substitute. It cannot be expected to deal with the continuous yet fluctuating credit required by the large classes of cultivators. It is not ordinarily possible for the State to manage the business which would be far greater than that now managed under the *Taccavi* Acts. The State Bank, in effect, means

an immense addition to the army of State officials and dependants, and it is more than probable that when, wide spread default in repayment becomes general sooner or later, the State must either write off its loan or be prepared to face the odium of selling up its peasantry when it will be held up to public execration. So long as people consider Government as a benevolent creditor it is difficult to make them regard their indebtedness to it in the same light as they do when they are indebted to an usurious *mahajan* or 'subject to the moral suasion of their fellows as in the co-operative society'. Further, it cannot hope to foster or develop mutual help or discipline and educative influence and to provide that economic instruction which is so necessary.

Direct financing by Government on any large scale will kill private enterprise and may not ultimately be to the good of the country. Government may step in to meet any emergency as a temporary measure, and any scheme of reconstruction adopted by them should be such that it can withdraw from the field as soon as the emergency ceases to exist and hand over the machinery to private enterprise.

57. *Need for an attempt to save co-operation—soundness of co-operative principle.*—What then is the alternative? No critic of the movement in Orissa may possibly suggest that it can be expected to provide under present conditions the normal credit requirements of agriculture. I, however, desire that an attempt may yet be made to reconstruct the movement. The co-operative idea is admittedly sound though in the application of it, we have not been altogether successful. It is needless to say that it has been universally recognised to be the best means yet discovered to assist the agriculturist. It is easy for one who has seen the movement in its present difficulties in Orissa to say that it has failed and that as one of the members of a district committee very frankly stated, it should be scrapped. The co-operative idea has done much to improve the economic condition of the agriculturists in other countries and in many Indian Provinces and to some extent even in Orissa, Co-operation is not merely the provision of adequate credit facilities but it means much more than that; it is intended to develop the spirit of self-help which is the key-stone of all human endeavour and the will for better things which is the main spring of progress and having ruled out the alternatives for reasons already set forth, I would prefer giving co-operation in Orissa a chance in order not only to provide for the supply of ordinary credit requirements of the peasantry, in however limited a degree, but also as indicated above to keep the *mahajan* under control and maintain the rates of interest at a competitive level.

58. *A State-aided Provincial Co-operative Bank suggested.*—If the co-operative movement in Orissa is, as suggested, to be given a trial, the question arises as to who will supply the necessary funds required for meeting the needs of members of the existing societies or

societies to be formed. It is clear that their present condition being not satisfactory the central banks in North Orissa cannot obtain fresh money from the investing public. There is a consensus of opinion among the witnesses including directors of central banks that unless Government came forward and extended their help, there was no prospect of getting money for future finance. In Burma, too, the movement broke down and realising the need for resuscitating the movement Government came forward and undertook to provide necessary funds to keep the movement going. It was suggested that in that Province where a central bank did not or could not function, it would be necessary for Government to advance to the societies direct, if members were not to be crippled by resort to money-lenders and their usurious rates. This was done at the beginning of the movement and this course was also recommended by the Calvert Committee. It was recognised that objection would be taken to this. But it was also remembered that if the societies were allowed to go to pieces, Government finance would still be necessary in the form of *taccavi* loans and there were advantages for these loans being made to societies rather than to individuals.

In Orissa, too, until confidence is created amongst depositors Government must choose to render similar help to the movement. If Government so decided, the question will arise as to whether the money should pass through the existing central banks or through the Registrar, as in the case of Burma. It seems to me that, for obvious reasons, the making of advances to societies through the existing central banks will not be proper. For one thing, a good many central banks in North Orissa are *undergoing voluntary liquidation* and may sustain losses on account of their frozen investments in societies; for another, any new money that may pass through them, may be merged in their old business and consequently in the total losses sustained by them. Therefore, if the existing central banks are not suitable agencies, through which to pass new money to the societies, a new provincial bank on a co-operative basis operating over the whole Province with suitable branches and subject to necessary safeguards may at once be desirable and necessary,—and this is my last alternative and from all points of view the most satisfactory one in the present state of affairs in Orissa. It is much better to pass the money through the bank. The making of advances by Government directly to primary societies as a permanent arrangement is very costly involving as it does the appointment of a big subordinate staff, and *when the time comes for the handing over of the business entirely to non-official organisations*, difficulties will arise in regard to the transfer of staff and of the assets and liabilities, etc. I am aware that, as already stated, the Registrar in Burma is disbursing loans to primary societies directly. But he cannot probably help doing it as there is at present no provincial bank or central bank in the areas in which such loans are given to primary societies directly by him. The Burma Provincial Bank went into

liquidation. It may, however, be possible in Orissa to reconstruct the movement on lines which may offer hopes of future success, and I am, therefore, strongly of opinion, that the provincial bank should function all over the province and lend the primary societies direct. I have made this recommendation much against my convictions; I was one of those who, along with others, felt in the early days of the movement in Madras that the Madras Central Urban Bank (the Provincial Bank) could not satisfactorily function all over the province and, therefore, formulated measures for the creation of district co-operative central banks. The reason was that I along with other co-operators realised that a financing bank should not be unwieldy but should be in touch with its debtor-societies as far as circumstances permitted. Further, central banks are not intermediaries between the provincial bank and primary societies, as is sometimes thought in some quarters but independent units loosely connected with the provincial bank for certain purposes. The bulk of the money of central banks is obtained, as was the case in Orissa too, from local sources. I have given my very anxious consideration to all aspects of the situation in Orissa and feel convinced that under present conditions there is no alternative other than the formation of a provincial bank directly financing primary societies. And until, as already stated, the confidence of the investing public is restored by placing the movement once again on a sound footing, Government should, in my opinion, help the provincial bank with funds. As the provincial bank gradually receives deposits on account of the restored confidence of the depositors, Government may withdraw their financial assistance.

59: *Consideration of the possible objections to the proposed provincial bank: its essential features stated.*—Objection may be taken to the constitution of one financing bank for the whole of Orissa. The difficulties, however, incidental to the administration of the bank over a vast area can be met, as will be shown in the next chapter, by the constitution of branches, at the headquarters of the existing central banks. When the central banks get out of the present financial morass and their reconstruction becomes possible, the branches will disappear, and the central banks will take their place.

The second objection may be to the State aid proposed to be given to the provincial bank. Enough has been stated to justify such help in the extremely difficult conditions in which the movement in Orissa finds itself.

The third objection may be to the constitution of the bank but in the nature of the case an official element on the management of the bank nominated by Government is essential; by reason of its financial stake in the bank, Government must have some controlling influence in its management. This control will be temporary and will disappear as soon as Government withdraws its financial assistance to the bank.

It should, also be remembered that the constitution of the bank in the manner suggested in the next chapter is a financial expedient which the circumstances of Orissa and the realities of the situation fully justify.

There may be no difficulty for the distribution of loans either. It is advisable to utilise the existing co-operative organisations for the distribution of loans to the agriculturists. The existing primary societies or the new societies to be started in untapped areas may serve to act as agencies until such time when they can stand on their own legs and can be depended upon for making advances to members themselves. The fundamental defect in the working of societies to which I have referred is that the *panches* of societies had in the past given the members loans far beyond their capacity to repay. It may be that they did not know banking or co-operative principles; but they knew whether the loans given to the members could be repaid out of their income or their assets or could not at all be repaid. If in spite of their personal knowledge of the villagers and their economic condition, the *panches* failed to discharge their responsibilities in regard to the grant or recovery of loans, it is because of other considerations to which I have already alluded and which it is needless to reiterate here [vide paragraph 52 (iv)]. What I have sought to do in my proposals—and this is very fundamental from the point of view of the reconstruction of the movement in Orissa—is to prevent the *panches* from giving loans in the manner in which they had done in the past and to provide an agency to educate, instruct, advise and control them in regard to this important work of recommending, sanctioning and disbursing loans to members of societies until they could be trusted. The *panches'* local knowledge of prospective borrowers can be utilised with such circumspection and to such extent as may be needed. And as there are societies scattered over the province, they can be used for the distribution of loans with such fundamental changes as the general lack of confidence in the *panches* (which the failure of the movement has so forcibly shown) justifies. In a new area, too, where societies might be started, the local knowledge of the *panches* will be similarly utilised.

The constitution and management of the Provincial Bank, under my proposals, will be so shaped as to secure four fundamental objectives, namely—

- (i) the opening of branches in order to minimise the difficulties attendant upon the vastness of the area to be served by the Provincial Bank;
- (ii) the utilisation of the existing village co-operative organisation and of the local knowledge of the *panches* for the distribution of loans to members subject to such safeguards as may not, as far as one can devise, permit of the repetition of the old mistakes usually associated with the sanction and disbursement of loans by *panches* until a

time when through a process of proper education and instruction, they be depended upon to attend to the business themselves;

- (iii) the appointment of an independent agency for the examination, consideration and sanction of loans applied for without being subject to the influence which the democratic constitution of the central banks and societies permitted all along; and
- (iv) the flexibility of the constitution of the Provincial Bank so as to permit easy transfer of the entire management of the bank to non-official hands in due time.

In other words, the co-operative organisation is utilised for the necessary purpose of knowing the condition of villagers. The machinery that considers and sanctions the loans will be so altered as to keep it, as far as human ingenuity can devise, out of the influence to which a democratically elected executive of a central bank is generally subject or accustomed. I emphasise these aspects here, because they constitute the essential features of the constitution of the proposed Provincial Bank and it should be viewed against this background. *I do not pretend to say that the constitution of the proposed Provincial Bank and the plan of work suggested for adoption by primary societies are based upon principles of co-operation.* As I have already said, there can be no genuine co-operative societies till the villagers develop the spirit of co-operation among themselves. Till that stage is reached we cannot ignore the principles of sound banking business. The object of the plan suggested is at once to ensure sound banking business and develop as quickly as possible co-operative spirit amongst the members of societies.

60. *Difficulties of immediate reconstruction of the existing central banks in North Orissa—inexpediency of liquidation.*—I have ruled out the present central banks as being unsuitable for the distribution of loans to societies in the immediate future and I may then address myself to a consideration of their position in the scheme of the reconstruction of the movement. I do not for obvious reasons propose their liquidation and I do not think that even the depositors desire this. The reason is simple. Liquidation does not result in the speedy recovery of the overdues as past experience has shown. Further, the liquidation of the central banks will in effect mean the liquidation of a large number of societies. Wholesale liquidation will surely have a demoralising effect upon the countryside; a good many members will lose their lands; and this is not at all expedient. The winding up of the banks is not, therefore, practical politics. It is true that most of the banks in North Orissa are undergoing voluntary liquidation; as things stand at present, the collections effected from societies are, after meeting the costs of management, paid off to the depositors in some manner or other decided upon by the board of directors of the banks concerned. Nevertheless it is better to allow them to continue to exist until they can come out from their present difficulties.

61. *Possibilities of Government help for the payment of the deposits of the banks considered.*—One of the most difficult problems that has faced me and indeed Government is how to pull up the central banks from their present morass. Almost everywhere in my tour I was approached by the depositors with evident anxiety and was asked for an assurance for the payment of their deposits. In paragraph 46, I have briefly indicated, by an analysis of the deposits, the vast interests of the different kinds of the depositors concerned. Their anxiety is human and natural. From all points of view, it would be very desirable, if it were feasible, for Government to come to the rescue of the central banks by advancing them long-term loans to pay off matured deposits. In Burma, Government gave a loan of Rs. 34.60 lakhs to the Provincial Bank before it went into liquidation and another loan of Rs. 23.14 lakhs after its liquidation to enable it to meet its obligations to the depositors in full. Government may remember that recently the Bihar Government made two loans of Rs. 4 lakhs and Rs. 16 lakhs to the Bihar and Orissa Provincial Co-operative Bank to enable it to repay the matured deposits and also to advance loans to the central banks to refund their matured deposits. The first loan was repayable in four years and the second loan in fifteen years. Similar help was rendered by Government to the central banks in the Central Provinces when the Provincial Bank suspended payment in 1920-21. There is a general impression all over North Orissa that the co-operative movement was run by Government and this received support from the fact that the chairmen of nine of the thirteen central banks were and are either Deputy Commissioners or Sub-divisional Officers of the divisions concerned; in two of the banks local Tahsildars are the honorary secretaries of the banks. In most places the central banks are located amongst Government Offices and this lent colour to the general impression referred to. It may be that the official chairmen had no intimate knowledge of and efficient control over the banks. They were not generally members of the working committees which have been entrusted with the powers of sanctioning loans. The presence, however, of the Revenue officers on the management of these banks inspired confidence in the investing public and in the past secured for the banks enough money by way of deposits; their presence also helped in the past in the collection of arrears. These circumstances produced rightly or wrongly an impression that the movement was backed up by Government. One of the highly-placed officers of Government (who knows what he was saying) has stated that "there is still an idea that it is a Government business and the Government is responsible" and that "money has flowed in because people had a fixed idea that Government gave a sort of guarantee." Some of the officers endeavoured in their own way to disabuse the public of this wrong impression and the same officer (whose evidence I have just quoted) stated that people should not have "merely a blind faith in the co-operative department arising from their belief that Government gives it a kind of guarantee". Nevertheless, I find that the belief is very widespread and strong amongst the people whom I met during my tours.

This feeling is noticeable not only in Orissa but generally even elsewhere in India. I may here invite the attention of Government to the observations of the Indian Central Banking Enquiry Committee on this subject. Speaking of the ultimate relations of the Government to the co-operative movement, the Committee have stated as follows:—

“The Managing Governor of the Imperial Bank of India has stated in his evidence that the credit which the co-operative movement enjoys in the money market is chiefly based on the connection of Government with the movement and the implications of that connection have not, so far as he knows, been clearly defined—on the whole, the position is that ordinarily the Government does not at present assume any financial responsibility in case of failure of any co-operative organisation. We recommend that when the movement requires State aid in any exceptional circumstances as in the case of Central Provinces and Burma in the past, it should continue to render such assistance as may in its opinion be necessary. But in the interests of the general tax-payer and to encourage self-help and self reliance in the co-operators themselves, we would suggest that the State aid should be of a temporary nature, sufficient to enable the societies to tide over the crisis.” There is yet another reason why Government help is desirable. At the rate at which the central banks are at present trying to pay off the deposits it would take a very, very long time to discharge their obligations to the depositors fully. So long as the deposits have not been paid, so long is it difficult to restore the confidence of the investing public generally in the movement or even in the proposed provincial bank. The sooner the wound is healed up and the memories of the past are forgotten, the better it is for the movement as well as for Government. If the past memories are not obliterated by ready payment of the matured deposits, the work of reconstruction however well-intentioned will be somewhat difficult. Thus precedents in the other parts of India, popular belief in Orissa, authoritative opinion on the subject and the need to bury the dead past are all in favour of Government helping central banks in their present difficulties with loans to repay their matured deposits.

I feel it my duty at the same time to state here that Government may probably have to take a risk in making loans to central banks for this purpose. I have already indicated in paragraph 44 that according to estimates furnished by banks themselves 1 per cent of their investments in societies might prove bad, and a detailed examination of all outstanding debts of members of societies might disclose that the amount might still be larger. Personally I will not feel surprised if the probable bad debt be twice this percentage. In any case, the banks may in the long run suffer certain losses, and this will inevitably affect Government, but this is a contingency which any modern Government must, in the larger interests of the movement, be prepared to undertake. The Government in Burma faced a similar situation boldly and it is stated that it is more than probable that a portion of its loans of Rs. 57.74 lakhs might not be recovered and should have ultimately to be written off.

61-A. *Possibilities of conversion of deposits into debentures considered.*—One of the suggestions made is that the deposits may be got converted into long-dated debentures redeemable periodically by lot from out of the collections made from societies. I am not, however, sure how far this will prove successful. It is true that before relief is given to individual members of primary societies by way of scaling down debts, their assets, their debts to outside *mahajans*, their income, repaying capacity etc., will all be gone into, and the amount of loan repayable by them will be fixed with reference to these factors. This process, will, as already stated, result in some losses to central banks and though the amount recoverable from members of societies may, after detailed examination, be fixed with a certain degree of accuracy it is more than probable, that in a period of 15 years during which the scaled down loans are repayable, circumstances may arise which may upset the calculations now arrived at. In this event all the amount now determined may not actually be realised and if all deposits are converted into debentures and redeemed from out of the annual collections, such of the debentures as may remain to subsist during the last years of redemption may be left unpaid on account of the probable deficit in the total amount of recoveries. There should be a guarantee from Government in respect of at least the principal amount of the debentures. If this guarantee is not available there is no use in converting the deposits into debentures.

There is one other reason why Government should come forward either to give loans to the central banks or give a guarantee to the depositors. It may not be possible for the banks to give any concessions to borrowers in societies as suggested in paragraph 45 unless the depositors agree to forego the accumulated interest on their deposits and to renew their deposits for a sufficiently long time or unless the banks themselves are liquidated. The concessions referred to are necessary and have to be given to the raiyats. It is therefore desirable that in the interests of the raiyats themselves, Government should come forward to help the banks. If Government decide to give loans to the banks it may not perhaps be necessary for them to advance loans either to the full extent of deposits outstanding or to the extent of matured deposits. It is probable that if the depositors are assured of the satisfactory arrangements made by Government to collect loans in societies they will agree to leave their deposits with the banks till they are repaid in annual instalments. It is only in the case of persons who do not agree to renew their deposits, Government will have to help the banks to pay off the deposits. I am not sure however of the attitude of the most of the depositors towards this course but it is worth while ascertaining their wishes. It may be that the depositors may agree to receive the present value of their deposits if payment is made at once,

If Government decide to give the banks help in either of the ways suggested above, even then, I think, the management of the banks should be taken over by the Provincial Bank for such period as is necessary to put the primary societies in order and all fresh finances to societies should be made by the Provincial Bank.

62. *The last alternative—rateable payment of deposits from recoveries.*— If Government cannot see their way to help the banks in either of the ways pointed out, the only alternative for the banks is to continue to collect as hitherto their arrears from societies and pay off deposits in instalments in course of time. But then Government must be prepared to make available for the banks an efficient staff for the recovery of their assets and payment of their liabilities. I refer to the details of the staff necessary in the following chapter relating to the Provincial Bank. My point is to emphasise that any deficit in the cost of the staff needed for this purpose must be borne by Government. They have a moral obligation towards the depositors and must, therefore, help them in getting back their deposits; the depositors have long associated Government with the management of co-operative institutions rightly or wrongly, and for reasons already set forth Government must hasten to help the banks and the depositors. Government cannot disclaim their moral responsibility in the matter with any show of justification. If Government decide on this alternative, it is incumbent on them and on the Registrar to take the depositors into confidence and to clearly explain to them the present position of the central banks and all the issues involved. It should be made evident to them that the borrowers of primary societies, for reasons which have already been detailed, are definitely unable to repay their debts in full, that they are in urgent need of help and that after due enquiry the entire accumulated interest shall have to be wiped off and the principal outstanding scaled down so as to be within their repaying capacity. This process will surely affect the investments of the banks and, therefore, the deposits lodged with them. The depositors may forego all interest—outstanding and accrued. I met a number of depositors and spoke to them and the impression I gathered from them is that they will not be averse to foregoing the accumulated interest on their deposits and that they will agree to receive the deposit (principal) amount in instalments with a reasonable rate of interest in future. It should be made clear to the depositors that if the members are not given the concessions which their present difficulties warrant, the result will be that the position may get more desperate, and the concessions which may now gracefully be given by the banks will be wrenched from them ultimately. It is, therefore, both prudent and expedient for the depositors to face the facts and to agree to forego, at some personal sacrifice, all accumulated interest. Whatever collections are effected in future should be rateably distributed to all depositors in proportion to the total amount of deposits held by them irrespective of whether the deposits held by them have matured or not. The payments should be made periodically as soon as collections made justify the distribution of

a dividend. One of the points of the arrangement should be that apart from the depositors foregoing their accumulated interest, no interest will also accrue on deposits from the date of the settlement, but that interest at 3 per cent from that date will be given after the entire amount of deposits has been paid by any bank and surplus if any, left. This process will no doubt be long and tedious. But one has to believe in the "inevitability of gradualness" and in the nature of the case this cannot be helped. As may be seen under my proposals for the reconstruction of societies, the loans of the individual members as scaled down after due enquiry, will have to be spread over a period extending to fifteen years so as to enable the members to repay the loans without any great difficulty and at the same time providing for their current requirements. This should be resorted to only after making satisfactory arrangements with the depositors. There is no short cut to this and the process is bound to involve considerable time and hardship. But I have great faith in the good sense and the spirit of self-sacrifice of the depositors, and if the situation is handled with tact and courage, I see no reason why the depositors will not respond to the appeal.

63. *Need for the temporary suspension of the normal constitution of central banks and their management by the proposed Provincial Bank.*—In view of what has been stated it is extremely doubtful whether the central banks in North Orissa should continue to exist in their present form. Their business will be merely the collection of overdues and the payment of deposits. They cannot undertake fresh finance, and it is not, therefore, possible for them to maintain their present establishment and incur heavy costs of management. Nor is there enough work for the boards of directors and working committees of the banks; there is not much enthusiasm on the part of directors of good many banks to continue to remain in office. It seems then necessary both for reasons of economy and the requirements of future policy and reconstruction of the movement that the proposed provincial bank should take over the management of the central banks until such time that scaled down debts in societies shall have been realised and the deposits paid off. The agents to be appointed by the provincial bank (vide paragraph 67) will be in charge of the banks and will carry on the administration. This is a necessary transitional stage when the central banks may have to efface their individuality in their present form in the larger interests of the reconstruction of the movement in Orissa.

To facilitate the management of the central banks by the provincial bank the former shall have to adopt a transitory by-law somewhat on the following lines:—Notwithstanding anything contained in the by-laws of the bank the Board of Directors may vest the entire administration of the bank in the Orissa Provincial Co-operative Bank for such period as may in the opinion of the latter be found necessary for the purpose of putting the affairs of the bank in order". The agent

of the Provincial Bank will, as the *ex-officio* secretary of the central bank, be empowered to recover loans from societies and repay the liabilities in such manner and subject to such conditions as the Provincial Bank may prescribe from time to time.

The temporary transfer of the management of a central bank to the Provincial Bank may also be effected in another way. I am suggesting an amendment to section 41 of the Bihar and Orissa Co-operative Societies Act in another connection, and that portion of the amendment relating to the supersession of a central bank will be as follows: "If any central bank fails to pay its creditors their dues for a period of six months after they became due for payment, or such unpaid dues at any time be equal to one-tenth of its total liabilities, Government may by order in writing, after giving the managing committee of the bank concerned an opportunity to state its objections, if any, dissolve the managing committee and appoint a suitable person or persons to manage the affairs of the bank for such period as Government may fix from time to time." Such person or persons shall have all the powers of the Bank under its by-laws. This amendment will enable Government to hand over to the Provincial Bank the management of any central bank which is in difficulties.

64. *Transfer of assets and liabilities of central banks in the Bihar and Orissa Provincial Co-operative Bank.*—According to my proposals the new Provincial Bank acts only as the agent of the central banks for the purpose of collecting their assets and paying off their liabilities. The question of transfer of the assets and the liabilities of these central banks in the Bihar and Orissa Provincial Co-operative Bank does not therefore arise. Whatever treatment is accorded to the depositors of these central banks by the Orissa Provincial Bank, will be extended also to the Bihar and Orissa Provincial Bank. If, however, Government come to the help of these banks in any form, that help will also be available to the Bihar and Orissa Provincial Bank. There is certainty about the loss which each individual central bank may sustain but there is uncertainty as to the extent of such loss. In the circumstances it may not be possible for the new Orissa Provincial Bank to get the assets and liabilities of the central banks in the Bihar Provincial Bank transferred to it. If the depositors have to lose a portion of their money it is also fair that the Bihar and Orissa Provincial Bank should also lose.

65. *An outline of the future of the central banks.*—It may be asked what the future line of development of the central banks should be after this period of tribulation. From what I can see, this is a question which does not appear to me of great immediate importance. Nevertheless, I may here indicate very briefly the lines of reorganisation of the central financing agency in Orissa.

(i) I have already stated that the size of the central banks in North Orissa is too small to admit of their economical administration. They function over small areas; their transactions are very limited; they cannot draw for their management upon a large body of public

men with experience in practical banking or business talent; many of them are in rural surroundings quite far away from the business world and the money market; they offer consequently high rates of interest on deposits; their costs of management are very high, and even moderate profits and consequently decent reserves are not generally possible. Theoretically it is true that the smaller the bank the closer is the contact between the bank and its debtor-societies. The central banks in Orissa, in spite of their having been small and having had closer contact with societies, failed to arrest the rot that set in or to prevent the break-down of the movement generally. In Madras, the central banks have operated generally over a revenue district and they have not been the worse for it. In our desire to adhere to a cherished theory, we cannot ignore practical or business considerations. From all points of view, therefore, it is essential that the central banks in Orissa should ultimately function as economic units and so amalgamate themselves that each bank may generally operate over one revenue district; in any event, it does not appear that there is a case for more than five or six central banks for the whole of Orissa. This has decided advantages—large turnover of business, possibilities of obtaining cheap money and better personnel for management, low costs of management, quicker building up of enough reserve fund to meet any possible losses, etc.

(ii) The reorganised banks must be permitted to function as *banks*. As I have already stated, the central banks in North Orissa are no better than big credit societies receiving fixed deposits and sometimes savings deposits. They should be allowed freely to take all kinds of deposits including current accounts, and to undertake all banking business including remittances of money; they should depend mostly upon their own resources by tapping local deposits and rarely, if at all, approach the Provincial Bank for help. The Provincial Bank will then function more as a balancing centre and a clearing house than as a financing agency for the central banks. This should be the objective at which the central banks should aim. The central banks must, by a rule framed under the Co-operative Societies Act, be compelled to maintain adequate fluid resources, and the present 'one date deposit' system must go. The secretaries of these banks should be full-time paid men thoroughly qualified in banking and business principles.

(iii) The constitution of the central banks should be altered and the Deputy Commissioners or Subdivisional Officers or Tahsildars should cease to be on their boards of management. This official connection with the banks has created a wrong impression in the public mind, and without any effective control of the affairs of the banks, the officers have not been able to prevent deterioration. Further, their presence in the management has created a sense of undue dependence

upon official support and influence. I, therefore, propose the elimination of this element from the management of the reconstructed central banks.

(iv) The present rule which requires the directors to seek the permission of the Registrar for their re-election to the board after three years, is responsible for the many allegations which were levelled by a number of witnesses against departmental officers. While this rule gives room for friction, in actual operation it has not done much to help the banks in securing always efficient personnel. There is no sound reason to fetter the discretion of the general body in the choice of the directors. I therefore suggest the deletion of this rule. The Registrar has got under the Act enough powers of interference when societies or banks are mismanaged.

(v) I find that at present a good many working committees of central banks in North Orissa do not contain delegates representing societies, though they have been on the boards of management. This probably renders the relations between the banks and the societies rather unreal; the banks may be regarded more as an alien body than an institution representative of the debtor-societies, and serving their interests. A closer association between the banks and the societies through a provision of definite representation in the working committees of the banks is called for.

(vi) The central banks will confine themselves to the short-term and intermediate loans, which, as has been explained in paragraph 70, will be undertaken by the proposed Provincial Bank. The central banks will have to take over the services of select agents of the Provincial Bank, who during the period of transition will be, as already explained, ex-officio secretaries. The entire responsibility of sanctioning loans will be theirs, till the primary societies can be trusted to do their work on sound business basis.

66. *The position of the two central banks of South Orissa in the scheme.*—The proposals made above do not apply to the two central banks in South Orissa. They will continue to function under their present constitution except in so far as the machinery for recommending the loans to societies is concerned. The bank inspectors proposed to be appointed under the scheme will attend to the work of fixing normal credits and recommending loans because even in South Orissa, I think, it will take some time before the panchayatdars of societies can be relied upon for sanctioning loans to members; until they are educated in their duties and are made to evince a sense of responsibility, too much reliance cannot be placed upon them.

CHAPTER V.

THE PROVINCIAL CO-OPERATIVE BANK.

67. *The Provincial Co-operative Bank.*—For reasons to which I have referred in paragraph 58, a Provincial Co-operative Bank has to be formed; the recently registered Provincial Bank may perhaps be reconstituted to serve the purpose. I may now briefly indicate the objects, constitution, management and the scope of its financial operations.

Objects.—The following amongst others may be its objects :—

- (i) to raise money by way of deposits, debentures or Government loans to finance central banks and primary societies registered under the Co-operative Societies Act;
- (ii) to open branches and arrange for their proper administration;
- (iii) to serve as the balancing centre for co-operative banks and societies in the Province; and
- (iv) to arrange for proper supervision of societies.

Membership.—The Provincial Bank may have as its members central banks, primary societies and individuals. The primary societies will continue to be members of the Provincial Bank until such time that the central banks find themselves in a position to finance them after their reorganisation as suggested in the previous Chapter.

Funds.—The bank will obtain funds from —

- (i) shares;
- (ii) deposits;
- (iii) loans from Government;
- (iv) debentures; and
- (v) other sources.

The share capital may be made up of 2,000 shares of Rs. 100 each. Every member shall at least have one share. No society need take more than one share. No individual member will hold more than ten shares.

The bank may be permitted to receive fixed, savings, recurring and current deposits. In addition, Government may empower the bank to receive the funds of local bodies and municipalities up to specified limits and deposits of Abkari or other contractors.

The Provincial Bank may not probably attract deposits to any large extent in the immediate future. If it so happens, Government must, as already stated, be prepared to give loans to the bank in the first few years of its existence. There will not, for some time to come, be many applications for loans from the existing societies or from societies to be started in new or untapped areas, and this may not,

therefore, impose upon Government any great strain. Further, in view of the new agency to be employed for the scrutiny, consideration and sanction of loans to societies and to members and the care with which new loans will be sanctioned, there will be no risk involved to Government in making the loans to the Provincial Bank. In view of the nature and methods of future finance to be undertaken by the Provincial Bank (vide paragraphs 69 and 70) it will not suffice if the bank depends upon only short-term deposits. These deposits may perhaps meet the requirements of short-term loans given out to societies for periods not exceeding three years. But the Provincial Bank has also to undertake under my proposals medium-term or intermediate loans for periods extending from four to ten years and for these the bank cannot work on the deposit basis. It shall have to raise money by the flotation of ten-year debentures. Owing to the formation of the proposed land mortgage bank for the issue of long-term mortgage loans to the *raiyats* or owners of estates for the payment of prior debts, for improvement of lands, etc., the prospects of the Provincial Bank raising money through debentures appear remote. Further, whereas the debentures to be floated by the provincial land mortgage bank are to be backed up both by the mortgages of land offered by the borrowers and the guarantee of Government, the Provincial Bank can give as security only its general assets. It looks, therefore, doubtful if the Provincial Bank can obtain money necessary for making medium-term loans to societies. If needed, Government will have to give the bank ten-year loans in addition to short-term loans for three years.

The maximum limit of the borrowings of the Provincial Bank may be fixed at ten times its paid-up share capital and reserve fund.

Constitution.—The management of the Provincial Bank may vest in a Board of Directors and in an Executive Committee formed from amongst the members of the Board.

The strength of the Board may be fixed at twelve and it may consist of the following members :—

- (i) three representatives of individual share-holders elected from amongst such of them as hold not less than five shares ;
- (ii) two members elected by the delegates of the central banks from among themselves ;
- (iii) four representatives elected by ballot by the delegates of primary societies from among themselves at the meetings held at the branches of the Provincial Bank ;
- (iv) two members (preferably from amongst its responsible officers) nominated by Government ; and
- (v) the Registrar of Co-operative Societies, Orissa.

In view of the State aid proposed to be given to the Provincial Bank until it can stand on its own legs, it is necessary that Government

should have a controlling influence in the management of the bank through the nomination of at least two members to represent Government on the Board of the bank. The representation of the central banks and of societies may have to be suitably altered when the time arrives for the reconstruction of the central banks on the lines already indicated. The Board shall elect from among themselves a President and a Vice-President.

Executive Committee.—The Executive Committee may consist of the President, the Vice-President and the Registrar and three other members (including at least one of the two members nominated by Government) elected by the Board from among themselves.

Powers of the Board and the Executive Committee.—The Board of Directors will lay down the policy of the bank and will be responsible for its general administration. It will place before the general body the audited balance sheets and annual reports for consideration. It may open branches and frame suitable by-laws for the carrying on of their work and allot funds for the appointment of the staff required by the branches. It may appoint necessary clerical staff of the bank and lay down terms of their service, rules of discipline and control. It may from time to time give such directions as it may consider necessary for the guidance of the Secretary. The Executive Committee will exercise such powers as may be delegated to it by the Board. Among other things it will attend to the routine administration of the bank, peruse and advise on the loan applications sanctioned under the rules by the Secretary from time to time, itself consider and sanction loan applications other than those which the Secretary is authorised to pass and obtain periodically reports from the branches and regulate their working.

General Body.—The General Body of the bank will consist of—

- (i) individual share-holders ;
- (ii) members of the board of management ;
- (iii) delegates of the central banks ; and
- (iv) delegates of the primary societies.

Every individual member or delegate shall have only one vote. At present it may be difficult for the representatives of all societies to assemble at the headquarters of the Provincial Bank and participate in the general meetings. Apart from the cost involved, the general body will become unwieldy ; the subjects coming up for discussion may not receive due consideration ; discussions may be unreal and the representative character of the General Body may be open to question. It is, therefore, necessary to devise a satisfactory arrangement to make the general meetings both easy and representative. Each branch of the Provincial Bank will have a register containing the names of all societies allotted to the branch and the delegates of such societies will assemble at the branch general meetings, discuss and vote on matters

placed before them. The opinion of the general body of the bank on matters brought up for consideration will be decided by a majority of the votes recorded at all the meetings of the branches. This method is obtaining in some bigger co-operative institutions in England; this is also in vogue in the Punjab Provincial Co-operative Bank. The individual members may meet separately at the headquarters of the Provincial Bank. The representatives of the central banks may with advantage attend the meetings at the branches which will be opened only at their headquarters. The powers of the General Body will include the consideration of the annual report, audited accounts and balancesheets, disposal of profits, amendment of by-laws, the fixing of the scale of travelling allowance payable to the members of the board or executive committee, etc.

Secretary.—Government will appoint a paid secretary for the bank from among men having high academical and commercial qualifications and adequate experience in practical banking and co-operative training. Preferably an experienced officer of a joint stock company may be appointed and given co-operative training. The pay of the secretary must be such as to attract really first-rate men possessing these qualifications; a monthly pay of Rs. 500 may not be much. I attach great importance to the selection of a suitable secretary, because he is, under my proposals, to discharge very onerous responsibilities; much of the success of the Provincial Bank and of its branches as well as the reconstruction of central banks depends upon him. He must have ability, energy, tact, independent judgment, and driving power to carry on the entire business of the Provincial Bank, to control the agents in charge of the branches, to regulate the finances of the bank, to correspond with the Registrar and Government and to keep the board and the executive committee informed on all matters touching the business of the bank. His position requires qualities of very high order and I should, therefore, lay all the emphasis that I can command upon the need for the proper selection of the Secretary. The following may be the duties of the Secretary:—

- (i) to accept deposits of all kinds, subject to such conditions and terms as the executive committee may from time to time prescribe;
- (ii) to dispose of all loan applications received from the branch agents up to the money limits fixed by the board;
- (iii) to place before the executive committee for perusal all applications for loans sanctioned by him;
- (iv) to review and direct the progress made in the collection of overdues from societies to the central banks (the management of which is entrusted to the Provincial Bank), and to arrange for the payment of the liabilities of the banks to their creditors subject to such general instructions as may be laid down;

- (v) to regulate, inspect and control the work of the agents;
- (vi) to arrange for the holding of the meetings of the board and of the executive committee in such manner as may be prescribed;
- (vii) to take such disciplinary action against the staff of the bank as may be delegated to him under the rules to be framed; and
- (viii) to carry on generally the administration of the bank.

The Secretary will in effect function as, say, the Agent of a branch of the Imperial Bank of India does. There would be no interference with his duties or powers unless there are serious charges of abuse of such powers. Within the limits laid down, he will bring his own independent judgment to bear on the sanction of loan applications and he will act on his own responsibility unfettered by the influences to which the directorate of a central bank, in the absence of a highly developed sense of public duty, is generally subject. It is far from my intention to cast any reflection on the large body of non-official co-operators who devoted themselves to the business of the central banks in North Orissa and to them all are thankful; but "to the failure to recognise the limitations inherent in the system of utilising honorary workers must be largely attributed the very serious defects in the movement" and "the democratic principle is not so potent a force in checking abuses as is sometimes supposed". I, therefore, see no way in the present state of affairs in North Orissa of ensuring business efficiency in the management of the Provincial Bank other than the appointment of a paid secretary with the qualifications and the powers suggested. The vesting of important powers in the Secretary will of itself exercise a sober influence on him and there need, therefore, be no apprehension as to the abuse of powers if a suitable person is secured for the job.

Staff.—The Provincial Bank will appoint adequate staff of accountants and ledger-keepers. In addition, it must also appoint an Assistant Secretary whose duty will be to scrutinise the normal credit limits as well as the loan applications of societies. Agents for the branches also need to be appointed. The field staff of the bank will consist of 'Bank Inspectors' who will be in charge of 30 to 40 societies according to local conditions. Their duties will be—

- (i) to educate the *panches* and members of societies in their duties and responsibilities and create amongst the members a co-operative spirit;
- (ii) to make thorough investigation into the economic condition, assets, income, repaying power of individual members of all societies in their charge in the set forms to be prescribed for the purpose and to fix their normal credits;

- (iii) to scrutinise and recommend loans to individual members of primary societies ;
- (iv) to arrange for the prompt repayment of loans by members on due dates through the sale of their produce in the manner to be prescribed ;
- (v) to examine all individual loans in all societies and to tabulate the results in the manner to be laid down in the scheme of reconstruction of primary societies ;
- (vi) to effect collections of scaled down debts of individual members on such terms as may be laid down ;
- (vii) to see to the proper maintenance of accounts in respect of old loans due to the central banks and the new loans to be advanced by the Provincial Bank and to arrange for the proper allocation of collections made in accordance with such instructions as may be issued ; and
- (viii) generally to develop co-operative activities in the villages included in their jurisdiction.

The Bank Inspectors may be selected from among the capable, experienced and honest inspecting clerks and managers of the existing central banks on the results of a competitive examination and personal interview. On them will devolve the heavy and responsible duties involved in the reconstruction of the societies. After selection they must also be given some training in reconstruction work. Their pay may be fixed at Rs. 40 and their fixed travelling allowance at Rs. 20 with a minimum touring of three weeks in a month.

Branches.—Until a stage is reached when the central banks can be reorganised in the manner already suggested, branches of the Provincial Bank may be established at the headquarters of the existing central banks. They will be in charge of the agents who will *ex-officio* be the secretaries of the existing central banks and they will be appointed by the Provincial Bank on such terms as it may fix. The branch agents will have to be selected with due regard to their qualifications and experience in banking. The agents will be, as just stated, *ex-officio* secretaries of the central banks whose management will, under the temporary provisions indicated, be handed over to the Provincial Bank. Their duties will include the supervision of arrangements for the collection of the scaled down debts due from members to societies and from the latter to the central banks, scrutiny and recommendation of loans to societies in the jurisdiction of the branch, control of Bank Inspectors working under the branches, maintenance of separate sets of accounts of the central bank and of the branch, and the proper allocation of collections in the accounts of both the institutions according to the recoveries made from individual members in societies, etc. The main work of the agent in his capacity as the *ex-officio* secretary of the central bank will be confined to the recovery of arrears from societies,

and the payment of the liabilities of the bank to its creditors rateably subject to the general control and guidance of the Secretary of the Provincial Bank.

68. *The fundamental weakness of the present co-operative banking structure.—Too much dependence on short-term deposits.*—I am convinced from what I saw in Orissa and in other parts of India and from my personal experience of the working of the movement in Madras that one of the fundamental defects in the financial ordering of the co-operative banking structure is putting it purely on a deposit or commercial basis. The attempt at utilising the money obtained through short-term deposits by the banks in the investment of loans in primary agricultural societies has not been altogether a success. From the 'time deposits' so got the societies in Orissa vainly sought to advance loans to the agriculturists for all purposes—discharge of prior debts, redemption of mortgages on lands, purchase of land, purchase of bullocks, purchase of seed, payment of *kist* and expenses required for cultivation purposes, and I have shown how this resulted in the financial muddle in which most of the central banks find themselves at present. Loans for agricultural operations or purchase of bullocks or of implements or the making of country carts are more urgent than loans for discharge of prior debts and are, therefore, dear; and the agricultural credit societies are intended to supply these urgent short-term needs. Even in this respect the societies have not proved quite a success as their working for over 30 years in India has demonstrated, and in my opinion the main defect lies in the present methods of raising and utilising funds to which the central banks and societies have all along been accustomed.

Experience also shows that *mahajan* or rural money-lender has been carrying on his business successfully and is more popular in spite of his exacting than the societies. The point of it is that agriculture in India is generally a deficit economy and the raiyat cannot ordinarily repay the entire loan from out of his harvest even when he borrows for purely cultivation expenses. This has been proved by the experiments of controlled credit carried out in a district of the Madras Presidency. The area selected was fairly good and the crop raised was groundnut (which is a money crop). The arrangement was that the central bank should lend money to village credit societies to enable them to finance the cultivation of groundnut on condition that the borrowers agreed to sell their produce through the groundnut sale society started for the purpose. The sale society established depots or warehouses at suitable centres. The following statement shows the result of the working of the scheme during the first two years of its existence (1933-34):—

	No. of loans given.	Amount of loans given.	Amount repaid before the end of the season.	Amount repaid before the end of the subsequent season.	Amount repaid subsequently.	Overplus.
1	2	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1st season ...	369	15,911	734	8,016	2,848	4,313
2nd season ...	370	10,190	229	3,126	813	5,882
3rd season ...	380	15,578	368	5,215	...	9,997
4th season ...	296	8,214	105	...	...	6,169
Total ...	1,615	47,830	1,531	16,457	3,661	26,281

	Quantity of produce sold.	Value.
	Candies.	Rs.
1st season	1,196	30,816
2nd ,,	1,400	31,239
3rd ,,	1,328	22,914
4th ,,	1,302	27,369
Total ...	... 5,226	1,12,338

It may be seen from this that the scheme was not quite a success. Out of Rs. 47,830 given during the first four seasons of the working of the scheme, only Rs. 1,531 could be collected before the end of the season. It is true that the produce of one season was sold at the beginning of the following season and even assuming that this was so, the amount of loan uncollected after the subsequent season was Rs. 26,281. The loans were recommended after due enquiry by the Agricultural Demonstrator and the Co-operative Inspector in charge of the societies. No member was given more than Rs. 10 to 15 per acre of dry land and Rs. 20 to Rs. 25 of irrigated (wet) land. In spite of all possible precautions there was default. What was the cause of the default? In some cases, it is true that the members were not loyal and did not bring their produce for sale through the Sale Society but even those who did bring, failed to pay fully the advances made for cultivation purposes. In many cases it was found that the entire produce of the

borrower was not adequate to repay the loan given. It may be that the market for groundnut was fluctuating; nevertheless groundnut pays much better than paddy does in Orissa. It may also be that the advances made Rs. 15 or Rs. 20 per acre of groundnut area were a little high but the estimates of cultivation expenses were made by the Agricultural Demonstrator who recommended the loans. A fairly good proportion of the unproductive debt which is now hanging over the head of members of co-operative societies generally was contracted in this way. The advances made in the first instance for agricultural needs such as payment of *kist*, cultivation expenses, purchase of cattle etc., became "prior debts" in subsequent years by transfer from one money-lender to another. The experiment referred to above demonstrates one essential fact, namely, that even loans taken by *raiya*t for short-term productive needs such as cultivation expenses may not ordinarily be paid in full out of the sale-proceeds of the crop for which the loan was taken.

It may be instructive to state here what a *mahajan* does in the circumstances just narrated. The *mahajan* adjusts his methods of business to the needs of the situation. In a year of good harvest, he collects as much as he can from his debtors—it may be interest and the entire principal or a portion of it; in a lean or bad year, he is satisfied with collecting only interest or he may not even collect interest; perhaps if it is a definitely scarcity year, instead of collecting his arrears he may even make fresh advances and thus render help to the *raiya*t when he is most in need of it. His terms may be usurious but his methods are so flexible and he adapts them to the changing needs of the times; he, therefore, succeeds. The methods of business adopted by the central banks and societies are not so flexible. What the *mahajan* does is that after the harvest he makes an estimate of it and he or his agent is present at the threshing floor and takes his share from the crop. In the Punjab the annual *kists* of members of societies (i.e. instalment of loans) are fixed more or less on this basis. Even the Punjab practice is not quite satisfactory because it does not help the central banks to keep their obligations to their depositors unless the bulk of the deposits is renewed indefinitely from time to time. What generally the better managed central banks have been doing in most of the provinces is to get a good portion of their deposits renewed from time to time. The inability of any small central bank to repay the deposits on due dates may precipitate a run and possibly likely to affect the other banks, though they may otherwise be good as it happened in Orissa and elsewhere. It is, therefore, essential that co-operative central banks should not depend for their business (short-term and medium-term loans) almost entirely on short-term (time) deposits. "Deposits are entrusted to the banks upon the understanding that they may be withdrawn at will or at a time agreed upon. The custodians should not be allowed to abuse this trust by sinking them in loans which the average depositor would not care personally to make. Deposits are circulating capital and should be preserved as such".

69. *Need for supplementing short-term deposits by long-term money raised through flotation of debentures or by Government loans.*—In financing the members of agricultural societies in future, account should be taken of their failure to repay in full the short-term loans after the annual harvest and of their need for medium-term loans extending from four to ten years. Short-term deposits for two or three years which, at present, constitute the bulk of the funds of central banks will not do for this purpose. Such deposits need to be supplemented by money raised for a fairly long period. This can be done through the issue of debentures with or without Government guarantee. If, as has already been stated, owing to the formation of the land mortgage bank and the flotation of debentures by it, the Provincial Bank may not probably get sufficient funds through the issue of debentures, Government should place the required funds at the disposal of the Provincial Bank. Sound remodelling of co-operative financial structure is essential and if Government are to ensure this and prevent the recurrence of the troubles which now face the central banks I see no other alternative than Government financing the Provincial Bank for a fairly long period. Even at present *taccavi* loans are being given to the peasantry all over India for fairly long periods. I am obliged to emphasise this at some length, because I consider this is one of the basic principles of the reorganisation of the co-operative financing structure in Orissa ; much of the success of the future reconstruction of the movement will depend among other things on this arrangement because I believe that until agriculture is made sufficiently remunerative and the income of agricultural classes is enhanced and the regularity of repayment is thus ensured, it is necessary to make some re-arrangement of agricultural finance within the frame-work of co-operative banking.

70. *Need for classification of loans according to purpose—short-term, medium-term and long-term loans.*—No distinction was made in the past between loans for cultivation purposes or for the purchase of cattle or carts, for the payment of prior debts, etc. And this resulted in a financial chaos. Loans will, in future, be divided into three classes—short-term, medium-term and long-term. All loans for agricultural or cultivation purposes such as purchase of seeds, manure and minor implements, wages for agricultural labour, purchase of food and clothing, payment of rent, etc., will constitute short-term loans. Purchase of cattle, or country carts, construction and repairs of small houses, small improvements such as levelling or draining of lands, repairs to tanks, wells, or channels, or small loans for non-recurring important ceremonies, will come under medium-term or intermediate loans. Loans for redemption of mortgages on lands, discharge of prior debts, purchase of lands and land improvements, constitute long-term loans. The Provincial Bank and the societies which it finances must in future confine themselves to the short-term and medium-term loans, while the proposed Orissa Land Mortgage Bank will undertake the giving of long-term loans to the agriculturists or owners of estates.

Strictly speaking, the short-term deposits obtained by financing banks should be used only in loans repayable within the period for which deposits are taken. If, however, the deposits are to be used only for this purpose, no loans can be given to societies which are not repayable in twelve months or at most eighteen months from the date of disbursement; making allowances for defaults, the period may run up to two years or so. Such loans in fact constituted a very small fraction of the business of central banks in North Orissa in the past, as may be seen from the following statement :—

Year.	Amount of loans disbursed by the central banks to societies.	Of the total amount disbursed (col. 2) amount repayable within one year.	Percentage of short-term loans (col. 3) to the total loans disbursed.
1	2	3	4
	Rs. (lakhs).	Rs. (lakhs)	
1927	9.35	.33	3.53
1928	7.87	.29	3.68
1929	8.58	.35	4.08
1930	7.42	.48	6.47
1931	3.00	.29	9.66
1932	1.04	.17	16.34
1933	0.63	.09	14.28
1934	0.47	.10	23.40
1935	0.33	.07	21.21
1936-37	0.51	.07	13.75

If the Provincial Bank has in due course to run as a business concern and the members of societies have to get help for purposes other than ordinary agricultural operations, it is essential that the Provincial Bank and the societies should undertake to advance short-term loans repayable in two or three years and medium-term loans repayable in four to ten years. To deny loans for other purposes than agricultural purposes will be to drive the members to the *mahajan* and to keep them at his

mercy. The societies may not be popular as members will not be in a position to get adequate relief from them. The *malajan* to whom they will inevitably resort being generally on the spot will take whatever he can from their produce and there will be hardly any margin left to clear the societies' short-term dues. Further, neither the bank nor the societies will have enough transactions to meet the costs of their management. It is not, therefore, desirable to confine the operations of the Provincial Bank purely to short-term loans. Considerations of business and policy suggest that the bank should undertake also the grant of medium-term loans. The bulk of the money required for these loans must be obtained by way of ten-year debentures or failing it long-term money from Government. The Provincial Bank may lend the societies for a period ranging from four to ten years (including defaults) according to the purpose of the loan. However efficient the management of the Provincial Bank may be, the utilisation of only short period deposits in medium-term loans may sooner or later involve it in difficulties, and it is from all points of view desirable to avoid it.

Long-term mortgage loans for payment of prior debts, improvement of land, etc., will be met by the land mortgage bank by flotation of debentures. As will be explained in paragraph 92, the Provincial Land Mortgage Bank will be a suitable agency for undertaking this business and meeting the long-term needs of agriculturists.

The Provincial Bank will have to finance the existing primary societies (proper selection being made of individual members of societies who can be trusted with fresh loans) in order to infuse confidence amongst them; it should also finance new societies to be formed in untapped areas of the Province. All these will not give the bank adequate business for some time to come. I would, therefore, suggest that the bank may be permitted to lend to individuals on gold, Government paper, agricultural produce, or industrial products, just as the Bombay Provincial Bank is permitted to do. I am conscious that this business is not co-operative but I am convinced that under present conditions, there is need for relaxation from the principles of co-operative banking. When the Provincial Bank develops enough business it may then be time to withdraw these concessions and to allow it to confine itself purely to co-operative banking. I make this recommendation against my cherished convictions. I am strongly of opinion that a co-operative central bank should be a bank of bankers, and should not deal with individuals but under existing circumstances I am forced to make these recommendations.

71. *Rate of interest.*—The rates of interest charged by North Orissa central banks to the societies (12½ per cent) and by the latter to their members (15½ per cent) are to say the least, usurious, and from what I have stated already, the *rai-yats* or the tenants cannot definitely pay such high rates, particularly as the agricultural conditions in the Province are not encouraging. There is, therefore, urgent need

to bring down the rates. I suggest that Government may lend the Provincial Bank at 3 per cent and the latter may give loans to the societies at $6\frac{1}{2}$ per cent. The societies in their turn may charge the members at $7\frac{1}{2}$ per cent. Anything higher than this rate, agriculture in Orissa cannot bear.

72. *Repayment of loans in kind.*—In the case of small borrowers it will be better to collect their dues in kind as soon as their crops are harvested as is the practice with the *mahajan*. Owing to many calls on his purse the small borrower may not be able to pay his dues to the society of his own accord. So pressure is necessary to make him pay his dues as soon as the crop is harvested. It will ensure repayment if produce is accepted instead of cash. This method of repayment is, it is stated, successfully adopted in Burma at present. But I have got my own doubts about the efficacy of this method. The trouble involved in securing the produce and disposing it of at the proper time will be so great that an average society cannot undertake it. This method was attempted in Madras on a large scale but could not be successfully carried out. The Registrar advised the banks and societies to adopt this method by linking sale societies with the village societies. The circular issued by the Registrar on this matter is embodied in the revised Madras Co-operative Manual. Except in isolated places, the system was not adopted. However, an attempt may be made to introduce this system in Orissa by the new Provincial Bank.

One of the reasons urged for the adoption of the arrangement just described is that it results in or brings about a system of 'controlled credit' in societies. It is often forgotten that co-operative credit means 'controlled credit' and that it has been so recognised from the very beginning of the movement. By-laws generally provide that loans should be given only for productive purposes so that the borrowers may be in a position to repay them from the income that they will derive from their increased productive capacity; that it is essential that the committee of the society and other members should exercise a vigilant care and see that the money is expended for the purpose for which the loan was granted; that the loan should be recalled at once if it is improperly applied and that in addition to the general supervision of the society, special supervision of individual members by taking personal sureties in the case of each loan is necessary. These principles have long been recognised to be the essence of co-operative credit but they have not been strictly followed. The object is to make co-operative credit controlled credit. It is really desirable that credit should be controlled at every stage if it should be productive of good results to the borrower; but as I have already stated, very few successful attempts at linking up credit societies, loan and sale societies and central banks in the manner suggested by the Registrar in Madras, have so far been made. In rare cases the results achieved were due to intensive work and were obtained at great cost.

73. *Costs of management of the Provincial Bank and of the central banks in North Orissa—need for Government subsidy.*—The question of the cost of the establishment of the Provincial Bank and of its branches and of the executive staff necessary for carrying on its administration as well as that of the central banks requires consideration. It is impossible to expect the Provincial Bank to be self-supporting for some time to come; it may not develop enough business in the immediate future to pay its way; and so far as the central banks are concerned, the interest which may be realised upon the scaled down debts against societies may possibly be just enough to meet the cost of management. The principal amount outstanding against societies on 15th November 1937 was about Rs. 38 lakhs. After making allowance for bad debts and for writing off the whole of overdue interest, it is possible that ultimately about Rs. 30 lakhs may be realised. Including fresh advances that may be made by the Provincial Bank from time to time, this amount of Rs. 30 lakhs may be expected to be the normal investment in societies. The future rate of interest on loans to societies, as has been indicated, will be $6\frac{1}{2}$ per cent, while the borrowing rate of the Provincial Bank or the rate that be allowed on the deposits of central banks will be 3 per cent. Thus there will be a margin of $3\frac{1}{2}$ per cent for the bank; and Rs. 30 lakhs will yield an income of about Rs. 98,000. The cost of establishment of the central banks alone, i.e., their ex-officio secretaries, the indoor staff and bank inspectors, will be about Rs. 1,09,000 while the cost of management of both the central banks and the Provincial Bank may be roughly Rs. 1,30,000. The deficit must be borne by the Government; else, the work of reconstruction is impossible.

There is ample justification for Government making an annual subsidy towards the working expenses of the Provincial Bank and partly those of the central banks. Firstly, the rates of interest at present charged by banks or societies in North Orissa are too high and must, as already stated, be brought down to at least $7\frac{1}{2}$ per cent in future. This will necessarily reduce the margin of profit for the central banks. But Government in rendering a reduction in interest rates possible will be doing a great service to the agriculturists and it will earn their gratitude. Secondly, the Provincial Bank is a new institution which cannot be expected to stand on its legs until it develops sufficient business. Instances are not wanting when Governments in Europe or India made free grants to banks in the early stages of their development and the Orissa Government, too, may, therefore, give similar help to the Provincial Bank. Thirdly, as I have already stated, Government owe a moral obligation to the depositors of central banks and in order to enable them to get back their money, it is essential that Government must see to the employment of an adequate agency to ensure the collection of the assets of the central banks and to bear any cost incidental thereto. I am hopeful that Government will not find it difficult to come forward with this generous help which the interests of the movement in Orissa surely justify.

CHAPTER VI.

AGRICULTURAL SOCIETIES.

74. *Reconstruction of agricultural primary credit societies—difficulties of the problem.*—I may now proceed to discuss the general lines of reconstruction of primary agricultural credit societies. It is needless to repeat here the present financial condition of these societies. It has already been detailed in Chapter III that a major portion of members' loans have long become definitely frozen and the process of recovery of the loans is at once most difficult and complicated. It is true that most of them are dormant and hardly any of the "living" societies is really functioning; they are undergoing practically voluntary liquidation and left to themselves, they may die a voluntary death in a few more years. Reconstruction under such conditions may be extremely difficult and disheartening but I cannot for reasons already set forth contemplate the winding up of the movement and the suffering which it brings in its wake to large numbers of rural households in North Orissa. Despite the difficulties, therefore, the work of reconstruction must be taken up quickly and the present mood of suspended animation terminated.

75. *Substantial reduction or complete remission of overdue interest.*—The first and the urgent line of approach towards the resuscitation of societies is to bring down the accumulated overdues to manageable proportions and within the ability or capacity of defaulters to pay under present conditions in a reasonably long number of years. And in my opinion, no reconstruction appears possible until the question of recovery of overdue interest is settled. On 30th June 1937, Rs. 36·04 lakhs (principal) were outstanding against members of all agricultural credit societies in North Orissa; of this amount, the principal overdue was Rs. 34·19 lakhs and the overdue interest was Rs. 20·37 lakhs. Thus the position in respect of overdue interest is positively hopeless and this is mainly due to the very high interest rates charged by societies. During my visits to a number of societies in the Province, I was almost always greeted with requests for the waiving of all overdue interest. While societies had to recover an overdue interest of Rs. 20·37 lakhs and accrued interest of Rs. 1·30 lakhs from their members, they had to pay the central banks Rs. 13·41 lakhs; the central banks had to pay their creditors Rs. 2·23 lakhs towards interest on deposits and loans. If we add to these figures the amounts due by the borrowers in liquidated societies, and the accrued interest on all loans subsequent to 30th June 1938 the total interest due from members in all agricultural credit societies will be about Rs. 26 lakhs. The interest has accumulated over a series of years and practically the whole of it is definitely irrecoverable.

There is more than one way of disposing of the question of recovery of overdue interest. The entire overdue interest may be wiped off straightaway; partial remission of interest may be given and the balance recovered, if necessary, in a number of years; or, a detailed examination may be made of the circumstances of each borrower in each

society and his overdues (both principal and interest) may be so scaled down as to enable him to repay the amount over a series of years. Partial relief in respect of overdue interest may be given in one or more of the following ways:—

- (i) Interest on all outstanding loans may be collected at a low rate of interest (say, 6½ per cent) from the last date of payment.
- (ii) Interest on outstanding loans may be charged for the last three years at a low rate.
- (iii) All outstanding loans, may, in future, bear a rate of interest sufficient to leave a margin for societies to meet their interest charges to the bank and their working expenses.
- (iv) In case of difficulties of payment by members of the interest so reduced, it may be made payable over a series of years.

The question is whether such a reduction or partial remission of overdues will meet the requirements of the situation. The interest overdues are, in some cases, so clearly heavier than overdue principal and the repaying power of the borrowers so limited that I am afraid whether such partial remission will prove effective in the reconstruction of societies. It seems to me that the situation calls for maximum relief that is possible under the circumstances.

The second method is one of detailed examination of all individual loans in societies and their classification into good, doubtful and bad loans according to the security offered for them and the circumstances of each individual borrower and the writing off, after such examination, of all bad or irrecoverable debts or portions of debt including overdue interest. This is the fair method that can be adopted but it is bound to be prolonged and the interval that should elapse between now and the completion of the enquiry may possibly intensify the sense of despair that now prevails amongst members and prejudice the chances of recovery.

The third and the simple method is to face facts boldly and to remit the entire overdue interest or a substantial portion of it, independently of individual examination of loans. I prefer this course for more than one reason. Firstly, as I have stated, during my tours in North Orissa, I was approached by hundreds of poverty-stricken members of village societies with requests for remission of all overdue interest. There is a strong and persistent demand for help. Their impatience and anxiety are understandable but the gravity of the situation cannot be minimised. It is, therefore, wise and expedient to appreciate the situation and try to meet it in a generous manner. Secondly, central banks had to pay their creditors a little over Rs. 2 lakhs towards interest. I have already suggested that the creditors of banks might

be persuaded to agree to forego the accumulated interest; even if they do not agree, the amount of interest payable is only a small fraction of what is due from societies. And it should be possible for the banks to remit the bulk if not the whole of accumulated interest. Even if the depositors do not agree to forego interest, the banks can still remit about 80 to 90 per cent of the accumulated interest due by societies. Thirdly, some of the debtors have been withholding repayment in expectation of certain concessions. This immediate gesture on the part of the banks will induce them to arrange to repay their debts forthwith. Fourthly, the detailed examination of all individual loans in the manner suggested is bound to be very slow and if pending completion of such enquiry, members refuse to repay their debts in their despair, the position of the banks will get hopelessly worse than now and even a fraction of the costs of their establishment cannot possibly be met. If this catastrophe is to be avoided, it is better for the banks to face the situation boldly and decide upon a substantial remission of overdue interest, if not the whole of it.

I am aware that the proposal is very drastic and may be attacked on the ground that such wholesale remission might have a demoralising effect on members and that this might lead to further clamours for remission of instalments of loans fixed after detailed enquiry. I fully recognise the force of this criticism. My short answer to this is that the situation in North Orissa is nothing less than desperate and that desperate situations require desperate remedies. During a period of crisis which the movement in North Orissa is facing, and the intolerably hard times through which borrowers are passing, I do not think that the apprehension as to the demoralisation of debtors should be seriously considered. It is impossible for the generality of the borrowers now to repay their debts including overdue interest even by selling up their whole property, and this is an ample justification for the step recommended. Secondly, legislation has been undertaken all over the world to give relief to agriculturist debtors in order to enable them to tide over the difficulties in which they have found themselves in consequence of the worldwide economic depression. Even in India debt relief measures were undertaken in most provinces (i.e., the Central Provinces, the United Provinces and the Punjab). Recently, the Madras Legislature has placed on the statute book "The Madras Agriculturists Debt Relief Act" for the scaling down of agricultural debts and the Orissa Legislature, too, has under consideration similar measures. Such measures are justified on social, economic and political grounds. When this is generally the case, I do not see why in the present circumstances of the movement in North Orissa, the remission of entire interest should not be made. Surely, I would not have suggested it if the conditions are normal. I know that the most proper course for remitting even the entire overdue interest is only after completing the detailed examination of all loans. As I have stated, the process is long and tedious and from a psychological point of view, needs to be avoided, and in effect it may not prove to be better than the simpler method I have suggested.

76. *Detailed examination of the financial position of societies and of individual loans.*—The next step in the work of reconstruction is a detailed examination of the financial position of societies and of their members with reference to their present assets and liabilities and the determination of the future line of action. As exhaustive enquiry will have to be undertaken into all loans outstanding against individual members in each society through the bank inspectors under the control and direction of the branch agents of the Provincial Bank. Where the work is found heavy the Assistant Registrar of the circle concerned may share the work with the agent. The inspectors will gather the information required in prescribed forms; they will not, of course, have independent powers of action. They will collect and supply necessary data on which further action will be based. The examination may be somewhat on the following lines. Every loan in every society shall be examined with a view to ascertain whether it is adequately secured and whether action should be taken at once to collect it or time can be given to enable the borrower to repay it of his own accord. For this purpose a classification of borrowers may be made somewhat as follows:—

- (i) Those whose loans stand on good security and can be expected to pay out of income within the period to be fixed.
- (ii) Those whose loans stand on inadequate security but who can give and are willing to give additional security, and who can pay out of income within the period to be extended;
- (iii) Those against whom action should be taken at once either on account of their inability to pay out of income or on account of their inability to give additional security or for wilful default or for other reasons.

When it is not possible to reconstruct, the question of supersession of the panchayat by entrusting the management to a competent person through an amendment of its by-laws on the following lines may be considered:—

“Whenever it is found that the panchayat elected under the by-laws does not function properly, the general body may, for a specified period or periods, place the management of the society in the hands of a single person appointed by them from among themselves or outsiders. The appointment shall, however, be subject to the veto of the Provincial Bank and the man appointed may be removed by the Provincial Bank at any time. The person so appointed shall be called the manager and he shall have all the powers of the panchayat under the by-laws. His powers shall, however, be restricted in the following matters to such as are necessary to safeguard and recover the assets

of the society, as they stood at the time when he assumes charge of the management of the society :—

- (1) admission of members,
- (2) allotment of shares to members,
- (3) borrowing money, and
- (4) grant of loans to members.

The general body may, subject to the approval of the Provincial Bank, pay to the manager such remuneration as they deem fit for his services. The manager shall convene a meeting of the general body just before the expiry of the period for which he is appointed and get a panchayat elected in accordance with the by-laws and hand over charge to such panchayat. If for any reason a panchayat cannot be elected before the expiry of the period of appointment, he shall continue to be in charge of the management till a panchayat is elected "

Where the financial condition of a society as disclosed during the enquiry is such that no possible concessions or scaling down of debts of members or supersession of the committee will prove helpful in reforming the society or where postponement of further action will result in heavy losses and where, therefore, unlimited liability has to be enforced, it is better to liquidate it and the liquidator can collect the assets giving whatever concessions are necessary after consulting the central banks concerned.

77. *Scaling down of debts and fixation of the period of repayment of loans—methods indicated.*—The object of the examination of every individual loan in each society is not only to ascertain the exact financial condition of each individual member but to formulate suitable measures for the resuscitation of the societies in the light of the results of such examination, and to devise such methods of recovery of the frozen loans as will offer hopes of success. It has already been suggested that the loans should be classified as good, doubtful or bad with reference to the security. It is probable that in good many cases the borrowers will not be able to pay their debts under present conditions. There is need, therefore, in such cases of scaling down debts to the present market value of their land and to bring them within the capacity of the borrowers to repay in a reasonably long period. With reference to the results of the individual examination of loans, the loans should in deserving cases be scaled down as suggested and the period of such loans should be fixed with reference to the income from out of the present assets of defaulters, their repaying capacity, etc. The maximum period within which the loans required to be paid must not in any case exceed 15 years. My enquiries show that most members cannot repay their debts in anything less than this period. In the coastal districts of North Orissa members of societies very strongly

represented that they could not pay their debts in less than 15 years, while in Angul, Sambalpur and Bargarh areas a period extending from five to ten years was represented to be sufficient. In any case, I feel that a maximum period of fifteen years may meet the requirements of the situation. In determining the repaying capacity for purposes of fixing the instalments payable by a member due allowance should be made for the cost of maintenance of the member and his family and other obligatory commitments such as payment of rent or land revenue, for the payment towards outside debts, etc., so that he may not reasonably default in the repayment of the annual instalments of the reduced debts. It is not desirable to accept personal securities for debts spread over 15 years; the loans should be backed up by tangible security. The rate of interest charged on debts may not exceed 6½ per cent per annum.

Even with such debt conciliation, it may not be possible to save all the members; some of them may have no chance of improving their repaying capacity even if the term of repayment of the scaled down debt is spread over 15 years. In such cases steps will have to be taken to proceed against the borrowers and recover the amounts to the extent possible and the balance written off and the member removed from the rolls.

In cases where the security for loans is adequate, though members may not have enough repaying capacity, they may be given time not exceeding three years to make arrangements to sell their property or otherwise make arrangements to clear off their debts to the society. Even where the security is not considered adequate, the loans may be recovered in instalments provided there is an indication that the borrower can pay definitely out of his income within a reasonable period of three to five years. Wherever possible such borrower should be induced to offer one or more sureties for the period of three or five years allowed.

If a borrower has no tangible assets his debt need not necessarily be written off. A tenant who is indebted to the society, may not have adequate assets, but he may have sufficient agricultural income to enable him to pay off his debt in easy instalments.

These measures, viz., entire remission or substantial reduction of overdue interest and debt conciliation in the manner suggested, will result in losses to the societies and central banks. As I have already stated when dealing with central banks, this cannot be helped. Bad debts will, in any case, occur and will have to be written off. If after exhausting all possible coercive action as is being done, the societies and banks fail to recover the debts fully, they will have to write off the balance, but this process causes hardship and suffering to members and results in the transfer of their lands to outsiders. It is wise to face the facts and follow the better of the two methods and to scale down debts at the beginning and write off the losses. The losses will be written off

from the share capital and reserves of societies as well as the reserves and share capital of central banks. These will disappear, in any case, if not now, at least in the long run. It is wise to write off losses now and to create hope amongst members; this will be productive of satisfactory results in the reconstruction of the movement. It is probable, as already stated, that the losses may affect the depositors also but they must be prepared to bear a little loss. I hope they, too, will face the situation calmly and their good sense and spirit of self-sacrifice will prevail.

78. *Need for consultation with the creditors of the bank.*—Before any attempt is made to reconstruct the societies in the manner suggested above, it is necessary to take into confidence the creditors of the banks concerned and to explain to them the situation and get their consent to the arrangements proposed. If, however, they do not agree and Government do not see their way to come forward to help the depositors, there is no alternative except to cancel the registration of the banks. I do not, however, think that the depositors will object to the scheme of reconstruction formulated.

It is needless to say that the banks are practically undergoing voluntary liquidation, recovering as much as possible, and paying off their liabilities; and the spreading over of scaled down debts in the manner proposed does not, therefore, violate any principle of banking; it is more a question of the mode of recovery in the best interest of the depositors with their full knowledge.

79. *Disposal or transfer of lands.*—In the course of execution of decrees against defaulters, societies and central banks came, as has been stated already, into possession of a large extent of land (about 4,000 acres) and in the process of reconstruction of societies, it is essential that steps should be taken for the disposal of lands. Some of the banks have been attempting to dispose of the lands to depositors in lieu of their deposits. If it be possible to transfer these properties to the depositors up to the extent of the deposits payable to them *pro rata* the banks may choose to do it. If this is not possible, attempts may be made to dispose of the properties to outsiders at present market values but this may not altogether be desirable. In the event of either of these courses being found difficult the only alternative is to re-sell the properties to the original defaulters themselves at present market value more or less on the hire-purchase system adopted in Burma. According to this a society enters into an agreement that the land is to be leased to the member on payment of rent which would be equal to the instalment fixed. If the member pays the instalments regularly he gets back the land at the end of the period on payment of a nominal some of Re. 1 and if he fails he has no claim to the land which belongs to the society and was only leased to him on rent. If for any reason the original defaulter is not in a position to take back the land on these terms, it may be offered to his next-of-kin where possible. In Burma this

system has been applied not only to the defaulters who were dispossessed of their lands through execution proceedings but to other members who would have lost their lands if coercive action had been taken. Wherever possible, such of the members as may agree to repay their debts according to the instalments fixed may be asked to surrender their lands to the society on the hire-purchase system so as to induce in them a sense of responsibility and gradually to enable them to discharge their obligations to the societies. It is stated that the working of the scheme in Burma has so far been successful and if the members of societies are properly approached and tactfully handled there is no reason why they may not be persuaded to agree to similar arrangements being made in North Orissa. Difficulties may arise in portions of North Orissa such as Angul or Sambalpur but suitable legislation may be undertaken permitting transfer or mortgage of land to co-operative societies for the debts due from members.

80. *Repayment of instalment in kind.*—Members may be induced to repay the instalments of the loans as far as possible in kind. The agents of the branches of the Provincial Bank (who will be the ex-officio secretaries of the central banks) will have to make necessary arrangements through the bank inspectors to get at least such quantity of produce of the borrowers as may be enough for the payment of the instalments. This method of repayment in kind may also be attempted when fresh loans are given to societies by the Provincial Bank as already stated. Thus the rent purchase system coupled with the repayment of loans in kind will induce the borrowers to be punctual in respect of their obligations to societies. It is possible that when arrangements are made for the joint sale of the produce of the members they may get a little more than the price which they may individually be able to obtain from the merchants or brokers. This is, however, incidental.

81. *Need for fresh loans to societies and members.*—It is also necessary to see that the future repayment of the loan is rendered easier by the provision of adequate margin of income to the members. If they will have to go to the *mahajan* again for fresh money advances for cultivation and agricultural expenses, they will have to pay very high rates of interest, and this will at once substantially reduce their repaying capacity and greatly prejudice prompt repayment. The chances of the success of reconstruction will be materially affected. Further, it is equally necessary to terminate the present stagnation and to regain the confidence of the rural folk in the efficacy of societies as an agency for the provision of reasonable credit. It is then essential that fresh loans should be given on sound lines to the deserving members of societies. In the course of the detailed examination of individual loans, a list may be made out of members who are fit for help and who can be trusted with new loans, subject, of course, to their satisfying other conditions such as security, income, repaying power, etc. This will surely help the process of recovery of old loans in a manner that nothing else can.

82. *Possibilities of transfer of scaled down debts to the Provincial Land Mortgage Bank.*—In places where the branches of the proposed Provincial Land Mortgage Bank will be started it may seem desirable to transfer the debts of members of primary societies to the mortgage bank provided, of course, the members satisfy the bank about the adequacy of their mortgage security, the title to the land, their repaying power, etc. The societies will be benefited by their transfer of some of their present defaulters to the land mortgage bank. This would relieve the societies of some of their indebtedness to the central banks and of the frozen assets of debts due from some at least of the defaulters. This will not prejudice the unlimited liability of the members, firstly because some of the dues of societies would have been paid off by the transfer of members to the mortgage bank and secondly because even now the members of primary societies can mortgage their lands to outsiders to pay their dues to them. Even after such transfer the borrowers may retain their connection with the societies for purposes of their short-term agricultural finance. The possibilities of co-ordination of work on these lines in areas where the mortgage bank will start its operations, may be investigated and an attempt made for relief in this manner from the present financial embarrassment of societies and central banks.

83. *Liability of old and new loans and their treatment in accounts.*—Most of the societies will certainly sustain losses although the extent of such losses cannot be accurately ascertained at present. New persons joining such societies will, under the existing constitution, share such losses. No person will join a society under such circumstances. For this reason, I suggest that the business of societies may be divided into two parts— one dealing with the existing loans and the other with the future loans. The existing members of societies will be liable for the debts of the societies as they now stand while such of the persons as may be admitted hereafter will be responsible only for the debts to be contracted by the societies hereafter. Suitable by-laws have to be adopted by the societies making such persons as have been admitted after a specified date not liable for the previous debts contracted by the societies. Such of the old members as remain on the rolls before the specified date will be liable for the societies' future debts also, if they are given advances from out of the new funds. The new creditors (those who finance the societies on or after the specified date) will not be liable to share any loss arising out of the past transactions of societies. The primary credit societies may enact a by-law somewhat on the following lines to give effect to this arrangement:—

“Notwithstanding anything contained in by-law no. 18, no person who is admitted as a member on or after 1st July 1938 shall be liable in respect of any debt or liability of the society incurred by it prior to that date.”

The liability of a member on the rolls of the society on the 30th June 1938 shall not extend to any debt or liability of the society incurred on or after 1st July 1938 unless such member borrows from the society after 30th June 1938.

The losses, if any, which the society may incur in respect of moneys lent to members prior to 1st July 1938 shall not affect in any manner a person who becomes a creditor of the society on or after that date in respect of amounts lent on or after the said date"

After the instalments of the old loans have been spread over they will all be treated separately and entered in separate ledgers; all collections made towards the loans will be sent intact to the central bank concerned. All new loans will be entered in separate books of accounts and collections made in respect of these loans will be remitted to the Provincial Bank through its branch having jurisdiction over the societies concerned.

84. *Procedure in regard to the sanction of new loan, the role of the societies, bank inspectors and the Provincial Bank.*—The new loans may be given to the existing societies only after satisfactory arrangements have been made for securing and recovering the existing debts in the manner already detailed. The normal credit of each deserving individual member should be carefully fixed after thorough investigation of his assets and liabilities, income, repaying capacity, etc. The investigation in connection with the fixing of individual normal credit should be begun sufficiently early (say in the third quarter of each year) and completed in the last quarter before the agricultural season begins. This is one of the important duties of the bank inspectors to be appointed by the Provincial Bank. They will conduct necessary enquiries, formulate the results in suitable loan application forms to be prescribed, satisfy themselves that the members are credit-worthy and have got adequate repaying capacity and that the loans asked for are for productive purposes and can be given. The inspectors will place the loan application before the general body of members who will consider each case and record their opinion on it. The consideration, discussion and the expression of opinions on the applications should be so conducted publicly as to constitute itself a course in co-operative education of members. The applications will then be forwarded to the Provincial Bank through its branch agent. The individual normal credit will be carefully scrutinised by the Assistant Secretary of the Provincial Bank who will be qualified by his knowledge of agricultural conditions and rural economics. The Secretary will then fix the borrowing limits of both individual members and societies with such modifications or alterations as may be found necessary with reference to the circumstances of each case. The total of individual normal credits will be the maximum

credit limit of the society. The maximum limit both for societies and individuals should be laid down specifically in the by-law as in Madras societies and the normal credits fixed for individual members and societies must always be subject to these maxima. The approval of the credit limits as finally fixed by the Provincial Bank will be intimated to the societies concerned before the close of the last quarter of each year.

The bank inspectors should be held responsible for recommendations which are, however, subject to the approval of the Provincial Bank. In addition, the inspectors must, as just stated, educate the *panches* and members of societies in their duties and endeavor to create a real co-operative spirit amongst them so that eventually the *panches* and members may themselves undertake and satisfactorily attend to the entire work of sanction of loans to members.

It is true that the arrangements suggested may not encourage amongst members and *panches* a spirit of initiative and self-reliance; nor will the management of societies be purely co-operative. I am also aware of the criticism of the Bihar and Orissa Banking Enquiry Committee, regarding the encroachment by the central banks "on the sphere of society's control, especially in the matter of sanctioning loans". The Committee observed, "while we fully recognise that the great majority of primary societies are still in need of guidance of somewhat meticulous kind, we think that relaxation of control over the minor details of lending should be the constant aim of the central banks. After all the primary societies acting through its *panchayat* is the best judge of the credit-worthiness of its members, as it is the ultimate sufferer in case of serious error in framing its judgment". It is needless, however, to state that such "serious errors" have cost the movement in North Orissa very severely, and as I have again and again emphasised until a high sense of collective responsibility and of public duty is developed amongst the members and *panches* through co-operative education and instruction, it is not prudent from a business point of view to allow them to do this work. In any case, in the present state of affairs in North Orissa it is vain to expect the societies to carry out their duties satisfactorily and if the societies cannot be trusted to pass loan applications, the solution lies in their education; and the assumption of their legitimate functions by the provincial bank and its staff of inspectors should be regarded only as a temporary expedient and fully recognised as a necessary evil. But I repeat that one of the important duties of the bank inspectors is to so educate the members and the *panches* as to enable them to assume their responsibility sooner or later.

85. *Fresh loans to be confined to short-term and intermediate loans.*—The normal credits should be split up into two parts—one for strictly short-term purposes (i.e., cultivation expenses, payment of rent or land revenue, domestic expenses, etc.) and the other for medium-term or intermediate advances (purchase of cattle, agricultural implements, making of country carts etc.). The

aim ought to be to give the members the bulk of the advances only for short-term agricultural purposes. The normal credits should be based, as already stated, upon a very thorough and careful estimate of the income of borrowers, in prescribed forms. In arriving at their income, it is better to take the average for at least three years and the margin of the income available for the payment of the instalments of the new loans taken should be arrived at, after taking into account their requirements in respect of the maintenance of their families, payment of rent and any outside debts, or the instalments of the scaled down debts due to societies. After approval of the normal credits by the Provincial Bank, the borrowers will execute two bonds, one to cover the short-term loans which may be taken by them in the course of the year and a continuing mortgage bond for intermediate loans. The second bond will be more or less of a permanent character and will prevent the need for frequent registration. The members may draw money at intervals whenever required in the course of the year up to the normal credit sanctioned by the Provincial Bank. Government auditors will, as explained in paragraph 97, check the normal credits in the course of the audit of accounts of societies.

The Bank Inspectors may, whenever possible, be present at the time of disbursing loans, but where this is found difficult, the group clerks, if any, of the societies concerned may be present along with a prominent member of a neighbouring society if his services can be secured. No loan shall, as a general rule, be given for payment of prior debt or purchase of land or other long-term purposes, which are, as already stated, beyond the scope of the village credit societies.

86. *Formation of new societies in untapped areas on sound lines—plan of action.*—The methods of reorganising the societies on the lines indicated are not strictly co-operative but the peculiar conditions obtaining in North Orissa are the only justification for the mode of action outlined. In fulness of time, it is possible that the primary societies may become really co-operative. In the meanwhile, however, I would suggest starting genuine co-operative societies in areas which have not been tapped so far. From the figures furnished by the Assistant Registrars, it is seen that there are yet many villages which are not at present covered by societies. The following are some approximate figures supplied by the Assistant Registrars:

Name of circle of Assistant Registrar.	No. of villages which do not contain co-operative societies.
1. Cuttack	3,750
2. Puri	3,136
3. Sambalhur	5,145
4. Ganjam (including Koraput agency).	11,454

But from all points of view, it is better to confine new registrations to normal or protected tracts (i.e., to those tracts which are

free from the extreme risk of famine or scarcity or floods). I would suggest the appointment of two officers well-trained for this purpose. It will be their duty to select promising areas and visit the villages in each such area, carry on co-operative propaganda, educate the villagers in the principles of agriculture, co-operation and village uplift, and thus prepare the ground for the formation of societies in due time. They must carry on this process of propaganda and education at least for six months. The villagers may be asked to attend to their common economic needs; they may be instructed in methods of better-living and better-farming and up-to-date methods of cultivation; they may be taught to introduce remunerative crops, to improve their sanitary condition, to attempt adult education, to settle disputes by arbitration, to encourage thrift, in fact, to undertake all items of work which are comprised in what is now popularly known as rural reconstruction.

The point is that there must be adequate preliminary educative propaganda and the villagers must feel the need and voluntarily form a society. It has been stated that there are four requisites for a successful co-operative society: firstly, that there is a need; secondly, a realisation of the need; and thirdly, the knowledge how to remedy the need; and fourthly, the determination to do so. And it is essential that the Oriya raiyat should realise that there is an economic ill and that the co-operative method offers a remedy for it; co-operation must grow from below; it should be a slow and spontaneous growth; it cannot be superimposed. Each member must realise what a co-operative society stands for, how it is managed and what his privileges and responsibilities are. It is why I suggest that the propaganda officers should attend to the preparatory work for at least six months. If after six months, there is a genuine desire amongst the villagers for a society they can form one. Much of the success of these societies will, in a large measure, depend on the judicious selection of members and on the steps taken to educate them in co-operative principles.

This is indeed a slow process. But I would prefer the preparatory ground being made ready this way by slow and persistent education. This is the surer and better way of proceeding with the work in future than the more spectacular method of registering credit societies and pumping out credit to members who more often than not become victims of the double-edged weapon of cheap credit.

The loan policy of the new societies will be based on the lines already indicated in the scheme of reorganisation of the existing societies; loans will be advanced to members for productive, agricultural needs (both short-term and intermediate). I may perhaps go further and suggest that in all societies to be newly registered, members may be encouraged to subscribe their own capital and work with it for two or three years though such capital may be

insufficient for all their needs. We have witnessed the results of the risk involved in allowing villagers who have had no knowledge of business, to finance their needs solely on borrowed capital; and it is well then that there is some re-orientation in the methods of future business. If experience shows that the members can make careful use of their own capital and feel their responsibility in relation to the society as evidenced by their regular repayments, they may be permitted to borrow from the Provincial Bank.

The aim of each of these new societies as well as the existing societies should be to induce every member to save at least as much as he may require for his current needs in a normal year which he will leave with his society with a view to borrow it when a need arises and to repay the loan when he gets his harvest.

The officers to be chosen for this work should be really able men with a rural bias and knowledge of rural conditions and should bring to bear upon their work tact, zeal, ability, sympathetic understanding and a spirit of service.

86. (A) *Miscellaneous*.—I may refer to a few miscellaneous matters which came up for discussion during my visits to societies and about which some clear understanding appears necessary.

Suretyship loans.—During my enquiries I came across instances where neither the officers nor members of societies attached any importance to the responsibilities of sureties in regard to loans advanced on the security of the borrower and one or more sureties. It struck me as though the sureties were under the impression that they merely attested the loans. It is necessary that the supervising and inspecting staff should disabuse the members of societies of this wrong impression and explain to them the real implications and significance of suretyship; they should be told that in law their liability for the loans is co-extensive with that of principal debtors and that—this is equally important—suretyship is in harmony with the spirit of co-operation since the essence of co-operation is that men should help each other and be responsible for each other's conduct and that the real value of the surety lies in the fact that he is responsible for seeing that the principal debtor pays his debt at the proper time and can be expected to take the necessary trouble to see that he does pay and if he does not pay the surety will have to pay.

Maintenance of accounts in village societies.—The Co-operative Societies Act permits the payment of bonus or remuneration to members or the *panches* who maintain the accounts of societies from the balance of the net profits after the prescribed percentage has been carried to the statutory reserve fund. But in the present condition of the movement most of the societies do not and cannot

distribute any profit. Naturally members or *panches* who expect some remuneration for the trouble involved in attending to clerical work cease to take interest. I suggest, therefore, that provision be made for payment, from general funds, of remuneration to any member for work done by him on such scale as may be prescribed by the by-laws through a suitable amendment of section 21 of the Bihar and Orissa Co-operative Societies Act more or less on the lines of section 35 of the Madras Act.

Reserve Funds of Societies.—There is difference of opinion among co-operators in India as to whether the reserve fund of a co-operative society should be separated from its ordinary business and invested outside. Those who are in favour of separate investment of reserve fund argue that if the reserve fund is not invested outside the society's business, it will not be available to meet any loss (for which purpose it is created) when it occurs and that it should not, therefore, be mixed up with the society's business. It is also sometimes stated that the reserve fund is the security for outside borrowings and that for this reason it should not be merged in the ordinary business of the society. Those who are against outside investment point out that it is not prudent from a business point of view that the reserve fund should be invested outside at a low rate of interest when the society borrows money at a high rate for its purposes and that the reserve fund will, when used in the business of the society itself, enables it to strengthen its financial position much quicker than it would otherwise be able to do. I wish, however, to state that the reserve fund is not the security for the borrowings of the society (as the borrowings will in most cases be much larger than the reserve fund) but only a margin of safety for the creditors. The reserve fund represents the difference or the margin between assets and liabilities of a society. It only means that if the loss of any society does not exceed the reserve fund, the creditors will not be affected. Any person wishing to invest money in a society examines the balance sheet and ascertains the amount of owned capital of the society (reserve fund plus share capital); he considers that to the extent of this he will be safe. It is for this reason that in co-operative societies, the limit of borrowings is restricted to a certain multiple of their owned capital. It is assumed that the losses in the course of the normal working of a society may not exceed the extent of its owned capital. If this is then the principle underlying the owned capital, it does not matter whether the reserve fund (no one argues that the paid-up share capital of a society should be separate) is either invested outside or utilised in the business of the society. What is required is that the margin (that is, the "owned capital") should be sufficient to cover all risks and avoid loss to the 'creditors.' If the loss sustained is smaller than the owned capital, the creditor is not affected. The separation of the reserve fund from the business of the society does not enter into this calculation; whether it is invested outside or used in the

business, it does not affect the margin. Supposing a society which invested its reserve fund outside its business or suffers a loss, even then the reserve fund automatically disappears to that extent. One may show in the balance sheet that there is a reserve fund and a loss (till this loss is recouped) but the fact is that the reserve fund has been reduced to the extent of the loss.

If it is, however, argued that from a business point of view, some proportion of the working capital of a society should be put in sound outside investment, this is understandable. All sound business concerns do this. The proportion of the working capital to be so invested will not necessarily be the extent of the reserve fund alone. The limit of reserve fund has no bearing on this proportion. A certain proportion of the working capital will have to be kept outside for fluid resources and other purposes. But village credit societies are not, so long as they confine their borrowings to central banks, expected to maintain fluid resources. No portion of their working capital needs, therefore, be separated. As regards reserve fund there is no need, so far as village credit societies are concerned, to separate it from their ordinary business. But I would not recommend any change in the policy now pursued in this regard in view of the present condition of the movement. I would, however, suggest that no society shall be permitted to buy shares in central banks or other co-operative societies out of its reserve fund.

87. *Grain Golas.*—In the interior of the Province there is a good deal of borrowing in paddy. This is probably due to the fact that the people in the countryside have not yet been able to change the old methods of village economy and to carry on their transactions on a money basis. Until these methods are given up, the grain golas may be permitted to advance grain loans to members and to recover them in the same way as cash loans. Loans may be confined only to such purposes as payment of paddy debts due or expenses of cultivation. The present condition of the most of the golas is, as already stated, not satisfactory. A review may be taken of the position and steps formulated to put them in sound working order.

88. *Societies for the sale of agricultural produce.*—In paragraph 52 (xiii), I have stated that the principal produce of Orissa is paddy and that in three of the four districts in North Orissa the percentage of the area under rice cultivation to the total cropped area exceeds 90. During my tours in the interior of the Province and my visits to village societies, I made enquiries as to the possibilities of sale of agricultural produce on a co-operative basis. My enquiries disclose that the generality of members of societies does not possess much surplus produce for sale. The bigger tenants, the landlords or owners of estates are said to have surplus for sale. The following

figures show the annual exports of paddy and rice from Orissa and the places to which they are generally exported:—

Commodities.	Approximate quantity exported.	Where exported.
	Maunds.	
1. Paddy ...	12,06,000	(Bengal and Madras) Chakulia, Kolaghat, Sompeta, Palasa, Tilaru, Raigarh, Shalimar etc.
2. Rice ...	24,00,000	(Bengal, Madras, the Central Provinces, the United Provinces, Bihar, the Punjab and Bombay), Tatanagar, Salur, Shalimar, Bhaga, etc.)

In the course of my general enquiries, I was told that there was not much profit in taking produce for sale from the village to the marketing centre instead of disposing of it in the village itself. The difference in price in most cases may be the cost of transport. The Bihar and Orissa Banking Enquiry Committee stated: "How much the dealer can make by his ability to hold stocks may be gauged by the comparative prices of paddy in January, June and August. The prices for the last ten years were collected from the Gazettes for the five divisional headquarter towns, and an average struck. Taking the January price as 100, the June and August prices came out as follows.

	January.	June.	August.
...
...
...
...
Cuttack	100	108	109

It is obvious that, while the rate of interest on borrowed capital even for good rural parties is about 9 per cent per annum no fortunes can be made on these terms, even if warehouse charges are reduced to the barest minimum. Indeed in 1929 no profit whatever could have been made by a dealer who bought an equal quantity of paddy in January at all five centres and held for sale either in June or August. He would in fact have lost his interest as well as his warehouse charges. Yet an experienced officer of the Co-operative Department stated that there was ordinarily a difference of 25 per cent between harvest time and seed time prices, and other witnesses have put the

figure very much higher." The Committee has also added that the evidence collected by it "negatives the impression, which is frequently presented as a fact, that the producers are wholly in the hands of a dishonest and rapacious crew of middlemen, to whom they are obliged to sell their grain at ruinous prices". The past history of co-operative sale societies in Orissa does not give much hope of development in this direction. This is what the Bihar and Orissa Enquiry Committee on co-operation say: "The experience of them (the societies for the sale of members' crops) in the province has not been happy. A few sale societies have been founded, with a view to holding the produce of members for a favourable time of marketing. These have all failed and been liquidated and have resulted in serious loss to the financing agency. We see no prospect of their success, until a very pronounced advance in business education and co-operative spirit is visible, specially as there is reason to believe that the profits made by the middleman are not nearly so large as his detractors imagine. The question of co-operative marketing in this province was very carefully examined by the Provincial Banking Enquiry Committee, who expressed themselves very strongly against further experiments at present, a view with which we are in complete accord. The only exception we would make, and here again we follow that Committee is the encouragement of co-operative warehouses as part of a general scheme to improve the facilities for granting sound credit during the period of marketing".

It is true that there is some depression in prices immediately after the harvest and if the raiyat can be helped to hold up the produce for a favourable market instead of selling it at the time of the harvest itself, there may possibly be some profit; but, even here the profit may not be much after paying interest on the loan taken on the pledge of produce and meeting incidental charges; perhaps in at least two of every five years, the margin may not be sufficient to pay all the charges while even in the other years it may not be very appreciable. It is, however, worth the while to secure this benefit for the cultivator even though it may be very slight and perhaps not even commensurate with the trouble involved. I have already suggested that the loans advanced to members in societies may be collected in kind in order to ensure repayment and as this arrangement has to be adopted in most cases, it will be well to collect the produce and dispose of it to the best advantage. Credit societies in compact areas may arrange for the sale of produce jointly wherever facilities exist, and if competent men with business ability are available, a sale society may be started and bulk sale of paddy undertaken through the agency of the sale society.

As regards other kinds of produce, such as jute, cocoanut, and jaggery, I suggest that the possibilities of organised sales on a co-operative basis may be examined in the light of the results of marketing surveys, which, I am informed, the Marketing Officers have been conducting in Orissa. There may perhaps be some scope for societies for selling cocoanut or jute.

CHAPTER VII.

NON-AGRICULTURAL SOCIETIES.

89. *Urban credit societies (people's banks).*—I have stated in paragraph 22 that urban co-operative credit societies of the type of people's banks are not found in North Orissa while in South Orissa four such societies are functioning. It may be due partly to the absence of big towns in North Orissa and partly to the failure to make any serious attempts in the past to organise them at least in some select towns. It cannot be that the urban population is not indebted or is not in need of money; professional men and others engaged in miscellaneous occupations, labourers or wage earners do require small advances from time to time either for carrying on their small trade or business or for maintenance, social ceremonies or discharge of pressing debts, payment of doctors' bills, etc., and the middle classes generally borrow on the security of house property, or gold or silver, etc., and in the absence of a proper organisation of credit, the urban money-lender exercises a baneful influence over his clients. It is, therefore, necessary that some attempts should be made to organise urban co-operative credit societies more or less on the lines of those working in Madras and to provide credit facilities on reasonable terms for the poorer middle classes even as the joint-stock banks are doing for the big trader and the big merchant.

A beginning may perhaps be made to start urban credit societies in such towns as Cuttack, Puri, Sambalpur or Balasore on limited liability basis; that is to say, the liability of members will be limited to the amount of share capital subscribed by them. They may admit as members, small merchants, traders, wage earners, pleaders or other professional classes. Salary earners may perhaps be excluded; for one thing, most of the public offices have co-operative societies for the employees and apart from a community of interest, they have facilities for the recovery of loans advanced to them; for another, what the salary earners require is not so much an institution for credit which is likely to demoralise them as one for thrift which in the long run is calculated to improve their economic position. As their borrowings are generally limited to four or five times their 'owned capital' (share capital and reserve fund), the societies must be encouraged to gather in the earlier years as much of share capital as may be necessary. They may be permitted to raise funds required for their business by way of deposits from members and non-members and loans and cash credits from the Provincial Bank. They may take fixed, savings, recurring, provident and current deposits; they may institute 'chit' funds. The aim should be to make them depend mostly on local deposits; and though in the earlier years they may take loans from the Provincial Bank, such borrowing should gradually be dispensed with as they develop their own resources and tap local deposits; for, it should be remembered that one of their objects is to bring into the movement local resources which would have lain idle or been diverted

into other channels and to act as a powerful instrument of thrift and savings. The Provincial Bank may, however, in due course help the societies with cash credits to enable them to maintain fluid resources to meet depositors' claims promptly on maturity. The societies should regulate the rates of interest on deposits strictly with reference to the fluctuating money market conditions. The societies when developed would be able to popularise current account transactions amongst members and encourage modern banking practices including payment by cheques. The maximum borrowing power of the societies may be limited to four or five times their paid-up share capital and reserve fund. The maintenance of fluid resources may be insisted upon if their deposits and loans exceed Rs. 20,000.

The funds of the societies (or urban banks as they are popularly called) are derived from short-term deposits, and it is, therefore, necessary that they should confine the loans to members to short periods. The maximum limit for individual loans may be fixed in the by-laws. The security for loans may be landed or house property, personal suretyship, jewellery, fixed deposits, or insurance policies. While it is true that mortgage security provides definitely a precise property backing for a loan which a personal surety cannot hope to provide, personal suretyship cannot be neglected; on the other hand, it needs to be encouraged when members involved are the poorer urban classes, provided, however, they have enough earning power and are dependable.

90. *Credit societies for employees.*—A brief description has been given of the working of employees' societies in paragraph 23. The members of the societies are either Government servants or employees of local boards and municipalities. In some of the older societies, they borrow up to ten times the value of shares actually paid or six months' pay, whichever is less. I may here mention certain general considerations for the guidance of all concerned with the administration and management of these societies. The assets of an employee are represented more often than not by his ability to earn and the margin between his pay and his obligatory domestic expenditure represents his security for the loan he may take. But then the loan he takes is generally intended for such purposes as are imposed by social custom, that is, marriages, funerals, etc., or for meeting some extravagant expenditure; and these purposes cannot be called 'productive' in the sense that a loan for the raising of a crop can. In other words, the credit required by him is for purposes of consumption rather than of production, and when the margin of income of an employee is either low or precarious or there is a general absence of thrift and provision for the future and the temptations for borrowing from societies are great, it is easy to imagine how the members soon involve themselves in more or less perpetual indebtedness. It is generally argued that the salary-earner's income is not sufficient to enable him to meet his obligatory expenses or to practise thrift but then if a man's earnings,

with his best efforts will not stretch to cover his absolutely necessary expenditure,—he may be a proper object for charity until the grave deficiencies of the Indian wage scale can be corrected, but there is no place for him in a credit society'.

The proper object of such societies should be to control the member's credit by restricting credit as far as possible and to provide both the opportunity and the will for thrift through compulsory recurring or provident deposits or the adoption of a system of deposits for specific objects such as marriages, education, etc., and thus enable him to make provision for those eventualities of life which he can and should foresee. The by-laws should be so revised as to provide for and achieve these objects, and the societies may be renamed "Thrift and Loan Societies". What an employee or a wage-earner is in need of is thrift and the exercise of forethought to make provision ahead for the eventualities of life which sooner or later are certain to arise. If an institution goes on giving him loans, it will be simply demoralising him rather than effecting a permanent improvement in his economic position.

In the socio-economic interests of their employees, the heads of departments or offices should keep in touch with the working of these societies and give them all possible facilities such as deductions through pay-sheets, rent-free accommodation for the location of the offices of the societies, etc.

91. *Artisans' societies.*—In paragraphs 24 and 27 an account has been given of the working of the artisans' societies such as bell metal workers and weavers. Most of these societies failed and some of them caused or are likely to cause heavy losses to the central banks (of which the Puri Central Bank is the worst sufferer). My examination of their working shows that apart from inefficient business management or dishonesty, the methods of work, too, adopted were largely responsible for the failure. As may be seen from paragraph 53, it cannot be said whether detailed preliminary investigations such as the method of financing the artisans, the mode of recovery of advances made to them, or provision of adequate check over the methods so as to ensure regular repayment, etc., were decided upon before societies were started. Philanthropy and enthusiasm are certainly important in the scale of human values but they cannot be a substitute for business principles.

If in any particular area societies for artisans are proposed to be started, detailed economic investigations and comprehensive survey of the past history and the future possibilities of the enterprises need to be made and effort and time may be concentrated on such of them as offer chances of success. Organisers should bear in mind that most of the artisans have no tangible security to offer, and unless arrangements are made for the prompt manufacture and sale of the products, it will be difficult to ensure recovery of the advances made. And necessary precautions should be devised in financing these members.

The central banks cannot afford to make advances and to keep quiet. When societies are started on an experimental basis, it is far better that Government finances them.

It is stated that an impetus will be given to hand-loom industry from out of the Government of India grant and a central marketing organisation is proposed to be started for the sale of the cloth prepared by the primary weavers' societies in the province. My suggestion is that places containing large weaving communities might be taken up first and hand-loom industry organised on an intensive scale and provision made for controlled production, marketing and sale.

I have studied the question of weavers from all its aspects for a long time and the conclusion that I have arrived at is that unless legislation is undertaken to ensure that the mills shall not manufacture cloth of certain counts which are reserved for hand-loom weavers and also to prohibit the import of cloth other than of specified counts, the lot of hand-loom weavers will not improve. The hand-loom industry may not die but it will not give enough for the weaver to have a full meal.

CHAPTER VIII.

THE PROVINCIAL CO-OPERATIVE LAND MORTGAGE BANK.

92. *Rural indebtedness and the need for a mortgage credit institution.*—The Bihar and Orissa Banking Enquiry Committee (1929-30) estimated the total indebtedness of the 822,000 rural households of the coastal districts at Rs. 7 crores while the annual borrowing was put at about one-fourth of this amount. It is probable that during the last eight years which coincided with the economic depression, both the total indebtedness and the average individual indebtedness of the agriculturists would have considerably increased, and public policy and economic necessity require all resources to be mobilised to remove the dead weight of rural indebtedness. But the redemption of existing debt may not offer permanent relief to the agriculturists unless it is accompanied by a substantial reduction of interest rates because if borrowing is extremely expensive the margin for repayment of debt is gravely restricted, and an organised banking agency offering reasonably cheap money for the discharge by the landlords or raiyats of their prior debts to the *mahajans* or others is therefore essential. There is a very large number of small landholders of estates in North Orissa. Some of them are not as big as an ordinary riyat in the Government areas in South Orissa or elsewhere. The Bihar and Orissa Committee on Co-operation (1931-32) considered that there was considerable demand by this class for long-term loans. In addition, the raiyats in Government areas as well as big tenants will be benefited by land mortgage banks. And I have already stated that the Provincial Co-operative Bank, depending as it does upon short-term money, can give only short-term or intermediate loans to

societies; it cannot advance loans for such long-term purposes as redemption of mortgages, etc; because in the nature of things, the long-term loans can be repaid over a sufficiently long period extending to about twenty years and for this a separate machinery like the land mortgage bank is necessary. And it is well, therefore, that Government have taken power, by the passing of the Orissa Co operative Land Mortgage Banks Act, 1938, to help the proposed Orissa Provincial Co-operative Land Mortgage Bank. It may be necessary here to indicate briefly the constitution of the bank and the methods of its work.

Membership.—Under the scheme contemplated in the Orissa Land Mortgage Act, there will be no primary land mortgage bank but a branch of the Provincial Bank will function as the primary unit. The constitution of the Provincial Mortgage Bank will be somewhat as follows. There will be three classes of members in the bank, (1) non-borrowing members, (2) all persons who are proprietors of estates and owners of land and who reside in the area of operations of any of the branches of the Provincial Mortgage Bank and who apply for loans from it, and (3) co-sharers and other persons who are interested in the property proposed to be mortgaged to the bank and who have to join in the execution of the mortgage deeds.

Funds.—The bank will obtain funds mainly by floating debentures. It may also take deposits from the prospective debenture-holders temporarily and adjust them as soon as debentures are floated and issued.

In case of urgency, the bank may also take deposits from others which should, however, be repaid as quickly as possible out of the money raised by debentures. The bank may also borrow money from Government, preferably in the shape of a cash credit to enable it to lend to borrowers with a view to obtain mortgages upon the strength of which debentures may be floated. Government may give a cash credit loan to begin with. With the paid-up share capital and with the help of cash credit the bank can obtain mortgages and then issue debentures. Persons intending to purchase debentures may be asked to keep their money as deposits with the bank till debentures are made available. If this system succeeds, the necessity to use the cash credit loan of Government will be diminished.

There shall be a trustee and with his sanction the bank may issue debentures for a period not exceeding twenty years on the security of its general assets and the mortgages executed by the members. The total borrowings of the bank by way of debentures may not exceed at any time 25 times its paid-up share capital plus reserve fund. The debentures may not be redeemed for such period as may be fixed by the bank not exceeding ten years from the date of issue but it may also be competent to the bank to issue debentures without fixing a period of

non-redemption and reserve to itself the right to call in debentures at any time in advance of the period fixed for redemption by giving not less than three months' notice to the debenture holders. If debentures cannot be redeemed within the minimum period which may be fixed by the bank, the question of the constitution of a redemption fund would arise. Repayments made by the members may have to be invested outside the bank's business at a rate not less than that payable on debentures; if this be not possible, a depreciation reserve may have to be created to make up the deficiency.

Board of Management.—Representatives of both borrowing and non-borrowing members may sit on the board of management. The Registrar of Co-operative Societies shall *ex-officio* be a member of the board. As Government have a financial stake in the bank they should be allowed to have at least two members to be nominated by them. The nominated members shall be share-holders and for this purpose, Government may own a few shares which they can transfer to these members on their appointment.

Constitution of the branches.—The bank will operate, as already stated, through regional branches to be formed for suitable areas in the Province and they shall have a share register containing the names of all borrowing members. The area of operations of a branch may not be more than the size of a Revenue taluk of the Ganjam district. The branch will be in charge of a local committee appointed by the Board of Directors of the Bank from among members residing within the area of operations of the branch.

Great care is necessary in the organisation of the branches and the selection of the area for the starting of business in the first few years. The area should be selected after careful preliminary enquiry. Deltaic tracts where the agriculturists have an assured income and where at least one crop is certain, may be selected. I think two branches may be opened at once—one in the Rushikulya project area in Ganjam district and the other in any protected area in Cuttack district.

Loans to members.—Loans may be given to members for payment of mortgage and other debts for improvement of land or for the purchase of costly agricultural machinery, subject to a maximum of Rs. 5,000.

Secretary of the Bank.—I have suggested in paragraph 73 that a subsidy will have to be given by Government to meet the deficiency in the cost of management of the Provincial Bank. Similarly a subsidy will have to be given to the proposed Land Mortgage Bank, for it will have no funds from which it can meet its cost of management till it can earn an income on its business. As Government have to give subsidies to both the institutions and as the

transactions of both the banks will not, for sometime to come, be large enough to provide work for separate secretaries, I would suggest that a common secretary may be employed for both these institutions. This arrangement will minimise the cost and will be advantageous to Government. I have suggested that Government should take power to appoint the Secretary of the Provincial Bank from among persons with requisite qualifications; he may be put in charge of the Mortgage Bank, too. Each institution will have a separate subordinate establishment and shall have separate books of accounts. When the institutions develop sufficient business, a separate secretary may be appointed for the Land Mortgage Bank.

93. *A note of warning—need for a reorientation of outlook on the part of borrowers in the mortgage bank.*—I may here utter a note of warning. It is true that the land mortgage bank will offer cheaper money for payment of prior debts or redemption of mortgages on land and facilities of easy repayment. "Since indebtedness is not due merely to the action of the usurer, no mere change in the machinery of credit can of itself effect a radical cure. The money-lender is not the real cause of indebtedness; he may increase its burden, exacerbate and prolong its difficulties; but he is not the primary cause of it. Indebtedness, generally speaking, has a complex origin; it is due largely to national, and personal characteristics coupled with causes exterior to the individual such as laws, social customs, modes of inheritance, seasonal difficulties and the like. Hence, it is a grave error to suppose that the problem of indebtedness can be solved by the mere substitute of a new distributing agency—it is a mere dream to suppose that the peasant's difficulties will be solved as soon as cheap credit is introduced through banks; it is not removable by cheap credit or facile credit, but by the promotion, almost enforcement of thrift, providence and heedfulness in borrowing." Experience shows that with an agricultural population which is heavily in debt the sudden redemption of mortgage debt is generally attended with very grave risks. While, therefore, on the one hand no progress is possible as long as the dead weight of indebtedness remains, it is equally necessary to realise that the starting of land mortgage will not in itself solve the problem of indebtedness. What is necessary is a reorientation of mind and custom on the part of the agriculturists; otherwise no lasting benefit will accrue and the position will be equally bad in a very short time. The debtor must be prepared to make sacrifices in order to pay off his debt and to become economically better.

94. *Increased income of agriculturists necessary for payment of old debts—need for medium-size industries.*—Even with a reorientation of mind of the debtor and the sacrifices he may make, it may not be possible for him to repay his loan to the land mortgage bank with facility unless there is an augmentation of his income. I have attempted to show in Chapter III how precarious agriculture and how meagre the outturn from land in Orissa are; and one of the most serious

factors which retard progress is the almost entire and (as in Orissa) precarious dependence upon agriculture; this dependence in Orissa is accentuated by the absence of any subsidiary or major industries. If the problem of indebtedness is to be satisfactorily tackled a comprehensive agricultural and industrial policy is both urgent and essential. Steps must needs be taken to place agricultural economy on a remunerative basis and to provide adequate margin of profit to the raiyat to enable him to repay his debt. Improved agricultural methods, introduction of commercial crops, etc., may go in some way to help him; or in other words, intensification or diversification of his agriculture should be one of the aims of a comprehensive agricultural policy. Rural industries will have to be found or organised for the raiyats to keep them engaged in the off-season and to enable them to add to their income from land. I am conscious that it is not very easy to introduce cottage or subsidiary industries, though it is very freely suggested that the agriculturist may be taught weaving or other handicrafts. It is true that such industries as weaving may be taken up by the agriculturists but the extent to which this is done, the artisan classes, e.g. weavers engaged in the industry, may be affected unless restrictions are placed upon improved mill-made cloth, local or foreign. Again, things have moved far from the times when the villages were self-contained units; the impact of modern civilisation has broken up the old village economy. No ordinary cottage or subsidiary industry can thrive in the face of large-scale factory industries. The 'possibilities of improving the conditions of rural population by the establishment of rural industries are extremely limited' and 'in the nature of things they cannot, as a rule, hope for even to survive the increasing competition of organised industry'. It seems to me that unless rural industries are linked up with heavy industries on a distinct division of labour and functions as in Japan, there is no great prospect of improvement. This line of development is necessary also for diverting the surplus agricultural population. So long as these problems remain unsolved, all the credit facilities which any banking agency may provide may prove to be mere palliatives; no definite improvement in the lot of the raiyat will be possible.

95. *Constitution of a board of rural uplift suggested.*—I may here be permitted to make a suggestion. Orissa is an infant Province and if it has to formulate a comprehensive agricultural or economic policy for the betterment and prosperity of its people it has to proceed on ascertained data on which alone such policy or definite measures can be based. And co-operation is after all an integral part of a comprehensive agricultural or economic policy and in its widest phase, it is synonymous with 'agricultural organisation' or 'rural reconstruction'. It seems necessary then that detailed and exact information has to be gathered on the several aspects of agricultural and economic forces which are calculated to produce a deterioration or an improvement in the economic condition of the people. I, therefore, suggest that

a Rural Development Board or Board of Rural Uplift be constituted. Its objects may be—

- (i) to institute enquiries into specific aspects of agricultural and economic conditions of the people and gather statistics with as much accuracy and reliability as possible;
- (ii) to publish the results of enquiries for the guidance of the people;
- (iii) to formulate and recommend to Government measures of agricultural, or industrial or economic reform based on such ascertained data and to lay down a definite policy and programme involving various activities over a period of years; and
- (iv) to see that if once the policy and plan have been approved by Government, they are given effect to through the closest collaboration of the departments concerned and that a periodical review is made of the progress in the execution of the plan.

The Board will be a meeting place for officers charged with the administration of nation-building departments and leading public men (who are in greater touch with the countryside and its needs) both for discussing and formulating remedial measures and recommending them to Government. It will bring about a greater co-relation between the several nation-building departments; their working in water-tight compartments as at present is not calculated to promote economy of effort and money and to ensure a comprehensive treatment of the economic problems affecting the rural community.

96. *Supplementary measures suggested.*—The land mortgage bank alone will not bring the required relief to the agriculturists most of whom are heavily involved in debt. It needs to be supplemented, if it is to be effective, by other measures which are in the long run calculated to place agriculture as far as possible on its legs.

The agricultural depression with the concomitant fall in prices has made the position of the debtors extremely difficult, and it is admitted that the agricultural indebtedness should be adjusted to the present level of prices and some hope given to the debtors through legislative action by the State. Already steps have been and are being taken in the matter by many Governments in Europe and in India. In broad outline relief may be given to the agricultural debtors in four directions.

(1) Legislation may be undertaken to scale down debts to the present level of prices. Such State intervention may be open to question, but in the present agricultural conditions it is both inevitable and justifiable. The Madras Legislature has recently placed the Agriculturists' Debt Relief Act on the statute book and it has just come into force. During the discussions on this measure in the legislature, it was criticised severely on many grounds but the need for some urgent

measure of relief for the agriculturists was universally admitted. And a scaling down of debts with reference to present conditions is one such relief.

(2) Mere scaling down alone may not be effective unless litigation which may be incidental to it is prevented. Alongside of a Debt Relief Act provision should be made for the constitution of debt conciliation boards with powers to settle the terms of the scaled down debts. The boards should be empowered to pass awards which will be legally binding on the debtors and creditors.

(3) Money-lenders should be controlled by proper legislation and their business suitably regulated. They should be compelled to maintain proper accounts of each debtor and to send to the debtor from time to time a statement of his accounts showing the various transactions entered into during the period and also the interest of each loan advanced to him separately. The principle of 'Dandupet' should also be made applicable to money-lenders. The maximum rate of interest which can be charged by them should be prescribed and anything in excess of it made illegal. Such a measure will be useful in the interests of both the debtor and the creditor. While on one hand with his account periodically before him the debtor will be more alert to the growth of his liabilities and will have an opportunity to take stock of his position from time to time, it will on the other hand keep the money-lender's business straight and tend to make him honest in his dealings with his debtor and ensure reasonable protection to him.

(4) In the interests of the agricultural economy and the small holders who constitute the back-bone of the country, it is necessary that provision should be made in any scheme of debt legislation for saving for the debtor his homestead and a portion of his agricultural holding for the subsistence of himself and of his family; this minimum holding should be unattachable in any legal proceedings that may be taken against the debtor by his creditors. At the same time it is necessary that his homestead and the minimum agricultural holding should be made free from subsequent alienation for any debts he may possibly contract; else, the effect of the protection to be given to him by way of non-attachment, etc., will be lost.

The present Government in Orissa have already under contemplation some measures of debt relief, and I make these suggestions for their consideration in shaping the legislation.

CHAPTER IX.

AUDIT, SUPERVISION, INSPECTION AND EDUCATION AND TRAINING.

97. *Suggestions made for an improved and efficient system of audit.*—The method of audit of the accounts of co-operative societies now in vogue in the province has been described in paragraph 34. The accounts of a primary society in North Orissa are audited once

a year and those of a society in South Orissa twice a year. In South Orissa the Registrar issues an audit certificate and determines the net profit available for distribution in accordance with the by-laws. In North Orissa, however, the theory is that the society determines the net profit and the auditor checks it. The auditor leaves with the society a copy of the audit note prepared by him and it proceeds to distribute the net profit after its correctness has been tested by the auditor. According to the method adopted in North Orissa, the audit of a society may possibly be postponed for one full year after the close of the previous co-operative year; a society audited in July 1937 may, according to the existing practice, be next audited in June 1939. Again, a society audited in June 1938 may be audited in October 1938. It is not that societies are so audited at such long or too short intervals but this is quite possible. In any case, the audit is delayed for one full year. According to the South Orissa system the audit requires to be done within six months from the expiry of the year for which the audit is due. It seems to me that the audit cannot be postponed for a period of twelve months. The South Orissa system is better, and I would, therefore, suggest that the statutory audit of all societies in Orissa be completed within six months after the close of each year. That is to say, the final audit of accounts of societies will be done from July to December and the remaining six months will be utilised for the interim audit of accounts as in South Orissa. This will ensure both promptness and efficiency.

Section 33 (3) of the Bihar and Orissa Co-operative Societies Act (1935) lays down: "The audit under sub-section (1) shall be conducted according to the rules, and shall include an examination of overdue debts, if any, the verification of cash balance and securities and a valuation of the assets and liabilities of the society." The Act thus requires a *valuation of the assets and liabilities*. This is not at present done; what obtains now is a mere examination of books of accounts. In practice, this valuation means, whether every outstanding loan in a society is covered by some security or other viz., sureties or immovable properties. There is, however, at present no detailed enquiry as to the adequacy or otherwise of the security for the loans. As the verification and valuation of loans is an important duty of the auditor, adequate arrangements should be made to ensure that this work is satisfactorily done. It is not enough if he merely makes some sort of haphazard enquiry at the time of the final audit into the adequacy or otherwise of the security for the loans. In fact, he may not then find enough time for this work. Further, he should also examine the normal credits fixed for each member in order to be able at the time of the final audit of the society to ascertain and judge properly the financial position of the borrowers. I suggest that the auditor's work be divided into two parts to be attended to by him in two visits. At the time of the interim audit of accounts of societies (January to June), the auditor should examine the normal

credits fixed for members (vide paragraph 85). He should examine the relevant registers maintained for the fixing of normal credits, make independent enquiries as to whether the particulars obtained and utilised as the data for determining the credit limits are correct, whether the limits fixed do not exceed the repaying capacity of members and whether the loans can reasonably be recovered within the time fixed. A scrutiny of this kind by an independent agency will disclose with what degree of soundness or thoroughness the bank inspectors have carried out their important duties in this regard and may possibly act as a moral check on their work. Further, if normal credits are properly ascertained by auditors each year, the adequacy of the security for each outstanding loan at the end of the year can be easily ascertained without elaborate enquiry at the time of the final audit. During this audit, the auditor will ascertain the adequacy or otherwise of the security for the outstanding loans—whether mortgaged properties, if any, are really worth the estimated value and the sureties are worth their undertaking. Audit should thus be done twice a year—the interim audit from January to June involving the mechanical checking of accounts and such other financial matters as may be necessary up to the date of visit and a detailed checking of individual normal credits and the final audit from July to December involving an examination of the adequacy or otherwise of the security of each outstanding loan, the closing of accounts and the preparation of the balance sheet and profit and loss statements. If this important work is to be done systematically and efficiently, the present audit staff in North Orissa will not be sufficient. In Madras an auditor is given 60 societies for audit but the size of Madras societies is bigger than that in Orissa. I suggest, therefore, that the number be fixed at 70 for an auditor; the present number of 60 societies per auditor may continue in South Orissa. At this rate 40 junior inspectors will be required for the audit of all primary societies in the province as against the present audit staff of 33 junior inspectors.

This proposal involves a little extra expenditure but I feel that Government should not grudge incurring this cost in the interests of thorough and efficient audit including a correct valuation of the assets and liabilities of societies. If this system of examining each loan as suggested above were in vogue there would have been no difficulty in ascertaining the exact financial position of each of the central banks at any time about which there is so much uncertainty now. The law imposes the responsibility for audit on Government and this cannot satisfactorily be discharged without an adequate staff. The abolition of the two posts of Sub-Assistant Registrars as suggested below will, however, result in some saving to Government in due course.

The senior inspectors will, as hitherto, continue to audit the accounts of central banks, important limited liability societies and

non-credit societies. The accounts of the proposed Provincial Land Mortgage Bank and the Provincial Co-operative Bank may also be audited by an experienced senior inspector. As has been stated in paragraph 34, the senior inspectors conduct the two-monthly audit while the Sub-Assistant Registrars do the final audit of the central banks. This division of work and of responsibility is not conducive to efficiency and an early opportunity may be taken to absorb the present two Sub-Assistant Registrars and to abolish the posts thereafter.

The audit staff in North Orissa received some training in audit and that in South Orissa holds the Madras Government diploma in co-operation, auditing, banking and book-keeping. It seems to me that the staff in North Orissa also should similarly qualify themselves. There should be periodical refresher classes for the auditors and their knowledge should be kept up to date by making available to them up-to-date literature and encouraging discussions on important topics of the subject at the refresher course.

A prominent witness who appeared before me suggested that the audit of societies should be done by the Comptroller, Orissa. The Co-operative Societies Act requires that the audit of societies should be much more than commercial or Government audit. An officer who is in actual touch with the administrative problems of co-operative societies alone would be a better auditor than an outsider. I do not, therefore, agree with the view expressed by the witness.

98. *Need for a reduction in the scale of audit fees.*—The scale of audit fees fixed by the Bihar and Orissa Federation is still in force in North Orissa. The scale is as follows:—

- (1) central co-operative banks: Re. 0-2-6 per cent on the working capital for the audit of their own accounts and Re. 0-2-0 per cent on the working capital for the audit of affiliated societies;
- (2) agricultural societies: Re. 0-6-0 per cent on their working capital; and
- (3) non-agricultural societies: Re. 0-4-0 percent on their working capital.

Societies which are less than two years old are exempted from payment of audit fees. Working capital for the purpose of audit fee is defined as the total of the assets side of the balance sheet minus loss (if any) and dues from liquidated societies.

In South Orissa all agricultural credit societies with unlimited liability are exempt from payment of audit fees. Other credit societies whose working capital on the last day of the co-operative

year does not amount to Rs. 20,000 are also exempt from the levy. The central banks have to pay audit fees at the following rates:—

Up to Rs. 5 lakhs	As. 12	per thousand rupees of working capital.
Over Rs. 5 lakhs up to Rs. 15 lakhs.	As. 6	„
Over Rs. 15 lakhs to Rs. 30 lakhs.	As. 3	„
Over Rs. 30 lakhs	As. 2	„

Working capital for the purpose of levy of audit fees includes—

- (a) paid up share capital,
- (b) deposits or loans from individuals and institutions,
- (c) deposits or loans from other co-operative societies,
- (d) loans from Government,
- (e) reserve fund.

The scale of fees in North Orissa is indeed far higher than that in South Orissa, and the following statement is illustrative of the position in respect of the fees leviable on the South and on the North Orissa basis:—

	South Orissa scale.	North Orissa Scale.
Working capital of a central bank.	Rs. 3.79 lakhs	Rs. 4.40 lakhs.
Audit fee payable	Rs. 284	Rs. 1,238.

Representations have been very frequently made that the fees levied in North and South Orissa are very high and that they should be considerably reduced. There has been an agitation in Madras for some years to get the present rate reduced. The main justification for a reduction lies in the fact that the audit by a private certified auditor is cheaper. The question of reduction in Madras is now under consideration of Government. The North Orissa rates are much higher than the rates obtaining elsewhere in India. The rates both in North and South Orissa will have to be reduced so as to be more or less on a level with the market rates. It may be that in Orissa, there may not be many private auditors; this cannot, however, be a reason for keeping the rate high beyond the

capacity of societies to pay. Under the present conditions when societies and central banks which finance them are likely to suffer losses, it is impossible for them to pay audit fees. Government must, therefore, waive the fees during the period of reconstruction. I recommend that the audit be made free for a period of five years for the present, and thereafter the position may be reviewed, and if the circumstances justify, a fee equal to about 50 per cent of the present Madras rate may be imposed. Agricultural credit societies with unlimited liability may be altogether exempted, as in Madras, from the payment of auditfees.

99. *Need for uniformity in audit methods and for the revision of books of accounts, etc., and framing of forms.*—There is at present no uniformity in the method of the maintenance of accounts and registers by societies in North and South Orissa; each is having separate sets of accounts and books. My suggestion regarding the arrangements to be made for the interim audit of societies in North Orissa, requires the framing of suitable interim audit report forms in which not only the results of mechanical audit but those of the examination of normal credits, etc., will have to be noted. The reconstruction of societies including the examination of all outstanding individual loans in societies on the lines already indicated requires, too, the framing of suitable forms immediately so as to gather all statistical information in a convenient shape to facilitate further action. I suggest that the Registrar may be requested to undertake at once the revision of the existing forms, account books and the framing of new forms, etc., in the light of the suggestions made.

At present there is no set form in which the results of audit of central banks are noted. I understand that certain printed forms were in vogue some years ago; but they were subsequently abandoned as it was considered that they would make audit mechanical. While this may be true to some extent, it is equally possible that when discretion is given to auditors, they may emphasise on points which are not worth the trouble and omit others which, in the opinion of the banks or the Registrar, are worth knowing. Auditors may be found fault with for errors both of commission and omission. Further, there is possibly likely to be no uniformity in the audit done by one auditor and another. I, therefore, suggest that a suitable audit report form for central banks be framed and supplied to auditors. This will not, however, prevent auditors from making notes on such points in the working and administration of the banks as, in their opinion, require the notice of the Registrar and of the banks. The Assistant Registrars at present conduct half-yearly inspection of central banks and write elaborate notes in a narrative form. It seems desirable that the inspection is systematised and a suitable form for such inspection framed.

In the framing or the revising of audit report forms, it will ensure clearness of treatment and exposition if the reports are split

up into two parts—the first part dealing with routine matters and mistakes in accounts, etc., and the second part dealing with the financial aspects, soundness of investments, bad and doubtful debts, management, etc.

It should be impressed upon auditors that their business is not to find fault with societies and banks and criticise their administration; it is rather to advise, guide and help them in the proper methods of account keeping and business management; and all their efforts should be directed towards this end.

100. *Supervision*.—Supervision of societies through guarantee unions has failed for reasons stated in paragraph 83 and the only agency through which it has been carried on by the central banks is the staff of inspecting clerks. This has not been found efficient. I am doubtful whether some changes alone in the methods of supervision will yield better results. Efficiency of supervision can be ensured only by securing and putting in the right sort of men in charge of the work. The agency that undertakes supervision is of subsidiary importance and does not much matter. "It is impossible to devise any system," the Bihar and Orissa Committee on Co-operation has stated, "which will be free from all objections, or which will fully meet all criticisms that may be brought to bear upon it".

I do not advocate, under present conditions, any change in the methods of supervision. Under the arrangements suggested by me the central banks will be under the management of the agents of the Provincial Bank, who will have under them a staff of bank inspectors. It will be the duty of these inspectors not only to attend to the work of reconstruction and recommendation of loans etc., but also to supervise the societies, instruct them in their duties and responsibilities so that eventually the societies may themselves assume the responsibility for the administration of their affairs. The agents of the Provincial Bank will regularly examine, direct and control the work of the bank inspectors until a need is felt for separate executive officers. The executive officers, when appointed, will guide the supervisors and control their work. The executive officers will work directly under the orders of the *ex-officio* secretaries of the banks.

101. *Inspection*.—The Assistant Registrars should in future confine themselves only to the inspection of societies; they should neither interfere with the work of the bank inspectors and their controlling officers, nor issue orders directly to societies or bank inspectors. Their duty should be to make exhaustive inspection of societies and to send copies of their notes to the Provincial Bank and the *ex-officio* secretaries of the central banks. They may frankly criticise methods of work, point out defects in administration or management and suggest lines of improvement and reform. The

Provincial Bank will consider the notes carefully and issue necessary instructions to their agents to give effect to such advice or suggestions as it may deem fit. When the bank differs from the officers on any of the very important suggestions, it may discuss the matter fully with them in order to arrive at the greatest common measure of agreement. Dual control will not be satisfactory, and I, therefore, suggest that all advice should flow through only one channel. The directors and officers of the Provincial Bank and the *ex-officio* secretaries of the central banks may, whenever necessary, also inspect societies and send copies of their notes of inspection to the Provincial Bank for necessary action. Rectification of defects should always be done through the bank inspectors, and failure to rectify them should be taken serious notice of and suitably dealt with by the Provincial Bank.

102. *Education and Training.*—During my tours in the Province I was very much struck with the lack of knowledge or appreciation of even the elementary principles and practice of co-operation and banking on the part of workers in the movement generally. It is superfluous to emphasise the great need for co-operative education and training of all official and non-official workers as well as the office-bearers and members of societies not only for the removing of the existing defects in the movement but for ensuring its better working in the future. The arrangements for this purpose should provide for—

- (i) education of members and *panches* of societies;
- (ii) training of bank inspectors proposed for employment under the Provincial Bank (and group clerks of societies, if appointed); and
- (iii) training of official staff.

Unless a sustained effort is made to instruct the individual members of village societies in their duties and responsibilities and to help them to understand what co-operation stands for and what it can achieve and cannot achieve, no amount of training of other workers will be of any help in keeping the movement vigorous and healthy. It is, therefore, necessary to devise some satisfactory arrangement alongside of the reconstruction of the movement, for imparting instruction to members and *panches* of primary societies. Secondly, the bank inspectors to be appointed under the proposals also require practical instruction in reconstruction work, in the preparation of normal credits and in the fixing of repaying capacity of members and the preparation of new loan applications. In addition to any theoretical instruction that may be given, it is necessary that they should be given practical training in societies in these items of work. Further, some provision shall have to be made for recruiting suitable men for

training as bank inspectors for the future needs. Thirdly, arrangements need also to be made for the theoretical and practical training of departmental inspectors.

The departmental and bank inspectors should be given training not only in co-operation and banking, but in book-keeping and auditing; and they should pass tests in these subjects at the conclusion of their training. The period of training for departmental inspectors may extend for at least twelve months and for the bank inspectors for at least six months.

I am informed that under the Government of India subvention scheme for co-operative education, the Government of Orissa may get about Rs. 50,000 for its share, and a comprehensive scheme extending to a period of five years, has been under consideration of the Provincial and Central Governments. I notice that part I of the scheme provides for—

- (i) (a) refresher courses for senior and junior inspectors (including auditors);
- (b) central bank managers and administrative officers;
- (c) other staff of central and urban banks;
- (ii) training of junior inspectors to be appointed under the reorganisation scheme and candidates for employment in central and urban banks; and
- (iii) training of junior inspectors, who, in their turn, will educate secretaries, office-bearers and members of rural societies.

Part II of the scheme comprises the education of members and *panches* of rural societies and superintendence of the above work. The scheme should be modified more or less on the Madras model so far as the training of junior and bank inspectors is concerned. If the funds at the disposal of Government are, however, not sufficient the period of training may be cut short to some extent. I would lay emphasis on the point that practical training in the work of societies for a sufficiently long period is essential.

In paragraph 86, I have suggested the need for appointing two propaganda officers in connection with the formation of new societies in untapped areas. I attach great importance to this aspect of the future programme of work in the Province. If the work is to prove successful, really able and competent officers are necessary for proceeding with the organisation of fresh societies on the lines indicated. They should be at least of the grade of senior inspectors. If the appointment of these two officers can be fitted into this scheme of co-operative education and training, it will indeed be economical. If this is not, for any reason, possible the proposal should be considered independently of this scheme.

CHAPTER X.

ARBITRATION, EXECUTION AND LIQUIDATION.

103. *Arbitration.*—In paragraph 35 the procedure in regard to the disposal of arbitration references has been described. Complaints were made by some of the witnesses about the delay in the disposal of arbitration references. This is mainly due to the fact that under the present arrangements the Assistant Registrars alone dispose of them. These officers have vast jurisdiction, and it is impossible for them to attend to the work promptly. I would suggest that, wherever possible, the services of honorary gentlemen such as pleaders, retired Government servants or other qualified men with leisure may be utilised for the purpose. A list of suitable men from different centres may be prepared and maintained for each of the circles of the Assistant Registrars and arbitration references received may be transferred for enquiry and disposal within a prescribed time to such of the arbitrators as are nearer the headquarters of the societies concerned. The honorary arbitrators may be given some allowance for their journeys.

At present, notices or summonses are served on the defaulters through the peons of the central banks and almost always the party concerned being absent, by reason of the long distances between the headquarters of the Assistant Registrar and the societies, the disputes are decided *ex parte*. I do not consider the practice quite satisfactory. All opportunities should be given to the parties affected to state their case fully. The summons may be got served by the honorary arbitrators through the bank inspectors or group clerks and care should be taken as far as possible to see that the summons has been properly served. When parties fail to appear in person in the first instance summons may be issued a second time through post. Definite rules as to the mode of service may be framed under the Act as in Madras. The arbitrators should hear the parties invariably at the headquarters of the societies themselves. The Assistant Registrar or the arbitrators deciding the dispute shall record in English or vernacular a brief note of the evidence of the parties and of witnesses who attend, read it out and translate it to them, if necessary, and take their signatures in token of their acceptance of the same. Upon evidence so recorded and after the consideration of any documentary evidence produced by the parties, a decision or award as the case may be, should be given setting out the reasons for it. A decree shall also be issued in conformity with the judgment and a copy of the decree given to the plaintiff free of cost. Intimation regarding the disposal of the case should be sent to the defendant also forthwith. It seems better to simplify the present elaborate procedure in regard to the issue of mortgage decrees. There is no need for the issue of a preliminary award and a final decree; a final decree may be given even in the first instance, discretion being given to the society to execute it immediately or to postpone execution on its

being satisfied with the earnestness of the defaulter to arrange to repay his debt. Any legal difficulty can be got over by framing a suitable rule under the Act.

I may also refer here to the opinion held on the question as to whether subsequent mortgagees who are not members of societies cannot be made parties in award proceedings. The officers of the department have been holding the view that such subsequent mortgagees can be made parties. A subsequent mortgagee is, it is contended, "a person claiming through a member" and therefore comes within the jurisdiction of the Registrar, and the claim of the society against the mortgagor member and the mortgagee's right to redeem the property or his claim to the property can be construed as a dispute. In Madras a contrary view is held and in such cases resort is had to civil courts for obtaining decrees. I suggest that authoritative legal opinion be obtained and the matter put beyond all doubt.

104. *Execution*.—It has already been stated that the societies have not taken any great advantage of the provision in the Bihar and Orissa Co-operative Societies Act for the recovery of their arrears as a public demand or as an arrear of land revenue, because they have to pay *ad valorem* court-fees which are very high. I learn that recently Bihar and Orissa Government, on the representation of the Registrar, exempted from the pre-payment of *ad valorem* fee, certificates issued under the Bihar and Orissa Co-operative Societies Act, 1935, on the condition that the court-fees will be the first charge on any sum realised in cash; the court fee payable on a requisition for a certificate under a liquidator's order on an award is a court-fee of twelve annas and not as at present an *ad valorem* court-fee. I suggest that Government may accord a similar treatment to societies in Orissa. The case for such exemption from *ad valorem* fees is based on the fact that the Revenue Courts are not required to adjudicate on the claims and that Government had already foregone the right to the fees by placing them on the same footing as civil court decrees. There is force in this claim.

Even with this exemption, I do not think that there will be quicker disposal of decrees filed in the Revenue Courts. A general complaint made is about the great delay in execution proceedings. I have received overwhelming evidence in favour of entrusting the execution of awards and decrees to a special staff of officers appointed under the Co-operative Department as in Madras. Such an arrangement may indeed result in the quicker disposal of decrees and stimulate the recovery of overdues. I, therefore, suggest that a special staff be entertained for this purpose as an experimental measure for the execution of decrees through the distraint and sale of movable and immovable property. The cost of the special staff may be recovered from the fee to be levied for this purpose on a scale to be fixed. The fees will of course ultimately be a charge upon the defaulter.

The Co-operative Societies Act which governs the North Orissa societies may be suitably amended for this purpose. The 'sale officers' (as the special staff is styled in Madras) may be of the grade of junior inspectors and to begin with, two such officers may be appointed for each of the Assistant Registrars' circles in North Orissa. The existing arrangements for the execution of decrees in South Orissa may be continued.

I suggest also, for consideration, the introduction of a provision in the Act giving power to the Provincial Bank or the central bank to direct the *panches* of societies to take arbitration or execution proceedings against defaulters and if the *panches* neglect or fail to do so, the bank itself may take such action. A section of this kind may perhaps be useful as providing for some reserve power and may exercise wholesome influence on societies; this in conjunction with special staff just suggested will improve the machinery for collection.

105. *Liquidation*.—Paragraph 35 of the report deals with the present procedure in regard to liquidation. In North Orissa the affairs of a society are first wound up and when the assets are collected and liabilities paid off, its registration is cancelled; in South Orissa, however, the registration of a society is first cancelled and the collection of assets and the payment of liabilities are attended to subsequently. It is better to have one procedure for the whole Province. I suggest that the North Orissa procedure may be adopted.

The directors of central banks were originally appointed liquidators but as most of them were generally pleaders or busy men they could not give adequate time and attention to the rather troublesome work involved in liquidation proceedings. The managers of central banks are now invariably appointed liquidators but there is a general dissatisfaction with this arrangement. Some of the managers' time is given to liquidation work and his proper duties are not promptly attended to. Liquidation proceedings drag on unduly long. I am informed that Government was approached for the appointment of a subordinate staff to facilitate liquidation work. In Madras the District Co-operative Officers are appointed liquidators of all societies in their jurisdiction and they are assisted by a staff of liquidation inspectors. A fee is levied to cover as far as possible the cost of the staff. My personal opinion is that the results under this arrangement, too, are not satisfactory. I prefer the appointment of central banks as liquidators whenever they are the sole creditors. I would, however, refrain for the present from pressing this for adoption in Orissa as there is a general opinion in the Province that the present arrangement has failed. The Madras arrangement may be followed for the present and the staff of liquidation inspectors requested for may be sanctioned and the results watched. If after a period of three years the proposed arrangement is found to be unsatisfactory, the question of appointing the Provincial Bank or the central banks as *ex-officio* liquidators with necessary Government assistance may be considered.

I find that the rate of interest charged on contribution orders is too high. Under present conditions I suggest that it should not in any case exceed 7½ per cent; all collections should first be appropriated for the payment of principal and surplus, if any, may be utilised at the end for payment of interest. In the event of the appointment of the liquidation inspectors, 5 per cent of the total collections from liquidated societies may be recovered towards the cost of this staff; this should indeed be the first charge on collections. It is not suggested that this would cover the entire cost; it may perhaps never cover it. Contribution orders of liquidators may be executed in the same manner as decrees of societies through the special staff of 'sale officers' recommended.

Liquidation should not be resorted to unless all methods of rectification and correction have been exhausted. It is only when there is absolute need for enforcement of unlimited liability, there should be recourse to liquidation.

CHAPTER XI.

LEGISLATION: ACT, RULES AND BY-LAWS.

106. *Need for a common Provincial Co-operative Act.*—Under the existing arrangements, the co-operative societies in North Orissa are governed by the Bihar and Orissa Co-operative Societies Act, 1935, while the working of societies in South Orissa is regulated by the Madras Co-operative Societies Act, 1932. There is a general consensus of opinion among non-official co-operators and departmental officers in favour of a common Act for the whole Province. I, therefore, suggest that Government may soon take up the question of framing a suitable Co-operative Societies Act for the Province.

107. *Fundamental principles of co-operative legislation stated.*—A comparative study of the Madras and the Bihar and Orissa Co-operative Acts will disclose that the latter Act is in some respects very drastic and vests large powers in the Registrar. It should be borne in mind that the movement is essentially a non-official movement, and whatever may be the present difficulties which the movement in North Orissa is experiencing, the fundamental principle cannot be lost sight of. If the movement is to grow on sound lines the people on whom devolves the responsibility for the management of co-operative institutions should be educated in the proper discharge of their duties. Any arbitrary power vested in the Registrar or his assistants may possibly deter people from freely entering the movement and shouldering the responsibilities and may not be calculated to foster the natural growth of the movement. It is equally necessary to provide for minimum official interference, under necessary safeguards, in cases of definite mis-management or abuse of power by office-bearers in charge of societies. It is true that the members or office-bearers of societies have not evinced, as already stated,

a high sense of responsibility in the management of the institutions entrusted to them but that sense cannot be developed by giving the Registrar or his assistants large arbitrary powers. These general principles may be kept in view in undertaking the suggested legislation.

108. *Some important changes in the proposed legislation indicated.*— I may now briefly indicate some of the changes I would like to see effected in any common Act that may be framed for regulating the working of the co-operative societies in the Province.

Section 24-A of the Bihar and Orissa Co-operative Societies Act giving the Registrar power to sanction a compromise between registered society and its creditors was put in, as I have pointed out, in an atmosphere of panic when the central banks failed to repay matured deposits. I do not think that it is desirable that it should stand in its present form; it may be so amended as to make it apply to a registered society only when its board of management has been superseded for its inability to pay its creditors as provided for in section 41.

Section 26 of the same Act vesting power in the Registrar to direct an amendment of the by-laws of a registered society violates all co-operative principles and is too drastic. It is true that the by-laws should conform to the provisions of the Act and the rules framed thereunder but the by-laws should be adopted by the members of their own free will. It should not be forgotten that a co-operative society is a voluntary association which can be dissolved at any time at the pleasure of its members and if they are not for any reform no one should compel them. If in the opinion of the Registrar, however, a by-law requires an amendment and failure to do it is likely to endanger the financial position of the society or to prejudice the interests of a large number of members, the remedy lies in the dis-registration of the society. The Registrar cannot force an amendment upon an unwilling society. If a particular amendment is to apply to certain types or classes of societies, it can as well take the form of a statutory rule under the Act which will hold good in the case of such societies even without a formal amendment of their by-laws. I cannot conceive for what reasons a provision like section 26 was found necessary. In any case this needs to be deleted from the Act.

Section 40.—It is necessary that power should vest with the Registrar to surcharge an officer of a society to recover losses caused under certain circumstances but there should be safeguards to prevent an abuse of such power.

The Madras Act rightly provides for an appeal to the civil court. I suggest that the appeal provided for under section 40 on an order of surcharge by the Registrar may lie either to local Government or to the civil court having jurisdiction over the area in which the headquarters of the society are situated.

Section 41.—A distinction needs to be made between the supersession of the managing committee of an ordinary primary society and a financing bank. The committee of a central bank should not ordinarily be superseded; supersession may be resorted to only when a bank has failed to meet its obligations to its creditors. The provision in section 41 of the Bihar and Orissa Act for the re-election by the society of a fresh managing committee when the previous managing committee is superseded needs also to be modified. The amendment of this section may be in the manner already indicated in paragraph 63.

Section 61.—The provision for compulsory affiliation of registered societies to a co-operative federation does not seem necessary and it may, therefore, be deleted.

I have already suggested that powers be taken under the Act for the execution of decrees or awards obtained by the societies through the staff of the Co-operative Department. Provision may be made to carry out this suggestion, if accepted. In view of my proposal that the central banks should have power to direct the *panchcs* of societies to take arbitration or execution proceedings against defaulters, I suggest that a section more or less on the following lines may be put in: "A financing bank may direct the committee of a registered society to take action against the defaulters for the recovery of sums which they owe to it and if the committee neglects or fails to do so the financing bank may take such action.

"Where such action is taken by the financing bank, the provisions of the Act and of any rules made thereunder or by-laws of the society shall apply in respect thereto as if all references to the society or its committee in the said provisions or references were references to the financing bank".

I learn that no rules have yet been framed under the Bihar and Orissa Co-operative Societies Act. The rules framed under India Act II of 1912 are still in force. As soon as a common Act has been passed, the question of framing rules under it may be taken up.

109. *Need for revision of by-laws, etc.—Deputation of a special officer suggested.*—I notice that the by-laws of different classes of societies require considerable improvement and alteration. It does not appear that they have been revised after the passing of the Bihar and Orissa Co-operative Societies Act so as to bring them into line with the provisions of the Act. For instance, I have already indicated in dealing with the distribution of profits of societies that the by-laws offend the provisions of the Act. Again, most of the suggestions I have made regarding the management of central banks in the transition period and the reconstruction of primary credit societies require to be incorporated by suitably amending the by-laws. Furthermore, I have also suggested the framing of suitable forms for fixation of normal credits of members, loan applications, audit notes etc. All this should engage the immediate attention of the department, and as the work involved is heavy, I suggest that an officer be put on special duty temporarily for this purpose.

CHAPTER XII.

REORGANISATION OF THE CO-OPERATIVE DEPARTMENT.

110. *Need for reorganisation of the Department.*—In paragraph 36, I have given the composition of the present staff of the Co-operative Department for the official control of the movement (including the audit of societies). In the course of the report, I have made suggestions which involve an addition to, or changes in, the existing strength. Further, for reasons which I give below, there is need for reorganisation of the department.

111. *Registrar.*—The present condition of the movement in Orissa and the problems which are pressing themselves for immediate solution call for a whole-time Registrar in charge of the department. I suggest, therefore, that steps be taken for the appointment of a suitable Provincial Civil Service Officer as the Registrar of Co-operative Societies. The present dual control of the movement both by the Registrar of Co-operative Societies, Bihar and Orissa, and the Director of Development, Cuttack, is not conducive to efficient administration.

Experience all over India has shown that the person selected as Registrar should be fully qualified. I may here refer to the observations of the Maclagan Committee on the qualifications required for, and the duties to be performed by, the Registrar. The Committee stated: "He (the Registrar) must be continually studying co-operative literature, which is now most extensive; he must make himself acquainted with economic conditions and practices both throughout India and in his own province; he must know the principles and methods of joint-stock banking; and must examine the systems of developing thrift and inculcating co-operation which have been tried in other countries. He is also head of a teaching establishment and must devise effective means of impressing a real knowledge of co-operation on the bulk of the population. He has further to control a large staff and to draft model by-laws and rules, to collect statistics and write reports, to advise Government on various subjects, and to keep in close touch with the higher finance of the movement as managed by provincial banks and central banks". The Royal Commission on Agriculture in India, too, has commended the views of the Committee and has observed: "To the list of qualifications laid down by the Committee we would now add others, for the modern Registrar must be fully abreast of the activities of all departments working for the improvement of rural conditions; he must see that there is a sound foundation of better business to support the superstructure of Better Living and Better Farming; the more efficient the movement, the more will other departments make use of it to promote their own special activities. If our view is accepted, that the experts of other departments will find in a widespread and efficient co-operative movement, the one agency enabling them to reach the mass of the rural population; the Registrar of the future will need be very carefully selected".

They further add: "Administrative experience, knowledge of the people and their economic conditions and ability to enlist the co-operation of honorary workers are essential qualifications. The Registrar, once appointed and proved efficient, should not be transferred from the post until the full benefit of continuity of policy has been assured". In addition to the qualifications mentioned, he must possess, before he is asked to take upon himself his duties, a thorough knowledge of other activities which can be co-operatively organised such as small-sized industries, purchase and sale, etc.

I, therefore, recommend that a capable Provincial Civil Service Officer be selected as the Registrar with due regard to the necessary qualifications. He may be given practical training in joint stock and co-operative banking for at least one year before he is placed in charge of the department. Whenever possible, he might be permitted to visit other parts of India and European countries to study co-operation. Under normal circumstances he should not be disturbed for at least a period of five years; if necessary, he may be kept longer.

The appointment should also be open to the really best of the gazetted officers of the Co-operative Department (Assistant Registrars) who will, under my proposals, constitute a closed service. If Government accept this proposal, the need for the present post of Deputy Registrar will disappear, and the post may, therefore, be abolished.

112. *Appointment of Financial Adviser suggested.*—From what I have seen and heard of the working of the department I feel convinced that there is need for the appointment of a Financial Adviser to the Registrar to advise him on broad financial and banking matters. Co-operative banking and finance is getting more and more specialised and cannot thrive in isolation. If financial considerations stand in the way, at least part-time services of a banking expert may be made available to the Registrar.

113. *Constitution of an Advisory Board indicated.*—In the past Registrars generally laid down policies independently of expert and non-official co-operative opinion. When there is to be a departure from an accepted policy or a new policy has to be laid down, it is always advisable and expedient to consult all interests concerned and decide upon it. I may, for instance, refer here to the Registrar's circular about the revision of *kists* issued in February 1927. This was based upon a resolution of a conference of the Registrar with his Assistant Registrars. From what I could see, the central banks were not apparently consulted before the revision was decided upon; nor was Government consulted or informed about it. This is undoubtedly a matter in which the central banks were intimately concerned as the revision involved long-term financial commitments on their part, and most probably such consultation with the representatives of the central banks could have modified the Registrar's policy in this particular. It has also been already made clear that while one Registrar suggested

wholesale revision of *kists* and claimed credit for satisfactory collections in societies in 1927—which he attributed to “our endeavours”—his successor held in his administration report for the year 1930 that the figures given for collections in the past and particularly those for the last few years are not at all reliable on account of the fact that many indulged in wholesale revisions of *kists* and treated the amount covered by these revisions as a reduction of the demands. By this method they were able to wipe out their arrears on paper and showed a higher percentage of realisation than they could really claim”. I feel that a stage has come when from all points of view, it will be well that in all matters of major policy the Registrar should consult non-official opinion and Government. For this purpose, therefore, I suggest that Government may appoint an advisory committee or board consisting of the Registrar and leading co-operators and bankers for periodical discussion on all important matters of policy.

114. *Assistant Registrars: Closed service of gazetted officers recommended.*—There is a large body of opinion—official and non-official—in favour of Co-operative Department being made self-contained and of the creation of a closed service of gazetted officers. I am aware of the objections advanced by the Bihar and Orissa Committee on Co-operation (1931-32) against a closed service. I, however, venture to differ from that committee. In Madras the department is self-contained. In the past gazetted officers were taken from the Revenue Department as is now the case in Orissa. But this arrangement was abandoned about a decade ago. One of the reasons urged by the Bihar and Orissa Committee against the creation of a closed service is the “difficulty of providing for officers who by reason of age or infirmity were unable to tour constantly”. This would apply equally to the Revenue Department from which the Assistant Registrars are at present taken; this would apply also to other departments such as the Public Works Department, the Excise, the Police, in fact to every department in which the officers have to do executive duty. Further, the experience which the officers acquire during their service in the Co-operative Department will all be lost to the department as soon as official exigencies take them away from it. However good and experienced an officer may be, he requires at least one year's training in the Co-operative Department before he can assume charge of an Assistant Registrar's circle, and after training he may serve the department for about three years. He will all the while be looking to his prospects in the Revenue Department which, human as he is, he cannot surely sacrifice. I feel that a co-operative officer should in the nature of things be a specialist and it is no good making the department a refuge for officers for a while and taking them away at a time when they might be expected to be useful to the people and the movement. Further, when every other department of the Provincial Government is generally self-contained, there is no reason why this department alone should be differently treated. Even the Bihar and Orissa Committee on Co-operation had foreseen the organisation of

a self-contained Co-operative Department; for, it has admitted that "possibly these objections to a close service may, as the specialisation required by the officers employed in it increases, cease to have the weight we attach to them now". As I have stated, there is a large body of opinion, official and non-official, in favour of such service. For these reasons, therefore, I recommend a closed service of gazetted officers. I would only add that picked men with requisite qualifications must be appointed for the gazetted service.

If this suggestion be accepted, there need be no recruitment for the posts of Assistant Registrars from the Revenue Department in the future. They might be promoted from amongst competent and selected senior inspectors with not less than six years' service. In this case no special training will be necessary, but they should be appointed on probation for not less than one year in order that their abilities as administrative officers may be watched and known. The present arrangement of taking Sub-Deputy Collectors from the Revenue Department may be abandoned as soon as competent men are available in the department itself for filling up the posts. If any one of the present incumbents chooses to remain in the Co-operative Department under conditions of service, pay, etc., to be laid down, Government may consider his case.

115. *Need for an increase in the Assistant Registrars' circles.*—In view of the closer touch necessary between societies and the officers, intensive supervision over reconstruction work, inspection of societies and efficient administration, I consider that the four Assistant Registrars' circles in Orissa are too unwieldy and that the officers cannot turn out satisfactory work. I, therefore, suggest that the circles be increased to five and the headquarters of the new circle may be located at Balasore. I would have suggested six circles at the rate of one for each of the six districts in Orissa; but for the present five may be enough because so far as Koraput is concerned, I consider that it may be placed in charge of a Sub-Assistant Registrar. There may not be adequate work there for an Assistant Registrar immediately. If the possibilities of carefully expanding the movement in Koraput have been explored and new societies started in due course on the lines already indicated, the question of replacing the officer by an Assistant Registrar may be considered.

116. *Inspectors (Junior and Senior).*—Junior Inspectors may be recruited direct from among persons with prescribed qualifications. The minimum qualifications should, as at present, be B. A. or B. Sc. degree of any of the recognised Indian Universities. Preference may be given to candidates with University degrees in Economics, Commerce or Agriculture. After selection the candidates should undergo training for a period of at least one year in the training classes to be held at Cuttack under the Government of India subvention scheme. They should receive adequate practical training. On completion of their training they must pass the tests in co-operation, auditing,

banking and book-keeping as in Madras or obtain a diploma in commerce of the Bombay University and must be kept on probation for two years.

Junior Inspectors will attend to different branches of departmental work—audit, administration, liquidation and execution of decrees. I have suggested an increase in audit staff by seven junior inspectors in view of the necessity for the interim audit of the societies in North Orissa (vide paragraph 97). I have also recommended the appointment of two sale officers for each of the Assistant Registrars' circles for the execution of decrees, their cost being met, as in Madras, by the fees to be levied on a prescribed scale, and of liquidation inspectors for speeding up the recovery of dues in liquidated societies, part of whose cost will be met by the levy of liquidation charges (vide paragraph 104). One liquidation inspector for each of the Assistant Registrars' circles may be appointed.

The Deputy Registrar, Cuttack, has impressed on me the need for the appointment of administrative inspectors to help the Assistant Registrars in their executive work and in the disposal of enquiries into the working of the societies under the Act, and I am also informed that the proposal was sanctioned by Government but that it was held up subsequently. Government may sanction the staff of administrative inspectors at the rate of two for each of the five circles. Their duties need to be specifically laid down. It should be distinctly understood that they should not interfere with societies and give them any advice or ask them to do this or that, for dual control will not be conducive to efficient work. They should not convert also the bank Inspectors as their subordinates. They should not be made to enquire into all sorts of complaints received. They should attend only to any statutory enquiry ordered by the Assistant Registrar.

The assistants working in the offices of the Registrar and of the Assistant Registrars, who deal with matters relating to societies, may be taken from time to time from among the inspectors who have practical experience of the working of societies and who will, therefore, be in a position to understand the subjects better. Certain number of posts of the junior inspectors may be reserved for some of the select routine clerks in the department. Senior inspectors may be appointed from among the junior inspectors of approved merit. There are definite advantages in appointing them occasionally by direct recruitment. I, therefore, suggest that every third substantive vacancy among senior inspectors may be filled up directly from among candidates with prescribed educational qualifications—M. A. degree in Economics or Mathematics. The training of directly recruited senior inspectors should be more or less on the lines suggested for junior inspectors and should not be less than one year.

There are at present five senior inspectors—three in North Orissa and two in South Orissa. In view of my proposal for the abolition

of the two posts of Sub-Assistant Registrars for the final audit of central banks, I suggest an increase of senior inspectors in North Orissa by at least one; in other words, there may be one senior inspector for each Assistant Registrar's circle. The Non-Credit Senior Inspector in South Orissa may be transferred to North Orissa for purposes of audit. There is not much of non-credit work now in Orissa. For sometime to come, the administrative inspectors may attend to it; the question of appointing separate non-credit staff may be taken up when the work becomes heavy.

In paragraph 86, I have suggested the appointment of two senior inspectors as propaganda officers for the organisation of new societies. This will mean an addition of two senior inspectors to the present strength. I have, however, stated that it will be economical if these posts can be fitted into the Government of India scheme for co-operative education, but that if for any reason it is not possible, Government must appoint the two men at its cost.

117. *Clerical staff.*—The proposals may involve a redistribution or an increase of clerical staff. I have not gone into the matter because these are details which may be easily settled in consultation with the Registrar.

118. *Proposals regarding the Government staff summarised.*—In the statement given below, I note the strength of the department as existing and as proposed (excluding clerical establishment of offices) :—

Serial no.	Designation.	As existing.	As proposed.	Remarks.
1	Registrar ... ..	...	1	(Vide paragraph 111.)
2	Deputy Registrar ...	1	...	The post is proposed to be abolished, if a Registrar be appointed for the Province (vide paragraph 111).
3	Assistant Registrars ...	4	5	(Vide paragraph 115.)
4	Sub-Assistant Registrars	2	1	While the two posts of Sub-Assistant Registrars for audit of central banks are proposed to be abolished (vide paragraph 97) one post of a Sub-Assistant Registrar is proposed for Koraput (vide paragraph 115).
5	Senior Inspectors ...	5	7	The present five senior inspectors (3 in North Orissa and 2 in South Orissa) will be distributed at the rate of one for each Assistant Registrar's circle (vide paragraph 116). Two additional senior inspectors are necessary for the two posts of propaganda officers suggested (vide paragraph 86).

Serial no.	Designation.	As existing.	As proposed.	Remarks.
6	Junior Inspectors—			
	(a) For audit ...	89	40	The increase in the number of audit inspectors is due to the proposed arrangement of interim audit of societies in North Orissa (vide paragraph 97).
	(b) For Administration.	2	10	The additional 8 junior inspectors are required at the rate of two junior inspectors for each Assistant Registrar's circle (vide paragraph 116).
	(c) For liquidation work.	1	5	The additional 4 inspectors are required at the rate of one for each Assistant Registrar's circle (vide paragraphs 104 and 116).
	(d) For execution of decrees.	2	10	The additional 8 inspectors are required for the execution of decrees at the rate of two sale officers for each circle (vide paragraphs 97 and 116).

I have refrained from working out the cost of the proposals regarding the reorganisation of the department because in the absence of the scales of pay of different grades of officers and of the intentions of Government in the matter, it will be difficult to work it out. Further, I am informed that a retrenchment committee is now examining the scales of pay of all grades of Government servants in Orissa, and any attempt now on my part to suggest scales of pay for the different grades of officers of Co-operative Department may not be proper. I would only emphasize here that in view of my proposal for closed service, the scales of pay may be attractive enough to secure really able men for the department. I have not here taken into account the staff required for the Land Mortgage Bank.

CHAPTER XIII.

GENERAL SURVEY OF RECOMMENDATIONS.

119. *Introductory.*—I have now finished my task. I have been asked to conduct an enquiry into the condition of the movement in Orissa during a period which has been characterised firstly, by the continued economic depression, secondly, by the accumulation of overdues in societies (which are the highest on record) and their inability to keep up their obligations to the central banks and consequently the failure of the banks to repay their matured deposits and thirdly, by the breakdown of the co-operative credit machinery in regard to the supply of fresh finance to societies and their deserving members. Naturally the picture I have presented of the results of my enquiry into the condition of the movement cannot be bright. I regret to

have to give so depressing an account of the present state of the movement in North Orissa but I should be failing in my duty if I did not do so.

A new born Province cannot feel happy over this state of affairs. Nevertheless, no Government, particularly modern Government, can afford to neglect or disclaim responsibility towards a movement, which, however gloomy its past or however disheartening its present, is concerned with the well-being of the vast mass of cultivators who constitute the backbone of the Province, and in furthering whose interests no Government can grudge utilising all available resources. It is easy to be very critical of the present condition of the movement and to say that it is beyond all possibilities of repair, and it is easier still to be cynical. If I have suggested—having worked for the movement for over a generation—that a chance may yet be given it, it is because along with many others, I still believe in the potentialities of the movement and consider that no sacrifice on the part of co-operators and others who have a stake in the movement and no expenditure of time and money on the part of Government will be too great for the resuscitation of the movement. It is in this spirit that I have approached the problem, and I earnestly appeal that that the public and Government will approach it, too, in the same spirit.

120. *Main recommendations.*—I have found my task in making recommendations extremely difficult. The disease has been very serious, and no ordinary treatment holds out hopes of certain success. There is some whisper that the doctor has been called in when it was too late. There are yet doctors who undertook such cases with both courage and a spirit of resignation and succeeded despite the forbodings of critics. It is with this attitude of mind that I have diagnosed the disease and suggested remedies. Further, some of my remedies are opposed to my cherished convictions, but desperate diseases call for desperate remedies, and they need, therefore, to be looked at from the point of view of the suffering patient and not that of a healthy individual. And in this process I am assisted by the experience of doctors who are faced with and are treating similar cases in some other Provinces.

My recommendations divide themselves into two classes. The first set of recommendations and suggestions deal with measures designed to get over the present financial impasse. I have discussed various alternatives which, I am sure, will receive the earnest attention of Government. I am aware of the financial difficulties as well as the financial needs of an infant Province like Orissa; and if still one of my suggestions involves great financial commitment on the part of Government, it is because I feel that such gesture on its part just now may infuse confidence amongst the depositors and may cut short the long path of uncertainty which surrounds the other alternatives. I have suggested that if, for any reason, Government cannot help the banks with long-term loans to enable them to pay off their deposits, it must

at least come to the rescue of the creditors by making suitable arrangements for the recovery of the assets and payment of their liabilities and any cost on account of or incidental to, this arrangement must be borne by Government.

The other set of recommendations relate to the future lines of development. If the agricultural classes in Orissa should have the benefit of organised credit and if the *mahajans'* rates of interest need to be kept under check, fresh loans through the co-operative machinery cannot be denied them. The Provincial Co-operative Bank with the constitution and management already outlined is, so to say, the pivot of the entire plan of action. In its present form in which I have put it, it is designed to meet an abnormal situation and the requirements of a transition period, and I plead for a fair trial being given to the bank in the spirit in which I have conceived it. This will be assisted in some measure by the proposed Land Mortgage Bank, the coming into being of which makes the machinery of co-operative credit fuller and symmetrical. The future expansion of the movement needs great care and circumspection. Past experience is really the best teacher, and however slow the result and limited the achievements, success lies along the road which I have endeavoured to lay out.

Comprehensive legislation to serve the present needs of the movement and to foster its sound growth is necessary and my suggestions in this regard indicate the main features of legislation which may soon be taken up by Government.

And in this process of reconstruction and future development, the Co-operative Department has a great role to play, and my recommendations are intended to ensure better audit, better control and better inspection and efficient administration of the movement alongside of better instruction and teaching of those in charge of the primary co-operative societies.

Some of my recommendations are, as I have stated, opposed to my own convictions and there are others which are open to criticism on grounds of principle or policy. But I sincerely believe that all my suggestions taken together represent a comprehensive method of attack on the problem and a definite line of future action which offer some degree of success. But I must also state that much of the success depends not so much upon the recommendations as upon the common endeavour, sacrifice, faith, zeal and singleness of purpose of those workers—official and non-official—to whose lot the future conduct of the movement will fall, and I am hopeful that the present mood of depression and disappointment may prove to be a prelude to an era of hope and cheerful endeavour for the greatest happiness of the greatest number. And surely Government will accelerate the dawn of this era if it can immediately announce its help and support to the movement and its determination to pull it up from its present difficulties and to place it once again on its legs.

CHAPTER XIV.

ACKNOWLEDGMENTS.

121. *Acknowledgments.*—In conclusion, I desire to acknowledge the help I have received in my task from various quarters. I am thankful to Rai Sahib S. C. Roy, Deputy Registrar of Co-operative Societies, Cuttack, and other officers of the Co-operative Department, the chairmen and directors of central banks for assistance, at all stages of my enquiry, in making arrangements for the inspection of banks and societies and in placing at my disposal necessary material for my study. My thanks are also due to the members of the District Committees and other honorary workers who freely gave up their time to assist me in my enquiries and sent in written evidence or appeared before me for oral examination. I am deeply sensible of my obligation to the Subdivisional Officers and Deputy Commissioners for their kindness in making arrangements for my stay in circuit houses and inspection bungalows.

When Government asked me to conduct the enquiry I felt that I would complete the work in about two months; it has, however, taken me full three months. The magnitude of the work was such that a longer period would have been advantageous.

I desire to express my appreciation of the work of the senior inspectors and the clerks who ungrudgingly worked long hours despite much inconvenience.

Finally I desire to record my cordial appreciation of the services of my Secretary (Mr. K. Subrahmanyam, Deputy Registrar of Co-operative Societies, on deputation under Orissa Government) and of the efficient manner in which he performed his onerous duties at high pressure and helped me in completing the report in so short a period. His work has, all throughout his deputation, been characterised by a high degree of industry, ability, intelligence and thoroughness.

31st March 1938. }

K. DEIVASIKHAMANI,

Officer-in-charge, Co-operative Enquiry.

SUMMARY OF RECOMMENDATIONS.

CHAPTER IV.

RECONSTRUCTION OF THE MOVEMENT—THE FUTURE OF CENTRAL BANKS.

Recommendation no.		Para. no.
1.	In view of the complete breakdown of the movement the question as to the scrapping of the movement is considered. In the absence of any organized credit agency the only source of help for the agriculturist is the <i>mahajan</i> with high rates of interest.	54
2.	There is need for some agency which will keep down the rates of interest as well as keep the money-lenders under restraint; and no modern Government seems justified in an <i>attitude of laissez faire</i> .	55
3.	The possibilities of a State Bank and direct financing of agriculturists by Government are not considered suitable.	56
4.	The Co-operative principle is essentially sound, and Government must give it a chance in order to provide for the credit requirements of the peasantry and to keep the <i>mahajan</i> under control.	57
5.	The movement may be saved by Government endeavouring to give necessary financial assistance through a Provincial Co-operative Bank; Government may gradually withdraw its assistance as the Provincial Bank receives deposits on account of the restored confidence of the depositors.	58
5.	The possible objections to the proposed Provincial Bank such as vast area, State aid, nominated element on the management of the bank, difficulty of distributing loans to societies etc., are considered and met.	59

Recom- mendation no.		Page no.
6.	Constitution of branches, utilisation of the existing village societies and of the local knowledge of the <i>panches</i> for the distribution of loans to members, appointment of a separate agency for the examination, consideration and sanction of loans and the eventual transfer of the entire management of the bank to non-official hands are the essential features of the proposed provincial bank.	59
7.	There are difficulties in the immediate reconstruction of the central banks in North Orissa and their liquidation is inexpedient.	60
8.	Government may help the central banks with loans to enable them to repay their deposits just as Burma and the Central Provinces Governments did in the past, particularly as the investing public in Orissa have long been under the impression that Government was behind the banks.	61
9.	There are difficulties in the conversion of deposits into long-dated debentures. Government may consider the question of giving a guarantee in the event of conversion of deposits into debentures.	61
10.	Rateable payment of deposits from recoveries made by the Central Banks in North Orissa is the last alternative.	62
11.	The depositors may have probably to forego their accumulated interest on the deposits and this sacrifice on their part is called for in the circumstances in which the movement finds itself now.	62
12.	There is no need under the arrangements suggested for the existence of the central banks in their present form only for the collection of overdues and payment of deposits and, therefore, the suspension of the normal constitution of central banks and their management by the proposed Provincial Bank are suggested.	63
13.	Suitable transitory by-law to facilitate this arrangement is suggested.	63

Recommendation no.	Para. no.
14. An amendment of section 41 of the Bihar and Orissa Co-operative Societies Act for the temporary transfer of the management of a central bank under certain circumstances is also suggested.	63
15. Whatever treatment is accorded to the depositors of the central banks will be extended to the Bihar and Orissa Provincial Co-operative Bank.	64
16. An outline is given of the future of the central banks.	65
17. There is need for the amalgamation of the existing 15 central banks into 5 or 6 banks for the whole Province.	65
18. They must take up all banking activities	65
19. Official association with the management of the banks should cease.	65
20. The present three-year rule requiring the permission of the Registrar for re-election of directors must be deleted.	65
21. Representation of societies on the working committees of the bank is necessary.	65
22. The business of the central banks should be confined to short-term and intermediate loans.	65
23. These proposals do not apply to the two central banks in South Orissa.	66

CHAPTER V.

THE PROVINCIAL CO-OPERATIVE BANK.

24. The objects, membership, funds etc., of the proposed Provincial Co-operative Bank are described.	67
25. The Management of the Provincial Co-operative bank will vest in a Board of Directors consisting of individual share-holders, delegates of central banks and of societies and two members nominated by Government. The Registrar will be <i>ex-officio</i> Director.	67

Recom- mendation no.		Para. no.
26.	The powers of the Executive Committee and of the board are defined.	67
27.	Branch general meetings are suggested to secure due and full consideration of subjects coming up for decision.	67
28.	Secretary will be an officer appointed by Government from among men possessing high academical and commercial qualifications and adequate experience in practical banking and co-operative training.	67
29.	His duties and powers are described : his position will be more or less analogous to that of an Agent of the Imperial Bank of India.	67
30.	Bank inspectors, agents for the branches and their duties etc., are defined.	67
31.	Central banks will be considered as branches of the Provincial Bank so far as its work is concerned, the accounts etc., being entirely separate.	67
32.	Too much dependence on short-term deposits is the fundamental weakness of the present co-operative banking structure.	68
33.	There is need for supplementing short-term deposits by long-term money raised through flotation of debentures or through Government loan if the Provincial Bank is to do both short-term and intermediate loan business.	69
34.	The classification of loans into short-term, medium-term and long-term is necessary.	70
35.	The Provincial Bank and agricultural credit societies must confine themselves to short-term and medium-term loans while the proposed Orissa Land Mortgage Bank will undertake long-term loan business.	70

Recom- mendation no.		Para. no.
36.	Short-term loans must be repayable in two or three years and medium-term loans from four to ten years.	70
37.	The Provincial Bank must, as a temporary measure, be permitted to give loans to individuals on gold, Government paper, agricultural produce or industrial products.	70
38.	Government must lend to the Provincial Bank at 3 per cent and the latter may lend the societies at 6½ per cent : the societies may charge the members at 7½ per cent.	71
39.	The repayment of loans in kind is recommended.	72
40.	Co-operative credit is really controlled credit, and it has been so recognised from the very beginning of the movement.	72
41.	In the interests of the reconstruction of the movement Government must meet the costs of the management of the Provincial Bank and of the central banks in North Orissa under the arrangements suggested.	73

CHAPTER VI.

AGRICULTURAL SOCIETIES.

42.	There are difficulties in the reconstruction of agricultural primary societies ; nevertheless reconstruction must be taken up urgently.	74
43.	There should be substantial reduction or complete remission of overdue interest, as the situation calls for maximum relief that is possible under the circumstances and as this remission may smooth the difficulties in the way of recovery of overdue debts.	75
44.	Possible objections to the proposal are considered and met.	75

Recom- mendation no.		Para. no.
45.	There is need for detailed examination of the financial position of societies and of their members with reference to their present assets and liabilities.	76
46.	A classification of borrowers on the results of this examination is suggested.	76
47.	Supersession of <i>panches</i> by entrusting the management to a competent person by an amendment of the by-law is indicated.	76
48.	Liquidation is desirable where the enquiry discloses that the financial condition of a society is such that no possible concessions, scaling down of debts of members or supersession of the <i>panches</i> will prove helpful in the reconstruction of a society.	76
49.	There is need for scaling down the debts so as to bring them within the present repaying capacity of the members.	77
50.	The scaled down debts may be spread over a maximum period of 15 years except in Angul, Sambalpur and Bargarh, where a period extending from five to ten years is considered sufficient.	77
51.	In determining the repaying capacity for purposes of fixing instalments due allowance should be made for the cost of maintenance of the member and his family and other obligatory commitments such as payment of rent, etc.	77
52.	Losses arising on account of remission of interest or scaling down of debts will have to be written off, and depositors may possibly have to bear some loss which may ultimately occur.	77
53.	The need for consultation with the creditors of the banks in the process of reconstruction of societies in the manner suggested is emphasized.	78
54.	The methods of disposal or transfer of lands in possession of societies or central banks on the hire-purchase system are discussed.	79

Recom- mendation no.		Para. no.
55.	Repayment of instalments of scaled down debts in kind is suggested.	80
56.	There is need for advancing fresh loans to societies and their deserving members in order to create confidence amongst them.	81
57.	The possibilities of transfer of scaled down debts to the Provincial Land Mortgage Bank should be explored.	82
58.	The method of treating, in the accounts, the liabilities for old and new loans are discussed and the enactment of suitable by-law is suggested.	83
59.	The procedure in regard to the sanction of new loans and the role of societies, bank inspectors and the Provincial Bank are described.	84
60.	The bank inspectors should recommend normal credits for each deserving individual member after thorough investigation of his assets and liabilities, income, repaying capacity etc.	84
61.	The Provincial Bank will scrutinize and sanction the credit limits and the societies may thereafter draw up to the extent of the limits fixed.	84
62.	The bank inspectors will be responsible for recommendations which they make. The recommendations are, however, subject to the approval of the Provincial Bank.	84
63.	In the present state of affairs in North Orissa it is vair to expect the societies to carry on their duties satisfactorily and if the societies cannot be trusted to pass loan applications the solution lies in their education. The assumption of their legitimate functions by the Provincial Bank and its staff is only a temporary expedient and a necessary evil.	84
64.	Fresh loans will be confined to short-term and medium-term loans and the normal credits to be fixed will make provision for both kinds of credits.	85

Recom- mendation no.		Para. no.
65.	The borrowers may execute two bonds—one to cover short-term loans and the other a continuing mortgage bond for intermediate loans. No loan will as a general rule be given by societies for payment of prior debts, purchase of land or other long-term purposes.	85
66.	There is need for formation of new societies in untapped areas on sound lines.	86
67.	Societies should be started after propaganda and education for at least six months and after the need is actually felt by the villagers. Two propaganda officers for carrying on the educative propaganda and the starting of new societies on the lines indicated should be appointed.	86
68.	Members of the new societies should be encouraged to subscribe their own capital and work with it for two or three years before borrowed money can be placed in their hands.	86
69.	The responsibilities of sureties should be clearly explained to the members of societies by the inspecting and supervising staff.	86-A.
70.	Provision should be made for payment of clerical remuneration to the members or panches.	86-A.
71.	Reserve Funds are more a margin between assets and liabilities of societies and there is no good reason for their separate investment. No change is, however, suggested in the present practice.	86-A
72.	Central banks and societies should not be allowed to invest their reserve funds in the shares of any co-operative institutions.	86-A.
73.	Grain golas may be permitted to advance grain loans to members and to recover them in the same manner as cash loans until the methods of village economy are changed.	87

Recom- mendation no.		Para no.
74.	There is very limited scope for co-operative societies for the sale of agricultural produce in the Province. Attempts may, however, be made for the sale of paddy under the arrangements suggested for the recovery of loans in kind, and sale societies formed in compact areas, if competent men with business experience are available.	88
75.	The question of starting societies for sale of cocoanut and jute may be considered in the light of the results of marketing surveys now in progress.	88

CHAPTER VII.

URBAN AND OTHER NON-AGRICULTURAL SOCIETIES.

76.	Urban poorer middle class population is in need of credit and urban co-operative credit societies (people's banks) may be started to provide them with reasonable credit facilities at Cuttack, Puri, Sambalpur and Balasore.	89
77.	Small merchants, traders, wage-earners, pleaders or other professional classes may be admitted as members of such societies or banks.	89
78.	The borrowings of the societies may be limited to four or five times their "owned capital" (share capital and reserve fund) and they may be permitted to raise funds by way of deposits from members and non-members and loans and cash credits from the Provincial bank.	89
79.	These urban banks may popularise current account transactions and encourage modern banking practices, including payment by cheques.	89
80.	They should confine their loans to short periods, and loans should be secured on landed or house property, personal sureties, fixed deposits, or insurance policies.	89
81.	The object of employees' societies should be to encourage thrift and to restrict credit.	90

Recom- mendation no.		Para. no.
82.	Credit for purposes of consumption should be generally discouraged in employees' societies.	90
83.	No detailed preliminary investigations as to the methods of financing the artisans, recovery of advances made to them or provision of adequate check over the methods so as to ensure regular payment were made and decided upon before any artisan's credit societies were started and hence the failure of these societies.	91
84.	Artisans' societies should be started only after detailed economic investigations have been made.	91
85.	When societies are started on an experimental basis it is far better that Government finances them.	91
86.	Places containing large weaving communities may be taken up for giving an impetus to handloom industry on a co-operative basis and provision made for controlled production, marketing and sale.	91
87.	The question of handloom industry cannot be satisfactorily solved unless legislation is undertaken to limit the manufacture of cloth by mills to certain counts and to prohibit the imported cloth other than of specified counts.	91

CHAPTER VIII.

THE PROVINCIAL CO-OPERATIVE LAND MORTGAGE BANK.

88.	Land mortgage banks are necessary for helping the raiyats, tenants, small landlords or estate owners with long-term mortgage loans for discharge of prior debts or redemption of mortgages on land, etc.	92
89.	Under the scheme contemplated in the Orissa Land Mortgage Banks Act there will be no primary land mortgage banks but a branch of the Provincial Land Mortgage Bank will function as the primary unit.	92

Recom- mendation no.		Para. no.
90.	There will be three classes of members—non-borrowing members, borrowing members (proprietors of estates and owners of land) and co-sharers and other persons who are interested in the property proposed to be mortgaged to the bank.	92
91.	The bank will obtain funds mainly by floating debentures for a period not exceeding 20 years on the security of its general assets and the mortgages executed by its members.	92
92.	The board of management will consist of borrowing and non-borrowing members; the Registrar of Co-operative Societies will <i>ex-officio</i> be a member: as Government has a financial stake, it will nominate at least two members to the board.	92
93.	Branches may be organised in select deltaic tracts where agriculturists have an assured income; local committees will be in charge of the branches.	92
94.	Loans will be given to members for payment of mortgage and other debts, for improving land, etc., subject to an individual maximum of Rs. 5,000.	92
95.	The cost of management of the Provincial Mortgage Bank will have to be met in the first few years from a Government subsidy.	92
96.	In view of the smallness of the transactions of both the Provincial Co-operative Bank and the Land Mortgage Bank in the immediate future there are advantages in having a common secretary.	92
97.	Indebtedness cannot be solved by merely changing the machinery of credit but enforcement of thrift and providence and a reorientation of outlook on the part of the borrowers are necessary.	93
98.	No repayment of agricultural debts is generally possible unless there is an augmentation of agricultural income.	94
99.	A comprehensive agricultural and industrial policy is essential to put agricultural economy on a remunerative basis.	94

Recom- mendation no.		Para. no.
100.	There are no great possibilities of developing cottage or subsidiary industries which can survive the increasing competition of organised industry: the line of development should lie in linking up rural industries with heavy industries.	95
101.	The constitution of a Board of Rural Uplift is recommended in order to formulate and execute a comprehensive agricultural and economic policy for the betterment and prosperity of the people of Orissa.	95
102.	Measures supplementary to land mortgage banks are necessary for giving adequate relief to agriculturists.	96
103.	Debt relief by way of scaling down of debts to the present level of agricultural prices is suggested.	96
104.	There is need for Debt Conciliation Boards to scale down debts and pass awards which will be legally binding on the debtors and creditors.	96
105.	A Money-lenders Act to regulate the business of money-lenders, maintenance of proper accounts, etc., is suggested.	96
106.	Legislative provision is also necessary for saving for the debtor his homestead and a portion of his agricultural holdings for the sustenance of himself and his family.	96
107.	Alienation of minimum agricultural holding should be prevented.	96

CHAPTER IX.

AUDIT, SUPERVISION, INSPECTION AND EDUCATION AND TRAINING.

108.	In order to ensure promptness and efficiency in the audit of accounts of societies the final audit of accounts of societies should be done from July to December and the interim audit for the remaining six months of the year as in South Orissa.	97
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Recom- mendation no.		Para. no.
109.	At the time of interim audit of accounts the auditors should examine the normal credits fixed for members and during final audit they should ascertain the adequacy or otherwise of the security for the outstanding loans and close the accounts and prepare the balance-sheets and profit and loss statements.	97
110.	The staff for the audit of accounts must be strengthened so as to have one auditor for every 70 societies in North Orissa.	97
111.	Senior Inspectors should audit the accounts of central banks, important limited liability societies, non-credit societies, the proposed Provincial Co-operative Bank and the Land Mortgage Bank.	97
112.	There is no need for the posts of Sub-assistant Registrars; they may, therefore, be abolished in due course.	97
113.	The audit staff in North Orissa must receive training and hold diplomas in co-operation, auditing, banking and book-keeping.	97
114.	There is need for periodical refresher classes for auditors to enable them to bring their knowledge up-to-date.	97
115.	The suggestion that the audit of co-operative societies may be done by the Comptroller, Orissa, is not acceptable.	97
116.	The scale of fees for the audit of accounts of societies is higher than that in South Orissa and there is justification for reduction.	98
117.	Free audit for a period of five years for the present is recommended.	98
118.	The position may be reviewed thereafter and if the circumstances justify, a fee equal to about the 50 per cent of the present Madras rate may be imposed.	98
119.	Agricultural credit societies with unlimited liability should altogether be exempted from payment of audit fees as in Madras.	98

Recom- mendation no.		Para. no.
120.	The Registrar may be asked to undertake the revision of existing account books, the framing of new forms etc., so as to bring about uniformity in the method of maintenance of accounts and registers of societies in North and South Orissa.	99
121.	Suitable audit report forms for central banks may be printed and supplied to auditors.	99
122.	Forms for the half-yearly inspection of central banks may be standardized.	99
123.	It will ensure clearness of treatment if the audit report forms are split up into two parts.	99
124.	It should be impressed upon the auditors that their business is to advise, guide and help the societies in the proper methods of account-keeping and business management and not to find fault with them.	99
125.	No change in the methods of supervision is advocated.	100
126.	The Bank Inspectors to be appointed under the arrangements suggested will supervise societies, instruct them in their duties and responsibilities under the control of the agents of the Provincial Bank.	100
127.	Assistant Registrars should in future confine themselves only to the inspection of societies and should not interfere with the work of the bank inspectors. They should communicate their suggestions etc., to the Provincial Bank which, after consideration, will see that effect is given to such of them as may be deemed proper.	101
128.	The directors and officers of the Provincial Bank and <i>ex-officio</i> secretaries of the central banks may also inspect the societies whenever necessary.	101
129.	Rectification of defects should be done through bank inspectors.	101

Recom- mendation no.		Para. no.
130.	There is a general lack of knowledge or appreciation of co-operative principles and practice on the part of the workers in the movement and there is great need for co-operative education and training particularly of the individual members of village societies.	102
131.	In any scheme of co-operative education and training provision should be made for (1) education of members and <i>panches</i> of societies, (2) training of bank inspectors and (3) training of official staff.	102
132.	In the scheme of training under contemplation emphasis should be laid on practical training of the staff in the work of societies for a sufficiently long period.	102
133.	The appointment of the propaganda officers in connection with the organisation of new societies may be fitted into the scheme under contemplation, if it be possible.	102

CHAPTER X.

ARBITRATION, EXECUTION AND LIQUIDATION.

134.	To expedite the quick disposal of arbitration references a panel of honorary arbitrators may be prepared and maintained in each of the Assistant Registrars' offices and arbitration references transferred to them for quick disposal.	103
135.	The present procedure in regard to the disposal of arbitration references almost always <i>ex parte</i> is not considered proper; arrangements should be made to get the summons served on the parties and opportunities given them for being heard.	103
136.	Intimation regarding the disposal of arbitration cases should be sent to the defendants alongside of the grant of copies of awards to the plaintiffs.	103
137.	There is no need for the issue of preliminary award and a final decree in mortgage disputes. A final decree may be given even in the first instance.	103

Recom- mendation no.		Para. no.
138.	Authoritative legal opinion will have to be obtained on the question as to whether subsequent mortgagées may be made parties in award proceedings.	103
139.	There is need for exemption, from the pre-payment of <i>ad valorem</i> fee, of certificates issued under the Bihar and Orissa Co-operative Societies Act of 1935, the court-fee payable being annas twelve and not as at present an <i>ad valorem</i> court-fee.	104
140.	To expedite the execution proceedings and stimulate recoveries of overdue a special departmental staff at the rate of two 'sale officers' for each of the Assistant Registrars' circles should be appointed for the execution of decrees, their cost being met from the fees to be levied for the purpose on a scale to be fixed.	104
141.	An amendment of the Bihar and Orissa Co-operative Societies Act for this purpose is necessary.	104
142.	The introduction of a provision in the Act giving power to the provincial bank or central banks to direct the <i>panches</i> of societies to take arbitration or execution proceedings against defaulters and failing that, for their taking such action themselves is suggested for consideration.	104
143.	It is better to have one procedure in the matter of cancellation and winding up of societies in North and South Orissa and the North Orissa procedure is recommended for adoption for the whole Province.	105
144.	A staff of liquidation inspectors to assist the liquidators in speeding up recoveries is suggested.	105
145.	The rate of interest on contribution orders should not in any case exceed $7\frac{1}{2}$ per cent.	105
146.	Collections should first be appropriated towards payment of principal and the surplus, if any, may be utilized at the end towards payment of interest.	105
147.	Five per cent of the total collections may be recovered towards the cost of liquidation inspectors to be appointed.	105

Recom- mendation no.		Para. no.
148.	Contribution orders passed by liquidators may be executed in the same manner as decrees of societies.	105
149.	Liquidation should be resorted to only when there is need to enforce unlimited liability and all other methods of reform have failed.	105

CHAPTER XI.

LEGISLATION, ACT, RULES AND BYLAWS.

150.	Enactment of a common Co-operative Societies Act for the whole of Orissa is recommended.	106
151.	Certain fundamental principles of co-operative legislation are indicated.	107
152.	Certain important changes in the proposed legislation are pointed out.	108
153.	A special officer may be put on deputation for the revision of by-laws of the different classes of societies, framing of suitable forms for fixation of normal credits, loan application forms, etc.	109

CHAPTER XII.

REORGANISATION OF THE CO-OPERATIVE DEPARTMENT.

154.	There is need for re-organisation of the Co-operative Department.	110
155.	A suitable officer of the Provincial Civil Service may be appointed as Registrar with due reference to the qualifications suggested by the Maclagan Committee and the Royal Commission on Agriculture in India.	111
156.	The appointment should also be open to the really best of the gazetted officers of the Co-operative Department.	111

Recom- mendation no.		Para. no.
157.	In the event of an appointment of a Registrar, the post of Deputy Registrar may be abolished.	111
158.	The appointment of a Financial Adviser to advise the Registrar on broad financial and banking matter is suggested.	112
159.	The constitution of an Advisory Board by Government for consultation in matters of policy is suggested.	113
160.	There are greater advantages in having a closed service of gazetted officers for the department and this is recommended.	114
161.	Assistant Registrars may, in this event, be promoted from experienced senior inspectors of not less than six years' service and the present arrangement of taking Sub-Deputy Collectors from the Revenue Department may be abandoned as soon as competent men are available in the Department itself for filling up the posts.	114
162.	There is need for an increase in the Assistant Registrars' circles for intensive supervision of reconstruction work and efficient administration and the raising of the number of circles from four to five is recommended.	115
163.	Koraput may be put in charge of a Sub-Assistant Registrar until expansion and development in that area justify the need for the appointment of an Assistant Registrar.	115
164.	Junior Inspectors may be recruited direct from among candidates with B.A. or B.Sc., degree from any of the recognized Indian Universities.	116
165.	Candidates selected for the appointment of junior inspectors should be trained for at least one year.	116
166.	Administrative inspectors at the rate of two for each of the Assistant Registrars' circles is recommended.	116

Recom- mendation no.		Para. no.
167.	The assistants working in the offices of the Registrar and of the Assistant Registrars may be taken from time to time from among inspectors who have practical experience of the working of societies.	116
168.	Certain number of posts of the junior inspectors may be reserved to select routine clerks in the Department.	116
169.	Senior inspectors may be appointed from among junior inspectors of approved merit, direct recruitment being reserved for every third substantive vacancy.	161
170.	There is need for an increase in the number of senior inspectors by at least one for the audit of central banks, etc., and the post of the non-credit senior inspector in South Orissa may be diverted for this purpose.	116
171.	Proposals involving re-distribution or increase of clerical staff may be decided upon in consultation with the Registrar.	117
172.	The strength of the departmental staff as now existing and as proposed is indicated.	118

APPENDIX I.

PROCEEDINGS OF THE DISTRICT COMMITTEES.

- (1) *Proceedings of the meeting of the Members of the Ganjam District Co-operative Enquiry Committee held on the 6th January 1938 in the premises of the Aska Co-operative Central Bank Limited.*

The following are the resolutions of the Ganjam District Co-operative Enquiry Committee. The President has not given his opinion in respect of any resolution.

1. By giving certain concessions, viz., reduction in the amount of interest accumulated it may be possible to collect in cash the arrears to the extent of at least 25 per cent in regard to societies under Berhampur Central area; the rate of interest should be reduced to 6 per cent by the Central Bank on all outstanding loans from the date of last payment and the societies may charge interest at 7 per cent on all outstanding loans. In regard to bad cases, each case should be judged on its merits. When these concessions are allowed the primary societies should obtain previous sanction of the central bank.

In regard to societies in the Aska central bank area, the following concessions may be given.

The accumulated interest should be reduced by 25 per cent to 50 per cent according to the circumstances of individual societies and members. This does not mean that irrecoverable debts should not be written off. Extension of time should be given in suitable cases from 5 to 10 years. Interest on loans outstanding against societies should be charged at 7 per cent and the societies should charge 8 per cent on loans to members.

2. Taking the present financial condition of the central banks and societies into consideration, the members are of opinion that a Provincial Bank is absolutely necessary. They consider that it is essential that a Provincial Bank should function if the co-operative movement is to be revived. The Provincial Bank should be of mixed constitution consisting of central banks and individuals on the existing model. Mr. N. Ram Krishna Rao is of opinion that if the Provincial Bank is located at Berhampur, it will be able to get deposits without Government guarantee.

The central banks which have ceased to function should be wound up and the societies whose assets can be transferred safely may be affiliated to the Provincial Bank. The rest of the societies will continue under the control of the liquidators of the central banks till they are finally closed. The Provincial Bank should finance the societies in such areas for their future needs. Mr. N. Ram Krishna Rao thinks that if a separate Provincial Bank is not feasible for any reason, any successful existing central bank may be permitted to discharge the function of a Provincial Bank in addition to its working

as a central bank. Mr. Panda is not in favour of permitting any central bank to function as a Provincial Bank. The committee will not disturb the existing arrangement in the Ganjam district having two central banks but as an ideal they would prefer only one central bank in one revenue district.

3. In regard to supervision of societies, Mr. N. Ram Krishna Rao thinks that the local union is unnecessary unless it is controlled by circle directors. The other two members do not agree with this view. As regards propoganda, there is no necessity for a separate staff. The union staff will do the work.

4. It is not necessary to control credit at every stage as it may not be feasible in practice.

5. No change in the liability of village societies is called for.

6. There should be a common Co-operative Societies Act for the whole province on the lines of the Madras Co-operative Societies Act. Similarly the rules and by-laws should be on Madras model. In execution of awards obtained against members of societies the present arrangement, that is to say, execution through the co-operative staff should continue. It may perhaps be extended to North Orissa. The provision in the Bihar and Orissa Co-operative Societies Act that the Registrar can register the amendment to the bylaws of societies even though the societies do not accept the amendment should be deleted.

7. To meet the requirements of villages it is essential that they should be given loans for periods extending from 5 to 10 or more years. This object cannot be achieved unless central banks advance money for longer periods than at present. They cannot use the present short-term deposits for their purpose. They should try to raise long-term money by way of debentures and secure money.

8. In regard to the reorganisation of the department the committee suggest that the department should be self-contained without borrowing officers or subordinates from other departments; they should be full-time officers, having the duties of the Registrar under the Act without being given other duties.

(Sd.) K. DEIVASIKHAMANI MUDALIAR.

President.

„ N. RAM KRISHNA RAO
 „ K. M. PANDA
 „ B. K. PATRO

} *Members.*

(2) *Proceedings of the meeting of the members of the Puri District Co-operative Enquiry Committee held on the 13th January 1938 in the premises of the Puri Central Co-operative Bank Limited..*

The following are the decisions of the Puri District Co-operative Enquiry Committee. The President has not expressed any opinion in respect of any matter.

1. In regard to the future, Mr. Jagannath Misra does not think that the movement can be revived in view of the present condition of the central banks and the societies. It may not be possible to recover the loans outstanding against the village societies even in ten or more years. He would suggest the winding up of the movement, that is to say, the registration of the central banks and the societies should be cancelled and the loans outstanding against the members of societies should be collected and the creditors should be paid off by the liquidator.

Mr. Banamali Das does not agree with the above view but thinks that the movement can be revived. He would make the following suggestions as to how the movement can be reconstructed :—

A Provincial Bank may be started and so long it is not able to attract money from the investing public, it should be financed by the Government. The Provincial Bank should help the central banks in the matter of repaying their creditors. The central banks can come to terms with their depositors and can make them agree to take their money in instalments and where this is not possible they can take loans from the Provincial Bank and pay off the creditors. In regard to the working of the village societies he will make them give concessions to their members in the matter of repayment of their debts by waiving a portion of the accumulated interest. He will also reduce the rates of interest on all outstanding and also on future loans. He will profit by the past working of societies and prevent them from bad management.

Mr. Jagannath Misra would suggest that the Government should give loans directly to raiyats under taccavi rules on a very liberal scale. He would encourage also indigenous money-lenders. They should however be controlled to do their work properly by legislation.

(Sd.) K. DEIVASIKHAMANI MUDALIAR,

President.

„ J. N. MISRA }
 „ B. DAS } *Members,*

(3) *Proceedings of the meeting of the members of the Sambalpur District Committee held at Bargarh on the 10th February 1938.*

1. The members are of opinion that the co-operative movement has failed in Sambalpur district.

2. To expedite collection in societies and to help the members in their present difficulties it is necessary that two-thirds of interest accrued on loans outstanding against societies should be waived by the Sambalpur and Bargarh Co-operative Central Banks.

3. If the land laws in force in Sambalpur be amended in so far as arrears to co-operative societies are concerned, collections will be stimulated and depositors paid in due course.

4. The existing societies may be allowed to function only with a view to recover the arrears from members and repay the loans due to the central bank. No fresh loans should be advanced to them at present. They may be given fresh loans after the new societies to be started on entirely different lines work for a while and show the way to the existing societies.

5. The collections effected from societies may be paid rateably to the depositors of the central banks.

6. If Government agree to give guarantee to the future depositors, the existing central banks may be permitted to finance societies; no Provincial Bank seems necessary for this purpose.

7. There is, however, no objection to a Provincial Bank with State guarantee and control financing central banks in future, if it be so decided upon, the advantage of this arrangement being that Government instead of dealing with a number of small central banks, will have direct relations with only one bank.

8. With efficient supervision, one central bank for the whole of Sambalpur district would be preferable to the existence of two small central banks.

9. If the movement is to be revived, it should proceed on new lines. Societies should be started in new or untapped areas on genuinely co-operative lines.

10. Panchayatdars should not be depended upon in the sanction of fresh loans to members of societies; their functions should be only advisory. Paid Government officers should be appointed to scrutinise, control and recommend loans to members and they should be in charge of a compact group of societies. Regulated finance and better management of societies may thus be attempted.

11. Central banks should be in charge of paid men trained in banking and co-operation and if any of the existing central banks is not in a position to meet the cost, Government should give a subsidy to the banks until they can stand on their legs.

12. As regards rates of interest on future loans, central banks may lend societies at 6 per cent and societies to members at 7 $\frac{1}{2}$ per cent.

13. Members of the committee are strongly of opinion that the Central Provinces Tenancy Act in its application to Sambalpur district should be amended and the present restriction on free transfer of land removed in the interest of the co-operative movement. The creation of mere 'charge' on the produce of land in respect of recovery of co-operative dues next in preference to arrears of rent is not sufficient for the requirements of the situation.

The Chairman reserves his opinion on all matters embodied in these resolutions.

(Sd.) K. DEIVASIKHAMANI MUDALIYAR,
Chairman.

„ RAMANI RAJAN BOSE
„ BISWANATH PANIGRAHI } Members.
„ PRAHALLADRAI LATH }

(4) *Proceedings of the meeting of the members of the Balasore District Committee held at Balasore on the 15th February 1938.*

1. The co-operative movement is in a very bad way and has practically failed; it should, however, continue and should be reorganised.

2. Government should arrange to pay off the existing depositors without the interest accrued on them. We realise, in making this recommendation, that Government might ultimately have to suffer some loss.

3. Individual examination of all loans in all societies should be carried out and the exact financial position of each of the societies should be determined. The central banks should then proceed to consider the concessions to be given to members on merits in order to expedite collections. We are not in favour of wholesale remissions.

4. Liberal concessions by way of remission of interest or part of principal may, however, be given in deserving cases where borrowers are found on examination to be not really able to pay their loans under existing conditions. Where necessary, total remission of principal and interest may be given.

5. A Provincial Bank with Government guarantee is necessary, the guarantee being for such time that the bank can stand on its own legs and attract deposits.

6. The Provincial Bank must be in charge of a qualified paid banker and paid agents will be appointed by it to recommend, scrutinise, control or regulate loans to members of primary societies. The present central banks will be reorganised so as to function as branches of Provincial Bank.

7. The Provincial Bank can take money at $3\frac{1}{2}$ per cent and lend to societies at not more than 6 per cent. Societies may advance loans to members at not more than 7 or $7\frac{1}{2}$ per cent.

8. The chairman reserves his opinion on all matters embodied in these resolutions.

(Sd.) K. DEIVASIKHAMANI MUDALIYAR,
Chairman.

„ MUHAMMAD HANIF }
„ KARUNAKAR PANIGRAHI } *Members.*

*Proceedings of the conference held at the Secretariat, Cuttack,
on the 6th February 1938.*

PRESENT :

The Hon'ble Mr. B. N. Das, Chief Minister,
The Hon'ble Mr. B. Dube, Education Minister,
Mr. M. K. Vellodi, I.C.S., Education Secretary,
Mr. J. Mangaraj, M.L.A., Parliamentary Secretary,
Mr. J. Misra, M.L.A., Parliamentary Secretary,
Mr. A. B. Acharya, M.L.A.,
Mr. L. Misra, M.L.A., and member of the Cuttack District
Committee,
Mr. B. Mahapatra, member of the Cuttack District Committee,
M. R. Ry. Diwan Bahadur K. Deivasikhamani Mudaliyar Avargal,
Officer-in-charge, Co-operative Enquiry,
Rai Sahib S. C. Roy, Deputy Registrar of Co-operative Societies,
Mr. K. Subrahmanyam Naidu, Secretary to the Officer-in-charge,
Co-operative Enquiry.

M. R. Ry, Dewan Bahadur K. Deivasikhamani Mudaliar Avargal explained at some length the condition of the movement as he found it after his visits made so far to ten of the central banks and a number of village credit societies. He referred to the frozen assets in societies, difficulty of recovery under the present conditions, failure of central banks to repay matured deposits, the impression of the non-official co-operators regarding the association of Government with the movement and their request for help to the central banks for repayment of matured deposits, etc. He narrated in detail the several factors which contributed to the breakdown of the movement and then discussed the several alternatives, such as the starting of a State Bank or grant of loans under the Taccavi Acts, organisation of Provincial Co-operative Bank and reconstruction of the movement, etc., and invited suggestions.

Babu Lokanath Misra, M.L.A., said that 50 per cent of principal should be written off, if possible.

Babu Bhagirathi Mahapatra said that special legislation might be necessary to deal with the problem. Government and others concerned should examine proposals and suggest remedies. In his opinion it is no use trying to fix responsibility, the defect being in the working of societies and every one knows where all stand.

Babu G. B. Dutt said that in Angul, co-operative societies were thrust on the people and that loans were given to sarbarakars and raiyats for purposes of paying rent and revenue.

Dr. Atal Behari Acharya said that in Cuttack heavily indebted people were admitted as members of societies and their prior debts were paid off by societies. Some concessions should be given to these members.

Pandit Jagannath Misra said that he had lost faith in the co-operative movement which, in his opinion, could not be revived. He suggested that the banks should be liquidated at once as, otherwise, even the good assets would become bad. Homestead lands should not be sold in liquidation proceedings. There should be legislation to this effect, if necessary; raiyats should be advanced loans by Government under the Agriculturists Loans Act or through licensed money-lenders.

Babu Jadumoni Mangaraj said that the movement was started on the wrong basis as loans were granted on the assets of members and not on their repaying capacity. He was definitely of opinion that the movement should not be scraped, but should be remodelled on suitable lines and that Government must come forward with adequate financial assistance to save the movement as it owed a responsibility to it.

APPENDIX II.

AN ACCOUNT OF THE FINANCIAL POSITION OF CENTRAL BANKS.

Puri Co-operative Central Bank.

Number of societies 155.

		Rs.
Paid up share capital	... ..	32,725
Reserve and other funds	... ..	26,347
Total borrowings	... ..	2,24,867
Loans outstanding against societies—		

(1) Principal	... ..	1,98,674
(2) Interest	... ..	60,673

Number of societies involved 155.

Amount over due—

(1) Principal	... ..	1,98,674
(2) Interest	... ..	60,673

Number of societies involved 155.

The bank was not able to repay its matured deposits since 1933. All the deposits are overdue. It has been paying *pro rata* since 1935. It sold to depositors some of the lands purchased by it and by societies from defaulters in societies. The area of land now in possession of societies and in bank comes to 167 acres. The recoveries from societies did not amount to more than 9 per cent of the outstandings for the last five or six years. The bank estimates a bad debt of about Rs. 1,12,943, of which Rs. 72,813 relate to three societies (Balakati Bell-metal, Nulia fishermen and Delang stores). The main reasons for the heavy loss in these three societies are—

- (1) Bad management ;
- (2) Reckless financing ;
- (3) Infringement of by-laws in respect of advances made (the auditor in his audit report for 1932 of Nulia fishermen society stated that some sweepers were admitted and advanced loans contrary to section 4 of the by-law).
- (4) Sale of goods to non-members on credit without proper safeguards.

Angul Co-operative Central Bank.

Number of societies 53.

		Rs.
Paid-up share capital	... ..	34,109
Reserve and other funds	... ..	77,789
Total borrowings	... ..	2,18,111

Loans outstanding against societies—

			Rs.
(1) Principal	...	...	2,76,240
(2) Interest	...	...	1,04,947

Number of societies involved 53.

Amount overdue—

(1) Principal	...	...	2,67,442
(2) Interest	...	...	88,749

Number of societies involved 51.

The bank was not able to pay its matured deposits since 1936. The amount in default is Rs. 48,548 under principal and Rs. 3,410 under interest. The recoveries from societies did not amount to more than 7 to 11 per cent of the outstandings from 1932 to 1934 and 1 to 5 per cent for the last three years. The bank estimates a loss of Rs. 4,444 in one society (Garantry) which is due to the heavy amount of Rs. 11,977 due from one member (Gowrang Charan Garnaik). The loans in societies can be collected, it is generally said, in about five years. This is probable.

Kendrapara Central Bank.

Number of societies 100.

			Rs.
Paid-up share capital	...	...	27,972
Reserve and other funds	...	...	22,584
Total borrowings	...	...	2,64,952

Loans outstanding against societies—

(1) Principal	...	...	2,31,873
(2) Interest	...	...	1,17,957

Number of societies involved 100.

Amount overdue—

(1) Principal	...	...	2,11,031
(2) Interest	...	...	1,08,097

Number of societies involved 92.

The bank was not able to repay its matured deposits since 1933. The amount at default is Rs. 1,96,204 (principal Rs. 1,80,204, interest Rs. 16,000). The recoveries from societies did not amount to more than 4 to 5 per cent of outstandings during the last five or six years. The bank estimates a heavy loss of about Rs. 79,696 in 13 societies. These societies are agricultural credit societies. Over-financing is the main reason for the expected losses apart from the general reasons applicable to all the other central banks.

Khurda Co-operative Central Bank.

Number of societies 239.

	Rs.
Paid-up share capital	62,439
Reserve and other funds	58,666
Total borrowings	2,31,526
Loans outstanding against societies—	
(1) Principal	3,08,265
(2) Interest	52,230

Number of societies involved 239.

Amount overdue—

(1) Principal	2,68,233
(2) Interest	37,027

Number of societies involved 216.

The recoveries from societies did not exceed 10 to 15 per cent of the outstanding for the past 4 or 5 years. The bank estimates a bad debt of about Rs. 51,069. A loss of over Rs. 3,000 is expected in Balugaon stores and four other societies and the societies in the area of Banapur central union whose assets were transferred to this bank. The Banapur central union was liquidated for bad management. Heavy overhead charges, overfinancing and investment of borrowed capital in the construction of houses for the Banapur Grain Gola co-operative society and for Balugaon stores and granting paddy loans to members are the main reasons for the expected losses apart from other general reasons.

Balasore Co-operative Central Bank.

Number of societies 210.

	Rs.
Paid up share capital	66,924
Reserve and other funds	80,975
Total borrowings	8,76,595
Loans outstanding against societies—	
(1) Principal	8,06,119
(2) Interest	3,51,036

Number of societies involved 210.

Amount overdue—

	Rs.
(1) Principal	7,50,864
(2) Interest	2,86,004

Number of societies involved 205.

The bank was not able to pay its matured deposits since 1934. The amount in default is Rs. 5,20,875 under principal and Rs. 30,464 under interest. The recoveries from societies did not amount to more than 4 to 5 per cent of the outstandings for the last six years. The bank estimates a loss of Rs. 1,76,967 and about 15 societies cause a loss of over Rs. 3,000 each. The main reasons for the expected losses are said to be fraudulent alienation of lands by some members, lands damaged on account of floods, mismanagement of societies by *panches* and over-financing.

Banki-Dompara Co-operative Central Bank.

Number of societies 143.

	Rs.
Paid up share capital	54,940
Reserve and other funds	62,116
Total borrowings	2,74,969

Loans outstanding against societies—

(1) Principal	3,36,862
(2) Interest	74,434

Number of societies involved 133.

Amount overdue—

(1) Principal	3,23,201
(2) Interest	56,024

Number of societies involved 131.

The bank estimates a bad debt of Rs. 32,483 in 36 societies. The recoveries from societies did not amount to more than 7 to 8 per cent of the outstandings for the last 4 or 5 years. The bank sustained a loss of over Rs. 3,000 in three agricultural societies. The bank also defaulted in repayment of deposits to the extent of Rs. 3,566 since 30th November 1937. Damage of crops by floods in some societies and over-financing in others are the main reasons for the expected losses.

Nimapara Co-operative Central Bank.

Number of societies 120.

	Rs.
Paid up share capital	19,390
Reserve and other funds	8,210
Total borrowings	1,15,312
Loans outstanding against societies—	
(1) Principal	1,13,571
(2) Interest	48,012

Number of societies involved 101.

Amount overdue—

(1) Principal	1,10,868.
(2) Interest	38,906

Number of societies involved 101.

The bank was not able to pay its matured deposits since 1933. The amount in default on 15th November 1937 was Rs. 6,961 (Rs. 6,944 principal, Rs. 17 interest). The recoveries from societies did not amount to more than 4 to 5 per cent of the outstandings for the last five or six years. The estimated bad debt is Rs. 20,597. Among other general reasons damage of crops by floods is said to be the main reason for the expected losses.

Bargarh Co-operative Central Bank.

Number of societies 206.

	Rs.
Paid up share capital	24,302
Reserve Fund and other funds	27,484
Total borrowings	78,780
Loans outstanding against societies—	
(1) Principal	99,301
(2) Interest	47,520

Number of societies involved 192.

Amount overdue—

	Rs.
(1) Principal	95,516
(2) Interest	47,120

Number of societies involved 192.

The bank was not able to repay its matured deposits since 1932. The amount of default is Rs. 20,932 under principal and Rs. 6,815 under interest. The recoveries from societies did not amount to more than 10 to 15 per cent of the outstandings for the last five or six years. The bank estimates a loss of about Rs. 30,415 of which about Rs. 5,614 is from one society (Ranunda).

Bhadrak Co-operative Central Bank.

Number of societies 144.

	Rs.
Paid up share capital	46,964
Reserve Fund and other funds	38,790
Total borrowings	2,81,085
Loans outstanding against societies—	
(1) Principal	2,98,945
(2) Interest	1,31,159

Number of societies involved 138.

Amount overdue—

(1) Principal	2,93,070
(2) Interest	1,17,154

Number of societies involved 138.

The bank was not able to pay its matured deposits since 1932. The amount in default is Rs. 64,535 under principal and Rs. 9,964 under interest. The recoveries from societies were less than 5 per cent of the outstandings for the last five or six years. The bank estimates the bad debt at about Rs. 62,464 of which a loss of over Rs. 3,000 is expected to be caused by one society (Kangola). Mismanagement and indiscriminate financing are said to be the main reasons for the expected losses apart from other general reasons.

Sambalpur Co-operative Central Bank.

Number of societies 151.

	Rs.
Paid up share capital	16,913
Reserve Fund and other funds	17,602
Total borrowings	87,172
Loans outstanding against societies—	
(1) Principal	96,529
(2) Interest	64,755

Number of societies involved 128.

Amount overdue—

(1) Principal	96,529
(2) Interest	64,755

Number of societies involved 128.

The bank was not able to pay its matured deposits since 1929. The amount of default is Rs. 62,875 under principal and Rs. 11,436 under interest. Practically no recoveries were made for the last two years and the recoveries made before were not more than three to four per cent of the outstandings. The bank estimates a bad debt of about Rs. 22,583. Heavy loss of about Rs. 36,499 is expected in 9 societies.

Kujang Co-operative Central Bank.

Number of societies 186.

	Rs.
Paid up share capital	32,620
Reserve and other funds	5,014
Total borrowings	2,36,260
Loans outstanding against societies—	
(1) Principal	2,26,871
(2) Interest	1,02,783

Number of societies involved 177.

Amount overdue—

	Rs.
(1) Principal	2,19,011
(2) Interest	82,215

Number of societies involved 176.

The bank was not able to repay its matured deposits since 1927. The amount of default is Rs. 1,24,234 under principal and Rs. 22 under interest. The recoveries from societies did not amount to more than 4 per cent for the last six years. The bank estimates a bad debt of about Rs. 39,515. Apart from other reasons, over-financing and damage to crops on account of floods are the main reasons for the expected losses in societies.

Cuttack Co-operative Central Bank.

Number of societies 276.

	Rs.
Paid up share capital	67,794
Reserve and other funds	46,718
Total borrowings	5,39,694

Loans outstanding against societies—

(1) Principal	5,28,560
(2) Interest	1,67,658

Number of societies involved 276.

Amount overdue—

(1) Principal	5,09,008
(2) Interest	1,52,294

Number of societies involved 271.

The bank was not able to pay its matured deposits since 1936. The amount in default is Rs. 1,39,467. The recoveries from societies amounted to not more than 6 to 7 per cent of the outstandings for the last 4 to 5 years. The bank expects a loss of Rs. 88,910 and the loss is expected to be over Rs. 3,000 each in six societies. The main

reason is said to be mismanagement by *panches*. The loss in Bhatimunda Bell-metal society is expected to be Rs. 17,803 and this is due (1) to over-production of goods for which there was not ready market, (2) sale of goods on credit and (3) alienation of property by certain defaulters.

Jajpur Co-operative Central Bank.

Number of societies 139.

		Rs.
Paid up share capital	... ..	44,362
Reserve and other funds	... ..	7,554
Total borrowings	... ..	2,75,347
Loans outstanding against societies—		<i>Overdue.</i>
		Rs. Rs.
(1) Principal	... .. 2,78,673	2,47,346
(2) Interest	... .. 80,928	5,753
Number of societies involved	127	127

The bank was not able to repay its matured deposits since 1927. The amount in default is Rs. 1,29,760 under principal and Rs. 6,251 under interest. The recoveries from societies were not more than 9 to 11 per cent for the last four or five years. The bank estimates the bad debt at about Rs. 66,210. There are four societies which will each cause a loss of more than Rs. 3,000. Of these the Kendupatna Co-operative Society will cause a loss of about Rs. 16,797, on account of certain misappropriations which occurred in the society.

Berhampur Co-operative Central Bank.

Number of societies 179.

		Rs.
Paid up share capital	... ..	46,960
Reserve Fund and other funds	... ..	43,854
Total borrowings	... ..	5,22,924
Amount outstanding against societies—		
(1) Principal	... ..	2,46,864
(2) Interest	... ..	15,386

Number of societies involved 158.

Amount of overdue—

	Rs.
(1) Principal	1,08,745
(2) Interest	2,275

Number of societies involved 136.

The bank estimates a loss of about Rs. 7,050 in 23 societies situated in zamindari areas. This small loss will not affect the working of the bank in any way. The bank has invested Rs. 1,51,269 in Government promissory notes.

Aska Co-operative Central Bank.

Number of societies 330.

	Rs.
Paid up share capital	1,21,799
Reserve and other funds	1,23,118
Total borrowings	4,54,368

Loans outstanding against societies—

	Rs.
(1) Principal	6,00,542
(2) Interest	20,198

Number of societies involved 316.

Amount overdue—

	Rs.
(1) Principal	5,74,842
(2) Interest	12,856

Number of societies involved 315.

The bank has not defaulted in respect of repayment of deposits but it defaulted in respect of the loan obtained from the Madras Provincial Bank since 1935. The amount overdue to the Provincial Bank is Rs. 54,381. The bank has invested a sum of Rs. 33,900 in Government promissory notes. The estimated bad debt is about Rs. 33,648 of which over Rs. 3,000 is expected to be caused in one society. The bad debt fund so far accumulated amounted to Rs. 83,000.

APPENDIX I.I.

Statement showing the net income of paddy per acre from dry lands according to present market prices.

Locality or the name of division.	Yield of paddy per acre.	Value of that yield.	Cultivation expenses.									Assessment, land tax or rent per acre.	Income per acre.	Price of straw.	Net income per acre.
			Ploughing or land preparation.	Seeds.	Manuring.	Puddling and weeding or interculture.	Harvesting.	Shortage and thrashing.	Transplanting.	Seedlings or livestock maintained.	Total.				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
DIVISIONAL OFFICERS.		Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
Balasore ...	14 Mds.	16 10 0	3 0 0	1 0 0	1 4 0	2 0 0	1 8 0	3 0 0	...	...	11 12 0	2 4 0	2 10 0	3 0 0	5 10 0
Jajpur ...	...	13 0 0	4 6 0	1 0 0	1 8 0	1 14 0	...	...	1 0 0	...	9 12 0	4 11 0	1 7 0	2 8 0	1 1 0
Banki ...	15 Mds.	18 3 0	3 15 0	1 8 0	2 8 0	2 14 0	2 15 0	...	0 15 0	...	14 11 0	1 4 0	2 4 0	3 0 0	5 4 0
Sambalpur ...	15 ..	13 5 0	2 0 0	2 0 0	2 0 0	...	...	...	...	...	4 0 0	0 8 0	8 13 0	...	8 13 0
Kendrapara ...	10 ..	12 9 0	0 12 0	1 0 0	0 8 0	1 8 0	0 8 0	...	...	4 8 0	8 12 0	3 0 0	0 6 0	1 0 0	1 6 0
Chatrapur ...	33 Bhas.	429 0 0	9 0 0	(Other charges, etc.)			...	...	...	...	9 0 0	3 0 0	17 0 0	...	17 0 0
Bargarh ...	13 Mds.	13 13 0	3 0 0	2 0 0	1 0 0	1 4 0	1 2 0	...	...	...	8 8 0	0 9 0	4 14 0	...	4 14 0

Statement showing the net income of paddy per acre from wet lands according to the present market prices.

Locality or name of the divisions	Outturn of paddy per acre.	Value of the outturn.	Cultivation Expenses.									Assessment land tax or rent per acre.	Income per acre.	Price of straw.	Net income per acre. (14+15)
			Ploughing or land preparation.	Seeds.	Manuring.	Planting and weeding or interculture.	Harvesting.	Shortage and thrashing.	Transplanting.	Seedling of livestock maintenance.	Total.				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
DIVISIONAL OFFICES.		Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
Balasore	18 Mds.	228 0	6 0 0	1 8 0	...	...	3 0 0	4 0 0	...	...	14 8 0	3 0 0	5 0 0	2 0 0	7 0 0
Jajpur	16½ "	158 0	4 6 0	1 0 0	1 8 0	1 14 0	...	...	1 0 0	...	9 12 0	4 11 0	1 1 0	3 0 0	4 1 0
Banki	18 Mds. 10 seers.	22 12 0	3 9 0	1 8 0	2 8 0	2 14 0	6 0 0	...	0 15 0	...	17 6 0	1 9 0	3 13 0	5 0 0	8 13 0
Sambalpur	18 Mds.	16 0 0	2 0 0	...	...	...	...	...	...	...	4 0 0	1 0 0	11 0 0	...	11 0 0
Khurda	3 Baharans	24 0 0	5 0 0	1 8 0	2 0 0	2 3 0	1 14 0	...	...	...	12 9 0	4 5 0	7 2 0	2 0 0	9 2 0
Cuttack	15½ Mds.	22 0 0	1 8 0	2 0 0	1 8 0	3 0 0	2 8 0	...	1 8 0	...	12 0 0	3 0 0	7 0 0	2 0 0	9 0 0
Kendrapara	18 "	22 0 0	1 8 0	1 0 0	0 8 0	3 0 0	1 0 0	...	...	5 10 0	12 10 0	7 0 0	2 6 0	...	2 6 0
Bargarh	22 "	29 0 0	3 0 0	2 0 0	1 0 0	1 4 0	1 8 0	...	...	...	8 12 0	1 9 0	18 11 0	...	18 11 0
Do.	25 "	33 0 0	3 0 0	2 0 0	1 0 0	1 4 0	1 8 0	...	...	...	8 12 0	1 10 0	22 10 0	...	22 10 0
Chatrapur... ..	4 Baharans	35 0 0	2 8 0	1 4 0	...	0 10 0	3 12 0	0 12 0	1 4 0	...	10 2 0	4 8 0	20 6 0	...	20 6 0

Statement showing the net income of paddy per acre from wet lands according to the present market prices.—concl'd.

Locality or name of the divisions.	Outturn of paddy per acre.	Value of the outturn	Cultivation Expenses.									Assessment land tax or rent per acre.	Income per acre.	Price of straw.	Net income per acre. (13+15)
			Ploughing or land preparation.	Seeds.	Manuring.	Planting and weeding or interculture.	Harvesting.	Shortage and thrashing.	Transplanting.	Seedling of live stock maintenance.	Total.				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
DIRECTOR OF AGRICULTURE.															
Rankl	12 Mds.	19 0 0	2 10 0	1 8 0	2 2 0	2 8 0	2 12 0	...	...	...	19 10 0	1 4 0	4 14 0	...	4 14 0
Kujang	20 ..	24 0 0	3 0 0	1 8 0	3 0 0	4 8 0	3 0 0	...	...	...	15 0 0	2 8 0	6 8 0	...	6 8 0
Ninapara... ..	12 ..	16 0 0	2 4 0	1 0 0	1 0 0	3 4 0	3 0 0	...	...	...	10 8 0	3 0 0	2 8 0	...	2 8 0
Sambalpur	11 ..	12 0 0	6 0 0	3 0 0	...	...	0 4 0	...	...	...	9 4 0	0 4 0	2 8 0	...	2 8 0
Bargarh	15 ..	17 8 0	3 0 0	3 0 0	...	4 0 0	2 0 0	...	...	...	12 0 0	1 0 0	4 8 0	...	4 8 0
Nawapara... ..	14 ..	17 8 0	3 0 0	1 14 0	1 14 0	1 12 0	2 4 0	...	...	...	10 12 0	0 8 0	6 4 0	...	6 4 0
ASSISTANT REGISTRARS.															
Balasore	8 Mds.	12 8 0	2 0 0	1 0 0	...	1 8 0	1 0 0	1 0 0	...	...	6 8 0	2 8 0	3 8 0	...	3 8 0

Sambalpur	...	8	9 8 0	2 0 0	1 8 0	1 8 0	1 4 0	0 9 0	0 12 0	...	...	9 0	0 12 0	1 3 0	...	1 3 0
Berhampur	...	1 1/2 Baharans	20 0 0	5 0 0	...	2 8 0	...	1 0 0	...	1 8 0	...	10 0 0	2 12 0	7 3 0	...	7 3 0
Puri	...	18 Mds.	22 8 0	6 8 0	1 0 0	1 4 0	1 4 0	1 12 0	0 4 0	...	...	12 0 0	2 0 0	5 8 0	1 0 0	9 8 0
DIRECTOR OF AGRICULTURE																
Banki	...	18 Mds.	30 0 0	3 3 0	1 8 0	2 8 0	3 2 0	4 14 0	...	...	...	15 3 0	3 2 0	11 11 0	...	11 11 0
Kujang	...	25	49 0 0	3 0 0	2 4 0	...	3 12 0	3 0 0	...	...	...	12 0 0	2 8 0	14 8 0	...	14 8 0
Nimapara	...	15	22 4 0	1 8 0	1 0 0	1 0 0	3 8 0	4 0 0	...	...	...	11 0 0	8 0 0	8 4 0	...	8 4 0
Sambalpur	...	17	24 0 0	12 0 0	3 0 0	...	...	0 12 0	...	...	...	15 12 0	0 12 0	2 8 0	...	7 8 0
Bargarh	...	20	20 0 0	3 0 0	3 0 0	...	...	2 0 0	...	...	...	12 0 0	1 0 0	7 0 0	...	7 0 0
Nawapara	...	15	18 12 0	3 0 0	1 14 0	2 0 0	2 8 0	2 2 0	...	...	...	11 8 0	0 8 0	6 12 0	...	6 12 0
Balasore	...	12	18 4 0	2 8 0	0 12 0	0 8 0	...	0 8 0	1 2 0	1 2 0	...	6 8 0	3 0 0	3 12 0	...	8 12 0
Do.	...	11	14 0 0	2 4 0	0 12 0	1 0 0	...	0 8 0	1 0 0	1 0 0	...	6 8 0	1 12 0	5 12 0	...	5 12 0
Sambalpur	...	15	16 8 0	2 0 0	1 0 0	1 4 0	1 0 0	0 9 0	0 15 0	0 12 0	...	7 8 0	1 0 0	8 0 0	...	8 0 0
Do.	...	16	17 8 0	2 0 0	1 8 0	1 4 0	1 4 0	1 4 0	1 8 0	...	...	8 12 0	1 0 0	7 12 0	...	7 12 0
Berhampur	...	10 bags	35 0 0	4 0 0	2 0 0	3 0 0	2 8 0	1 8 0	2 0 0	2 0 0	...	17 0 0	5 2 0	12 14 0	3 0 0	15 14
Puri	...	24 Mds.	30 0 0	5 0 0	1 0 0	1 4 0	1 4 0	1 4 0	1 0 0	2 0 0	...	12 12 0	3 8 0	13 12 0	1 8 0	15 4 0

APPENDIX IV.

Notes on the working of Fishermen's Societies.

Nulia Fishermen Co-operative Society no. I	was registered on	18-10-1920
"	no. II	do. 16-10-1920
"	no. III	do. 20-11-1920
"	no. IV	do. 20-11-1920
"	no. V	do. 20-11-1920
"	no. VI	do. 6-6-1921
"	no. VII	do. 6-6-1921

(The by laws of the society were filed in court in connection with a criminal case against a member. The manager says that all the societies are only credit societies.)

In January 1920, the honorary organiser of the Puri Central Bank in one of his reports to the Assistant Registrar stated as follows:—

"As desired by you, I recently visited the Nulia Basti situated on the sea-beach, with the Fishery Officer, Mr. Patra, for opening co-operative societies amongst the Nulias. On thorough enquiry I came to learn that almost all the Nulias are insolvent and they have incurred debts from several persons on the promise of supplying them with fish, but they do not generally satisfy the debts or fulfil their contract. They have no lands and have no plausible means to secure the money advanced to them. The only properties which a limited number of them possess are the fishing nets and the ordinary country boats of their own make which none but they can ply for fishing purposes. These things cannot be legally sold as they are the only means of earning their livelihood and moreover, they have no saleable value to other persons.

The business of catching fishes is carried on in winter and for a few months only. For the most part of the year the Nulias depend on the petty earnings of their women as day labourers. Generally they spend much in drinking which cannot be easily stopped.

The present financial condition of our Central Bank is not such as to allow such unsafe speculation. I also consulted some of the leading local directors of our Central Bank who are well aware of the means and habits of Nulias but they all unanimously endorsed my opinion in refusing co operative societies amongst Nulias."

The Assistant Registrar in his letter no. 2566, dated 9th September 1920, informed the bank that a scheme for the starting of the societies

among the Nulia Fishermen of Puri and the financing of the same by Government was submitted to Government and pending final orders the Central Bank might finance the societies temporarily, the loan of Central Bank being repaid out of the Government loan.

Five societies were started in October 1920, and two in June 1921, along the sea-beach of Puri.

The societies were organised by the District Fishery Officer, Puri. In his letter, dated 3rd December 1920, this officer stated that the members of the fifth society were creating great row as they did not get money from the Central Bank quickly and the letter was communicated to the bank by the Assistant Registrar on which the bank stated that the resources of the Central Bank were not permissible to finance these Nulia societies. In the meanwhile the five societies started in 1920 got a total loan of Rs. 4,850 from Government repayable in ten annual instalments. The Assistant Registrar in his letter no. 2615, dated 4th August 1921, advised the bank to finance the two new societies formed in 1921 temporarily. By 23rd December 1922, the bank advanced Rs. 2,096 to the two societies.

Apparently the societies were not doing well in 1923 and the Registrar of Co-operative Societies, Bihar and Orissa, stated in July 1923 that if the Nulias were not keen and if they considered the societies as a burden, it would be better to wind them up.

The societies paid the annual instalments to Government till 1925 when they began to default. Apparently on this account the departmental officers changed their attitude and the Assistant Registrar, in his letter no. 18, dated 18th June 1925, to the Secretary, Central Bank, stated that "the department was not prepared to move the Government for financing these Nulia societies and that the Government had come forward to show the lead at the time when these societies were only at their infant stage and since the societies had been reorganised, it was the lookout of the Central Bank to see to their proper finance, supervision and timely realization of the kist dues". This reply was apparently with reference to further financing the societies.

The seven societies for Nulias were amalgamated into one society in the year 1925 at the instance of the District Fishery Officer and thereupon the Central Bank granted a fresh loan of Rs. 6,984 to the reorganised Nulia Society on 8th July 1925 and informed the fact to the Assistant Registrar. Again, the honorary organiser wrote a demi-official to the Assistant Registrar on 11th July 1925, stating the Nulias as a class were a band of adventurous workers and suggested the appointment of a clerk for the proper management of the society.

The Registrar of Co-operative Societies, Bihar and Orissa, in his letter no. 19391, dated 19th July 1925, stated that special attention should be paid to the Fishermen Societies of Puri area as they were

showing signs of deterioration and that if these societies were neglected and allowed a large latitude on account of their having bad season, it would be difficult to improve them afterwards.

The amalgamated society was granted in all five loans by the Central Bank. A statement showing the borrowing on different occasions is noted below :—

				Rs.
8-7-1925	...	...	...	6,984
16-8-1925	...	..	...	4,000
21-9-1925	...	...	...	1,700
23-9-1926	...	...	...	175
27-8-1928	...	...	...	1,030
			Total	13,889

The sanction of the loan of Rs. 6,984 on 8th July 1925 was objected to by the chairman of the bank (Babu J. Singh). Even against his minute of dissent the loan was sanctioned by six other directors.

The second loan of Rs. 4,000 sanctioned on 16th August 1925 was recommended to the society by the District Fishery Officer. The fifth loan of Rs. 1,030 granted on 27th August 1928 was recommended by the Fishery clerk.

All the loans were passed at the meetings of the directors of the Central Bank. The loan applications do not show that any security was obtained from the members for the amount taken by them. In 1928, having found the loans to be insecure the Assistant Registrar (the same gentleman who recommended the loans to two societies in 1922) in his letter no. 1612-13, dated 23rd February 1928, requested the Secretary, Puri Bank, to inform him whether there was any documentary evidence to prove that the District Fishery Officer was in any way responsible for the over financing of the Nulia Society and for advancing loans to persons whose whereabouts were not traceable. In reply the bank stated that two officers were fully responsible for an amount of Rs. 380 advanced to three of the members. The Assistant Registrar in his letter no. 7318 of 29th September 1928 called for further particulars whereupon the Central Bank in letter no. 1327, dated 8th November 1928, informed that the members from whom the Central Bank considered the recovery of loans doubtful had been traced and that they denied taking any loan from the society.

The balance of loan borrowed from Government was repaid partly out of collection and partly out of the advances made by the Central Bank.

In his letter no. 663-65, dated 29th January 1929, the Assistant Registrar asked for a comprehensive report on the working of the Fishermen Societies but the reply of the Central Bank (letter no. 293, dated the 27th February 1929) does not contain full particulars.

The honorary secretary in his note, dated the 18th February 1931, stated that the members of Fishermen Society came to him with a request to accept from them the principal alone of the loans, remitting interest. The question was considered at a meeting of the working committee of the bank on 23rd February 1931. They resolved to hold an independent enquiry and authorised Babu Gopinath Misra to submit a report before the next meeting, but the records show that no report had been received from the director.

The Deputy Registrar inspected the society in 1927 and remarked that the affairs of the society revealed a deplorable state and wanted to reorganise the society. The audit reports for the year 1927, 1929, 1931, 1932, 1933 and 1934 disclose that the investments of the Central Bank were insecure and that the members possess no realisable assets.

The Assistant Registrar inspected the society in the year 1934 and was of opinion that the Central Bank would surely lose an amount of Rs. 10,000. He expressed that the society was fit for liquidation, but said that liquidation would not bring any money to the coffers of the Central Bank. The society is not yet liquidated.

The kists of the society were revised on 22nd September 1936, by which date an amount of Rs. 15,692 was outstanding against it. The society subsequently repaid only Rs. 787, and an amount of Rs. 14,905 was then outstanding. While this amount of Rs. 14,905, was outstanding against the society, the Central Bank advanced another loan of Rs. 1,030 on 27th August 1938, to the society. Towards this, the society repaid Rs. 615, leaving a balance of Rs. 415 outstanding. The total amount due from the society to the bank is, therefore, Rs. 15,320 (principal).

APPENDIX V.

QUESTIONNAIRE.

ENQUIRY INTO THE CONDITION OF THE CO-OPERATIVE MOVEMENT
IN ORISSA.*General.*

1. Do you consider that the Co-operative Movement in Orissa is advancing on sound lines.

2. Do you think that the Co-operative Movement in Orissa has done good to the people? Has it reduced or increased indebtedness? Was there any reduction in the rate of interest charged by money-lenders on account of the working of the societies? In what other ways have material benefits resulted to the members of societies?

Finance.

3. Do you consider that the Co-operative Movement is in a sound financial condition.

4. Is the supply of finance adequate for the needs of societies? Is there a breakdown in the supply? Do not societies ask for loans? Are financing banks giving them? If there is a breakdown what are the reasons for the same?

5. Have the investing public lost confidence in the working of the Central Banks and Societies? Do you think that any reconstruction or remodelling of the constitution and the method of work of these institutions will restore confidence in them? How will you reconstruct them?

6. Do you think that an apex or a Provincial Bank is necessary for the Province? Will it be able to attract money in view of the present condition of the Central Banks and primary societies?

7. Do you think that if a Provincial Bank is formed, it will be able to take over the assets and liabilities of any Central Bank which has ceased to function at present?

8. Do you think that if in any area a Central Bank is not working on sound lines, it can be amalgamated with the nearest satisfactory Central Bank?

9. Do you agree with the view that the size of a Central Bank should not be too small but should be such as will enable the bank to accumulate substantial reserve and bad debt funds within a reasonable period so that it can withstand possible losses inevitable in a banking institution?

10. Are you of opinion that the policy of using fixed deposits for financing long-term loans is unsound, or if not, to what lengths do you think such a policy may be safely pursued?

11. Is the finance obtained at unnecessarily high rates? Compare the rates paid by the Co-operative Central Banks with those paid by Joint Stock Banks.

12. What rates should the banks and societies pay for their borrowings? Do you think that the margin between the borrowing and lending rates of primary societies, and Central Banks is too great? What margin will you fix for the two classes of societies taking into consideration the amount required for their efficient management?

13. Will you permit primary societies to accept deposits? If so, under what conditions and to what extent? What fluid resources should be maintained if they accept deposits?

14. How are the reserve funds of primary societies and banks invested at present? Do you suggest any change in view of the breakdown of some of the banks and societies?

15. If for any reason the formation of a Provincial Bank is not feasible, do you think that any of the existing banks can take over the function of such a Bank in addition to its functioning as a Central Bank?

16. What is the procedure adopted in obtaining and executing the decisions or awards by societies against defaulters in respect of loans secured by—

(a) specific mortgage

(b) otherwise?

Are there serious delays or difficulties in either obtaining or executing these decisions or awards? If so, what remedy do you suggest?

Audit.

17. Audit is a statutory function of the Registrar. In what cases and to what extent should societies contribute towards the cost of audit?

18. Do you consider the present audit arrangements adequate?

19. Do the present arrangements for audit allow share-holders, depositors and financing and supervising bodies to obtain all the information they are entitled to regarding the position of the societies in which they are interested?

Supervision.

20. What is the agency employed for the supervision of societies? Is the work of that agency efficient; if not, what is the failure due to and to what extent should this supervision be supplemented, strengthened, or replaced by a further agency? Should officers of the

Co-operative Department control supervision? If so, to what extent? Has the agency which does supervision at present get adequate funds for the purpose? If not, how should they be supplemented?

Training and Instruction.

21. Is the staff employed by the department and by co-operative institutions adequately trained in co-operative principles and the practical working of societies?

22. Does the pay now offered attract men of the right type with sufficient educational qualifications?

23. What, if any, further provision is necessary for instructing and training co-operative workers and members of co-operative societies?

Organisation.

24. Are new societies being organised? Is there any difficulty in bringing new societies into existence? What is the agency employed to organise new societies, both credit and non-credit?

25. What qualifications should the organisers possess and what preliminary instructions should be given to the Panchayatdars and members of prospective societies?

26. What types of non-credit societies exist at present? What new types will you suggest?

27. What arrangements exist for propaganda? If there are no arrangements what do you suggest?

Liquidation.

28. What difficulties are experienced in liquidating societies? What is the agency employed for the purpose? Are you satisfied with the progress made in winding up the affairs of liquidated societies? What measures should be taken to expedite the progress?

Central Banks.

29. What area or how many societies can a Central Bank most effectively serve? Do you agree with the view that there shall not be more than one Central Bank in a Revenue district?

30. Is it desirable that banks should have paid Secretaries with no seat on the directorate?

31. Should a Central Bank finance a non-credit society? If so, what types of non-credit societies and on what conditions? What precautions should the Bank take from time to time to see that its investments are safe?

32. Do you think that a Central Bank should be permitted to deal with all kinds of banking business which are not however beyond the scope of Co-operative Societies Act, if it should be really useful to both its depositors and borrowers? If this is permitted, what safeguards will you provide for the proper working of the Bank?

33. To what extent is uniformity desirable and possible in the rates at which various Central Banks accept deposits? How can uniformity be enforced?

Primary Credit Societies.

34. Is it a fact that village credit societies gave in the past large loans for payment of prior debts and purchase of lands without investigating whether such loans could be repaid out of income within the stipulated periods?

35. What safeguards should be adopted to prevent a society from giving loans which cannot be repaid out of income?

36. Do you agree with the view that the credit given to a member should be controlled at every stage? That is to say, a loan sanctioned should be disbursed in instalments as the need of the borrower for the purpose for which the loan is granted arises and the loan given, should be collected out of the income produced by the application of the loan? For example, if a loan for cultivation expenses is sanctioned, the loan should be disbursed in instalments as the cultivation process progresses and that the loan should be collected out of the crop produced and for this purpose the borrower should execute an agreement pledging the crop to be raised and agreeing to sell his crop through or with the knowledge of the society. Even if a loan is given in a lump sum for any other purpose, the entire loan or the annual instalment should be paid out of the produce which should be handed over to the society as soon as the crop is harvested. Do you think that this suggestion can be carried out in practice by societies?

37. Is it possible to confine the entire loan operations of village credit societies to short term purposes only, all loans given being made repayable out of the next harvest, or within 18 months from date of disbursement?

38. If loans for other purposes also should be given, what should be the maximum period for which the loans may be given.

39. Will you prohibit altogether the granting of loans by village credit societies for purposes like payment of prior debts, purchase of land and improvement to lands? Which agency should in your opinion undertake the financing for this purpose?

40. For what periods do Central Banks give loans to primary credit societies? Are loans given for periods exceeding five years? Is that practice sound?

41. Do you think that the sureties of the borrowers in village societies understand their responsibilities? Do they understand that it is their duty to make the borrower pay on the due date, failing which they themselves should pay on that date?

42. Who maintains the accounts in a village credit society? Does any remuneration paid to him? Do the Panchayatdars get any remuneration for their work? Do you think that if a small remuneration is paid to the Sripanch or the Secretary more efficient work will be done?

43. Has unlimited liability been enforced against any member of any society? What is the general attitude of the people in regard to this liability? Are any persons whose services will be of value to unlimited liability societies keeping themselves aloof from such societies for fear of that liability? Do societies suffer from the absence of such persons? What will you do to bring them into societies? Will you alter the nature of the liability and make the societies limited? If the liability is altered, do you think that the investing public will put money into them? Do you think that the persons who now keep aloof will join the societies if the liability is changed? Should there be also some material inducements to attract these people? What inducements will you offer?

44. Do you agree with the view that the village society should be a multiple purpose society (without being merely a credit society) undertaking the supply of domestic and other requirements of the members, the sale of their produce etc?

45. Why is it that societies of the People's Bank type have not developed in Orissa. Is there no scope for them?

46. Do you think that credit societies for employees have done any good to them? Are these employees always indebted to the societies to the extent of their borrowing limits? What are the borrowing limits in these societies?

47. On what basis is the maximum borrowing power of a village credit society and of its members fixed? Do you suggest any alteration?

48. Are restrictions on free transfer of tenants' rights hampering the proper working of village credit societies? Do you think that such restrictions should be removed?

Non-credit Societies.

49. Of what type of non-credit societies have you had experience?

50. What steps do you recommend to facilitate the development of non-credit societies of various types? Please state to what type of society you refer?

51. Are you acquainted with the working of any co-operative stores in the Province? If so, have you any criticisms to offer or suggestions to make regarding the work of such societies?

52. Are you acquainted with any societies for weavers for the supply of raw material required by them and sale of their finished products? Do you think that the working of such societies is successful? If not, have you any suggestion to offer to improve the working of weaver societies?

53. Are you acquainted with the working of any society for the sale of produce of the villagers? On what lines do you suggest that such societies should be organised?

54. How far is it possible and desirable to develop co-operative distribution, production, and sale societies?

55. To what extent and in what direction should credit societies undertake non-credit activities? Are any steps necessary to develop these activities?

Legislation.

56. Is there scope of consolidation of holdings? Can societies be started for the purpose or should there be legislation for compulsory consolidation when a majority of people in a village agree to such consolidation?

57. Do you think that any changes are necessary in the provisions of the Acts and the rules framed thereunder by which the societies are governed in their respective areas? Should there not be a common Act and rules for the whole province and should not the practice and procedure be the same in all parts?

58. Do you think that the Co-operative Department should be vested with powers to execute the decisions and awards obtained by societies through its own agency?

REFERRALS
2003-04