

RESERVE BANK OF INDIA

AGRICULTURAL CREDIT DEPARTMENT

BULLETIN No. 2

CO-OPERATIVE VILLAGE BANKS.



OMBAY,
1937.

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FOREWORD.

The success of the first bulletin of the Agricultural Credit Department on the Kodinar experiment has encouraged the author to embark on a second and more comprehensive bulletin in which he examines in detail the numerous activities which a village bank should perform if it is properly to fulfil its function of developing the resources of the agriculturist. The bulletin has been prepared by Mr. Ambegaokar in collaboration with Mr. Nanavati, the Deputy Governor of the Bank. It shows bluntly and plainly how deep rooted are the obstacles to improvement and how futile it is to expect that any simple panacea such as the flooding of the country with cheap credit would ensure any permanent improvement. It is somewhat pathetic to read the lengthy extracts from the Nicholson Report of 1895, on the basis of which the co-operative movement was started in India, and to contrast how lamentably in many areas performance has fallen short of promise and the fundamental ideals of the movement have become obscured. At the same time, as the author points out, the position is by no means hopeless, if the problems are attacked in a spirit of constructive realism rather than sentimentality. It is to workers, official and non-official alike, who are animated with this spirit that this bulletin is addressed and in it they should find practical and constructive suggestions.

I need hardly repeat what I said in my preface to the first bulletin that though the opinions expressed in these bulletins are not to be regarded as the official opinion of the Bank in as much as in many matters they make suggestions which are outside the scope of the activities which a central bank can itself properly perform, they examine constructively a problem which is probably at the present time the most important of the many confronting the country, and we consider that in itself sufficient justification for giving them the publicity afforded by these bulletins.

Reserve Bank of India,
Central Office,
Calcutta,
24th August, 1937.

J. B. TAYLOR,
Governor.

CO-OPERATIVE VILLAGE BANKS.

In the first bulletin published by the Agricultural Credit Department the Introductory. working of a typical Co-operative Banking Union was described and it was shown how co-operative organisations were best likely to succeed in their aim of ameliorating the condition of the farmer by copying its method of taking within their ambit every possible aspect of his life and endeavouring to help him not only in regard to the supply of credit but in all matters which combine to make farming uneconomic at present. It is not claimed that this is a novel suggestion not thought of by anybody before. It is admittedly the basic idea underlying all rural re-construction schemes. Even in the co-operative movement it was undoubtedly the ideal which the pioneers set before themselves. It cannot be said however that the co-operative movement has kept the ideal steadily before its eyes or made sustained efforts to carry it out in practice. In recent years particularly when agriculture had to pass through a period of acute crisis, Co-operation has tended to get more and more pre-occupied with the immediate problems created by it, the accumulation of debt and its relief and to become more and more divorced from rural re-construction which has come to be looked upon as an activity to be taken up by a separate agency. The ideal has receded into the background. The methods for attaining it are discarded as too slow

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to provide immediate relief to the agriculturist. Debt redemption and provision of cheaper credit have become the rage. There is a clamour for the magic wand to produce instantaneous results. Schemes are demanded which will alter the whole situation in the twinkling of the eye. It is easy to understand the spirit of impatience in those who are in the thick of the struggle. Such immediate measures of relief as the scaling down of debts, grant of easy instalments, reduction in the rates of interest, curbing the "rapacity" of the moneylender by regulating his business, as are within the realm of practical politics must certainly be adopted. The fact however that these can only be temporary palliatives is in danger of being lost sight of. It cannot be too often repeated that there is no short cut to the solution of the rural problem. It is a laborious and uphill task. There is all the same no reason to lose heart and a clear realisation of the goal and steady efforts to attain it must ultimately bring it within reach. There was never a greater need for such efforts. It is therefore felt that it would be worthwhile to develop further the ideas which were set forth in a somewhat brief manner in the first bulletin. The intention of this bulletin is to analyse more fully the conditions of village life and to indicate the lines on which the village community might be organised so that it might be in a position to rescue itself from its present miserable plight and with all sided improvement be put on a prosperous and stable footing.

2. Factors making for the stagnation of village life in India are many and varied. A particular aspect of these receives emphasis according to the predilections of the investigator and his pre-occupation with that aspect of the problem. To an Indian farmer, however, agriculture is not a business but it is his whole life. Every phase of his life influences and is influenced by others and it is only improvement at all points that can conduce to his ultimate well-being. His economic welfare is closely bound up with social and religious practices and an organisation meant primarily for the improvement of his credit must therefore take cognisance and be based on a clear conception of all factors governing his life which may be grouped under two main heads (a) economic (b) social and religious.

3. On the economic side the disabilities of the farmer which are generally well-known are the minute, scattered and uneconomic nature of his holding; his primitive methods of cultivation and poor out-turn of crop; the ruinous rate of interest which he has to pay for loans; the exactions and frauds committed at every stage so that he is deprived of even the small return for his labour which he might have otherwise obtained; his illiteracy, ignorance and lack of organisation which make him an easy prey for exploitation all round; the strain on his resources owing to the frequent replacement of stock necessitated by high cattle mortality; absence of

sanitation and medical relief and his own poor nutrition leading to wastage of human material. What does not always receive equal recognition is the fundamental changes in village economy which have occurred in modern times. With the establishment of peace and security in the country and the consequent security of tenure in land the agriculturist suddenly found his credit vastly improved with the result that the opportunities for wasteful expenditure increased and he got hopelessly in debt. The establishment of Courts of Justice has also, paradoxically, given a greater field to unscrupulous moneylenders and other dishonest people dealing with the farmer to exploit his ignorance and to take advantage of presumptions of law which he did not understand. More than this, the entire economic system of the village has undergone a change. The old self-sufficient economy has disappeared. Money has become the basis of all dealings and instead of growing all his needs the farmer tends to grow paying crops for sale in outside markets, so that he may obtain cash to satisfy his other requirements. The use of money requires a skill and caution which the farmer does not possess. Dependence on one or two crops means that in the case of failure of these crops the farmer becomes helpless. One by one the farmer has lost his other sources of income. Where formerly he used to employ his bullocks during the off-season for carting he now uses the motor bus. The increase in efficiency and speed is all to the good but the farmer has lost one employment without

finding any other to take its place and is instead required to spend part of his agricultural income for the purpose. Formerly his wife would grind the corn at home. Now the flour mill saves her from this drudgery but even this is not an unmixed blessing since the farmer now spends money for getting flour without finding an alternative occupation for his wife. These are only two specific instances taken at random but every kind of processing of crops which was formerly done by the farmer and his family at home or by other professional castes in the village is being now done on a much larger scale in factories and mills at centres removed from the village so that the farmer is deprived of almost all other occupations and left with the single task of producing crops and selling them in the least profitable and elementary form. What happened in Western countries on the advent of industrialisation is happening in India in modern times without corresponding industrialisation of the country itself so that even this compensating advantage is lacking. Instead of industry absorbing the increase in the agricultural population, the disappearance of small industries and arts owing to the advent of cheap machine made articles has driven the small artisan to seek his livelihood from land thus increasing the pressure upon it. During the last forty years the number of persons engaged in agriculture in India has increased by over 18 millions from 90,957,549 in 1901 to 109,730,788 in 1931. It would seem that the increase would

have been even greater but for the fact that in 1921 there was hardly any increase over 1911 figures owing to the influenza epidemic which seems to have affected the agricultural population most severely. The rural population as a whole has increased during the decade 1921-31 by thirty millions from 285 millions to 315 millions. The area under cultivation has also gone up as follows:— (000's omitted).

	<u>1915-16</u>	<u>1933-34</u>
Indian States,	31,086	75,136
British India,	254,412	267,160
All India,	285,498	342,296

It will be seen that the increase is most pronounced in Indian States while in British India it is not commensurate with the increase in agricultural population. Apart from canalization which has brought some uncultivable areas under cultivation the increase in British India can only have resulted in bringing marginal lands into cultivation, as the fertile areas are already thickly populated. The increase in area does not therefore always indicate an equal increase in the quantity of agricultural produce. The whole subject of the growth of population in comparison with the increase in the area under cultivation and in the productivity of the land is an interesting one and requires research. From the few figures quoted above [from census reports and statistical summaries relating to Agriculture published by Government of India] it will not be wrong to conclude that the pressure of the population on the land is increasing, and that there is serious

danger of trouble ahead unless measures are taken to restrict the number employed on the land and to increase its productivity.

The problem on the economic side is therefore to restore the balance so that the disequilibrium in the farmer's budget will disappear. This does not mean that the hands of the clock are to be put back. It only means that the deficiencies arising out of new conditions must be made good in some other way.

4. Apart from the economic drawbacks mentioned above the social and the religious aspects of the farmer's life influence his economic well-being. In social matters the caste system stands out as a major disability. The system in the first place stratifies economic inefficiency. It breeds a superiority complex in the higher castes and an inferiority complex in the lower both of which are detrimental to efficient farming. The field of a Brahmin cultivator will ordinarily not be so productive as that of a kunbi or traditional farmer because the former will not generally work the plough himself or do personal labour. His women-folk will also not work in the field so that he does not get the help which the kunbi gets from his family. At the other end of the scale are the low castes and aborigines who are hampered by their ignorance of proper methods of cultivation, their slovenliness and evil habits like addiction to drink and drugs. Caste or racial sub-divisions thus tend to create permanent barriers in the way of progress

in efficiency and perpetuate economic differences. Each caste represents a different quality of the cultivator as a working unit. This distinction was so well recognised in the past that under the old "komvari" system of Revenue assessment in Gujrat, a Patidar paid more land revenue than a Dharala for the same class of land in the same village. One problem on the social side is therefore to remove the inequalities and to help the man in the lowest grade to come up to the standard of the highest. Secondly, caste customs like polygamy and endogamy and rigid rules about ceremonial expenditure which grew up under totally different conditions when life was localised and simpler and easier have not been altered with changed conditions. Social reform has not penetrated to villages and the lower strata of society in particular continue to cling to age-long customs. Unless these customs can be modified by creating public opinion in the villages, by educating the leaders of the castes or even by legislation and the poorer classes relieved of this burden there is no hope of any permanent economic improvement.

5. Religion in the sense of a faith in a higher being is not unknown in villages but its light has become dim and it hardly serves the purpose of ennobling and enriching the villager's life. The religion that reaches village folks is that mostly taught by quacks and encrusted with customs and practices which make it a travesty of religion. It is mostly a conglomeration of superstitious beliefs which have become a serious economic handicap.

As an illustration may be mentioned the practice of extravagant expenditure on religious feasts and on the occasion of births, marriages and funerals even when the money can only be obtained by borrowing at usurious rates of interest very often resulting in the mortgaging of the whole future life of the borrower and his heirs and paving the way to loss of property and destitution. Even when an individual understands the folly of such action he finds it difficult to withstand public opinion. The following account of a gardener employed by a doctor is a case in point. The gardener's wife fell seriously ill and the doctor arranged for her treatment at a hospital. While she was slowly recovering there the gardener borrowed some money from his employer and disappeared for two days. When asked on his return what he had been doing he said that his caste people had been after him to propitiate the gods and feast the community as the only means of restoring his wife to health and goaded by their taunts about his indifference to take steps to save his wife's life he had in addition to the amount borrowed from his employer sold his two buffaloes and with the proceeds purchased some goats, which were sacrificed to the local goddess, and entertained the community to meat and drink. The man was by habit frugal and careful but yielding to social tyranny had to lose a valuable source of income and get into debt. Village life cannot improve unless these 'superstitious beliefs and harmful practices, very often leading to

economic ruin, are eradicated and a new psychology and enlightenment is brought to the village community.

6. This is by no means an exhaustive survey of village conditions. The present ^{A comprehensive view.} position in most villages in respect of many other matters like communications, water supply, housing, conservancy, access to grazing, and fuel etc., is anything but satisfactory and is capable of improvement. In addition to these common handicaps each village has its own local problems which can only be revealed by patient local investigation. It is only when such a comprehensive view of the village problem from all its aspects is taken that it is possible to realise how futile it is to expect to find any simple and quick solution for it. It is also clear how futile it is to hope that if things are allowed to take their own course they will improve automatically by the mere lapse of time and the impact of modern thought. At the same time there is no need to be overwhelmed by the immensity of the problem or to take up a defeatist and resigned attitude. An appreciation of the full extent of the problem and the realization that there is no speedy ready-made remedy available should on the contrary act as an incentive for the formulation of an all round programme and its steady application to attain the desired results, however slow the process may be.

7. This analysis of the problem clearly points to two important considerations which ^{Two important considerations.} will have to be borne in mind in attempting its solution. In the first place the

problem is obviously too vast to be tackled in anything like an adequate manner at all places simultaneously. On the other hand taking up only a few of the aspects of the problem for treatment in an isolated manner in each village is not likely to lead to satisfactory results. For an enduring solution of the problem, it must be attacked on all sides at the same time. It follows therefore that though many villages are in equal need of relief the only possible plan of campaign is to select a few places for intensive treatment. Secondly, the war must be carried into the enemy's territory by enlisting the co-operation of the leaders of the village in the campaign. In other words there must be an organisation of the villagers themselves for doing everything possible to alter the present conditions. What is really required is a change in the entire psychology of the people, their modes of thought and manner of living and this cannot be effected merely by outside pressure. It is only when the people themselves are convinced of the advantage of a change that any permanent results can be obtained and for this purpose a local organisation to carry out the programme is indispensable. Before coming to the consideration of the nature of such an organisation it is necessary to indicate the directions in which assistance and guidance from outside should be given so that the local organisations may be in a position to work in a satisfactory manner.

8. A central agency to carry on research in village conditions and to be responsible for propagating or introducing measures calculated to bring about an improvement is lacking in most provinces. Researches made by individual students into economic and sociological problems are wasted because there is no machinery to give effect to the conclusions and remedies thought out by them. Where a practical idealist settles down in a village and tries to bring about the necessary reform by patient personal endeavours he is more successful but even he needs support and guidance. Even an attempt to co-ordinate the activities of the various "nation building" departments has not led to any striking results because the real co-ordination required is of the "man on the spot" which is very often lacking owing to the pre-occupation of each with his own routine. Each department is prone to give priority to its own point of view and problems do not receive comprehensive attention. It would seem that what is required is a separate Rural Reconstruction Department to collate the researches made by non-officials and officials alike, undertake the work of giving effect to practical measures through local organizations, and watch and test the results. It is necessary that a separate officer should be put in charge of the department like the Development Commissioner in the Punjab, so that he can give his undivided attention to the subject untrammelled by other work or routine. He may be assisted by an Economic Council or Rural Re-construction

Board consisting of heads of the departments concerned as well as non-officials but it is no use merely instituting such a council or board with one of the heads of departments as Secretary. The officer in charge of the separate rural re-construction department should be constantly in touch with village organization and should be able to supply the stimulus of new ideas the lack of which is more often responsible for stagnation than the lack of a will to work.

9. As regards the local organisation it is clear that it must be such that it will be in a position to carry out an all-sided campaign against existing conditions so that there may be an improvement in every sphere. The three institutions which are already in existence in several parts of the country, viz., (1) the village co-operative society or village bank, (2) the village school, and (3) the village panchayat or village council are best suited for the purpose if they are worked in the right spirit and with the proper aims. For a comprehensive treatment of the problem it is necessary that in the village selected for the purpose all the three institutions should work side by side and in co-operation with each other, the village bank for economic improvement, the village school for social and cultural development and the village panchayat for administration, medical relief, etc. To describe fully the manner in which each institution should function in order to conduce to a radical betterment of village conditions from all points of view would

Local organisa-
tions for a com-
prehensive
programme.

make this bulletin too lengthy and is really outside our scope so that we shall only indicate here briefly the role of the village school and the village panchayat and explain in more detail our suggestions for the organization of the village bank.

10. The function of the village school should be to provide for the cultural development of the younger generation in the first instance and also to serve as a centre of enlightenment for the rest of the population. If this is to be achieved there must be a radical re-orientation in the system of education. It is fashionable to talk about the necessity of education as a sovereign remedy for most of the handicaps from which the farmer suffers. Very little thought is however given to the kind of education that is necessary to bring about an all sided improvement. Usually it is the purely literary character of the present education which comes in for criticism and the necessity for a vocational trend is urged. What is lost sight of is that if education is to be worthy of its name, it must not only teach the pupil to read, write and calculate, or teach him a particular trade, but must improve him in every way, physically, morally, culturally and economically so that he will develop into a better man from all points of view. That schools should be the training ground for building up character is recognised in India but the steps necessary for ensuring this are generally neglected. Unless this lacuna in the present educational system is removed there is little hope of altering

Village school
and need for its
re-organisation.

the psychology of the people and effecting a general improvement of the country side however widely schools may be multiplied on the present system. Along with the ideals mentioned above, the schools must also help in spreading a knowledge of modern scientific and industrial developments and make the young people machine-minded. While other countries are building up their greatness with the help of machinery and even school-boys understand the mechanism and working of simple machines, in this country they are still looked on with awe. The tragedy of persuading farmers to take up the use of costly tractors and pumps has been that there is nobody in the village who properly understands how to maintain them in running order and when anything goes wrong it is difficult to find anybody to put them right even in the neighbouring towns. This obtuseness of most people where machinery is concerned is to no small extent due to the caste-system under which only the blacksmith is concerned with the making and repairing of them. Unless this defect is remedied by educating the people, while they are young, in the construction and use of machines there is no likelihood of machinery coming into general use for the development of the country. The re-organisation of the educational system so as to include all these important factors which have so far been neglected is therefore a prime necessity. The village school should in short become the most potent influence for altering the entire psychology of the village people and in

creating a more upright, self-respecting, progressive and homogeneous village community.

11. The second institution, the Village Council or Village Panchayat, should by its constitution be qualified to attend to those needs of the village which require common action. It should consist of the representatives of the village people who should be best able to judge the wants of the village and be in a position to satisfy them. The habit of working together has generally disappeared in the villages. Village factions and disputes tend further to disunite people and make constructive work difficult. People do not come forward to shoulder responsibility. Everybody's work has become nobody's work. There are few enlightened and public spirited persons in the village who have any ideas about works of general usefulness which might be undertaken. Except in Madras, Central Provinces and the states of Mysore, Baroda and Travancore there is generally no agency to guide and help the Panchayats. The greatest handicap has been the want of funds, as there is usually not much scope for local taxation and District and Local Boards have not been too eager to part with their own funds to help the Panchayats. If Panchayats are to serve their true purpose these handicaps must be removed.

12. The work which the Panchayats can undertake may be classified under four heads:

Programme of
work for
Panchayats.

- (1) To supply the common wants of the village community.

- (2) To supervise public institutions.
- (3) To improve the amenities of village life, and
- (4) To provide for sanitation.

Under the first category can be included the supply of water for the community and the cattle, maintenance of roads and tanks and bathing ghats and supply of other similar wants. The second kind of work covers the supervision and maintenance in good condition of Government and public buildings like the Village Chauri, Dharamsala and places of worship, the supervision of schools and the village service and the care of the village pastures, explaining to the people and enforcing social legislation where it exists like compulsory education and prohibition of child marriages, etc. The amenities referred to in the third class would include the establishment of village libraries, public gardens, village dispensaries, and physical culture classes, setting up of a village radio, the provision of play grounds, the planting of trees for shade and fruit or the creation of village wood lands, the removing of housing congestion and extension of the village site, the lighting of streets and so on. The fourth type of work, *viz*, sanitation is of the utmost importance. There are various measures necessary for the prevention of outbreaks of diseases and preservation of cleanliness like the filling up of stagnant pools of water, purification of drinking water, prevention of defilement of roads and provision of latrines and drains, cleaning of the village site, etc. In short, the Panchayat can

undertake every kind of work of public utility, village administration and sanitation and can bring the amenities of modern life to the village. Most of the work can be done without funds if the villagers can be taught the lesson of co-operating with each other for the common good and can be induced to give their labour for carrying out such works in lieu of money. In the old days when villages were self-sufficient and managed their own affairs such contribution of labour was a common practice and it has only to be revived.

13. These are the ordinary duties of the Judicial work by Panchayats. Village Panchayats. In some parts of India they are also entrusted with judicial work of an elementary nature. Litigation is the bane of Indian villages and much time, money and energy are wasted on petty disputes which are taken to the regular civil and criminal courts. Before the establishment of regular courts such matters were decided by the village elders and entrusting them to the Panchayats is only reviving an ancient institution. The constant recourse to Courts is familiarising the villager with the devices for bolstering up false cases with perjured evidence and corrupting their morals. The decision of small civil suits and criminal cases in the village by the Panchayat according to justice, equity and good conscience without the intervention of legal practitioners will not only save the villager time and money but also discourage the love of litigation which has been growing and leading to his ruin.

14. It will thus be seen that there is a tremendous scope for improvement of villages through panchayats if they are revitalised in the manner suggested and undertake a comprehensive programme. It may not be possible to find proper material in every village and a large number of them will content themselves with carrying out only some of the more elementary duties. Even this need not however be deprecated as the working of a panchayat however imperfect it may be is by itself an education in self-government and common action. In the villages selected for intensive work however it is necessary that the panchayats must adopt the whole programme as without this a permanent improvement is impossible.

15. It is however the village co-operative bank on which we wish to focus attention in this bulletin. In the present stagnation of the agricultural population the village co-operative society is probably of even greater importance than the school or panchayat and is better fitted to tackle the problem from all its aspects. In order that it may fulfil this purpose the basis on which it works has to be broadened as indicated in our first bulletin. If it serves merely as an agency for the supply of cheap credit it will not succeed in ameliorating the condition of the farmers to any great extent because as has been shown the dearness of credit is by no means the only cause of their plight. The other economic handicaps

from which they suffer must also be tackled at the same time and even those social and religious practices which impose a constant burden on their slender resources cannot be left out of its scope. As the term Co-operative Credit Society has come to be associated with an institution whose primary function is that of moneylending it will be convenient to call the multi-purpose society recommended here "the Co-operative Village Bank." The case for the village bank is the case for co-operation. To state the necessity for the application of co-operative principles to the village problem is to repeat what has been often said already and is well-known to those who have studied the subject. As the principles however tend to become obscured it is desirable to set out the main considerations which make co-operation the most suitable vehicle for rural betterment.

16. Before proceeding to describe the place
Nicholson's Report. of co-operation in rural economy it is necessary to call attention to the fact that the term village bank is used in Sir Fredrick Nicholson's Report of 1895 in which the establishment of Co-operative Societies as the best means of alleviating the difficulties of the farmer was suggested for the first time in India. That monumental though now little read and almost forgotten report contains an analysis of the rural problem and sets out the necessity for the application of principles of co-operation for its solution in a manner which cannot be bettered even with the

experience of over forty years now available. No apology is therefore necessary for the use made of it in the following paragraphs.

17. In the first place it is necessary to consider the conditions on which credit can most profitably be obtained by the agriculturist. Nicholson sums these up as follows :* "absolute proximity of lender and borrower ; complete security to the lender as regards the title of the property offered, its freedom from prior encumbrances, the recovery of his capital and interest at due date, in convenient amounts, with facilities for enforcing such recovery in case of arrears ; thorough safety and facility to the borrower, in his ability to obtain cheap loans, at any time, to an amount proportionate to the security he can offer, and upon terms which will be so equitable in themselves, so convenient as regards repayment, so free from all risk of deliberate entanglement, so based upon published rule, so devoid of any tendency to discount necessity or urgency otherwise than by an equitable insurance, that he can calculate on reaping the full fruit of his prudence, and find, in credit, a powerful auxiliary to his productive powers and stability. In particular, the terms of repayment must be such that he can repay the loan from the profits of the transaction for which it was obtained ; an improvement to land must be repayable by instalments over a long series ; advances upon

* All the quotations in the succeeding paragraphs are from Nicholson's "Report regarding the possibility of introducing Land and Agricultural Banks in Madras Presidency, 1895."

crops or for maintenance may be repayable in lump or by instalments according to convenience. It is axiomatic that loans sunk in improvements or enterprises in which the returns are gradual shall not be repayable except by instalments over a period proportionate to the nature of the enterprise."

18. "Judged by these postulates the regime of the individual moneylender is wholly defective; he satisfies indeed the condition of proximity, but it is impossible for him trading as he does upon his private capital supplemented merely by occasional borrowings to satisfy the demands for loans at any time and to any amount; he has no rules save those of his own conscience, and they are variable at pleasure; he is but too prone—it is the imperfection of human nature—to exact terms high in proportion to the urgency of the borrowers' need, and not in proportion to the security offered; his accounts, if kept at all, are just what he chooses to write and no others and are subject to no check or audit; he is apt to be swayed by greed whether of money, land or power; he cannot consent to lock up his capital for a lengthy series of years, or to receive it back in infinitesimal dribblets, indistinguishable from the interest with which they are paid. On the other hand, since it is impossible to trust the individual moneylender with the powers of distraint or other summary recovery, he is put to considerable expense, delay, loss and fraud in the recovery of his loans, a loss which he recoups with a handsome increment from his clients, so that the

Defects of credit supplied by the moneylender.

punctual and honourable borrower pays for the offences of the defaulter. It is then certain that the substitution of organised credit for that of the moneylender is a necessary development of civilisation; the individual system is only an elementary stage which must be eventually passed as general wealth, order, business confidence, and habits of association develop."

19. The second factor to be borne in mind is that though borrowing which is due to the mere temporary productive mobilisation of capital is not objectionable or a sign of weakness and is in fact a universal necessity of agriculturists, their indebtedness is due very largely to causes outside of the demands of agriculture such as poverty, ignorance, improvidence, recklessness, seasonal disasters and epidemic diseases, social and religious conventions and the demands of usury. Therefore though the introduction of organised credit in order to save the cultivator from the ruinous rates of interest and exactions of the moneylender is necessary it is obvious that, "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 moneylender 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, speaking generally, 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

Organized credit not a cure for indebtedness.

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 substitution of a new distributing agency; to replace the moneylender by banks is not to replace indebtedness by solvency; on the contrary, unless the causes of indebtedness are removed, the load of debt may easily be increased by the facility and easy terms of borrowing; the specific gravity of the debt may be reduced, but the mass more than proportionately increased. If the amiable opinion—based upon an enlightened perception of the needs of agriculture rather than upon fact—that the ryots' thirst for cheap capital in order to pour it out upon the soil were true, if in other words land improvement banks were the desideratum of the ryot, if cheap capital were merely sought for actively productive outlay banks of any sort that would bring cheap capital would satisfy the need, and the greater the indebtedness the greater the productivity and prosperity of the borrowers. But it is not so; direct land and agricultural improvement is the last thing for which credit is sought. Hence in facile credit lies the danger of an increased mass of burdensome, unproductive indebtedness. It is a mere dream to suppose that the peasant's difficulty will be solved as soon as cheap credit is introduced through banks; it is not removable by mere cheap credit or facile credit, but by the promotion, almost enforcement of thrift, providence and heedfulness in borrowing; there should be alleviation of the terms, but limitation of the habit of borrowing."

20. It therefore follows that the credit which the agriculturist gets "must indeed be cheap, and facile in that it shall be ever at hand, but *it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower* ; it should be granted only to those who have learned to think, to plan, to save ; the method of providing it must teach the lessons of self and mutual help, and suggest the extension of those lessons to matters outside of mere credit ; it must be safe not merely in eliminating the dangers of usury but in being controlled, heedful and productive. It is emphatically not the mere outpouring of cheap capital that is required, not the mere grant of cheap facile credit to classes unprepared for the boon ; what is wanted is the promotion of facilities for saving, the encouragement of banking deposits, the inculcation of the true object, uses and limits of credit ; in other words the development of the essential national virtues of thrift, foresight and self-help, through institutions organised for those ends."

Co-operative
village banks the
best agency.

21. The Banks which "fulfil at once the requirements of thrift and credit, while promoting in a high degree those qualities which are essential to high national character are the co-operative village banks. They are not formed by capitalists seeking investments for their funds with the hope of earning dividends thereon, and therefore widening business regardless of the results to the bor-

rower, but are small groups of men, all of the same neighbourhood, who unite their savings, attract capital by their thrift and prudence, and lend the proceeds to themselves on equitable terms for productive use. The leading principles are thrift, self and mutual help; the thrifty prudent and thoughtful unite with the less careful and heedful, and by the influence of association induce in them ideas and habits of thrift and heedfulness; money is carefully saved and still more carefully spent; the bank is an association of men each influencing the other in the direction of prudence and productivity, so that the bank satisfies not merely the postulates of proximity and facility, but pre-eminently, that of safety."

22. Nicholson states the following as the ^{Advantages of} advantages of village banks:—
village banks.

"(1) Their absolute proximity to the borrower; (2) their ability to excite local confidence and consequently to draw in local capital; (3) their exact knowledge of their clients and their influence over them as co-villagers; their consequent ability to prevent fraud and to dispense with searches in registration offices; (4) their power of making the smallest loans and of undertaking operations, however petty, in consonance with village custom and individual needs; in fact, of giving preference to small business; (5) their ability to dispense with any prior general liquidation of debts such as has been demanded as a preliminary to the establishment even of taluk banks; they would ascertain in each case the borrower's prior debts,

arbitrate with the creditor for a favourable settlement for cash down, pay down the sum settled, and accept the debt as due to themselves; (6) their ability to work cheaply, almost gratuitously, and thus to provide cheap credit; (7) their retention of local capital and of all profits thereon within the village, and, in the case of co-operative societies, their retention of all profits for the members and borrowers; (8) their ability to act as agents and brokers for their members in the sale of produce and purchase of necessaries; (9) their capacity of acting as village granaries, lending grain for maintenance and seed in ordinary years from their own resources and, in times of distress, from those resources, supplemented by state or other grants; (10) their ability to act as intermediaries between the state and the individual, whether in matters of loans for land improvements, cattle, etc., or in other agricultural or industrial developments, or in times of seasonal stress; (11) their power of influencing borrowers towards the true use of credit, and of watching the utilisation of loans in accordance with contract; (12) their ability to prevent fraudulent defaults and collusive sales of property, and, in cases of default, to utilise advantageously the small properties accepted as securities for loans; (13) their tendency to group themselves into unions for mutual development, instruction, inspection and audit; (14) their steady, educative influence in matters of thrift, association and self-help, by their continuous presence in the village, by their continuous object lessons and by their frequent though small, calls upon the activity,

thought and service of their members ; (15) their tendency to develop high forms both of individual capacity, of public life, and of national character."

23. To sum up, "the radical remedy for indebtedness is not in the organisation of credit, but in the removal from the farmer of all unnecessary disabilities, and the promotion of all possible improvements, whether in customs, in social characteristics, in the opening of markets, in the spread of sound education, in the development of agricultural and industrial methods, and so forth. The organisation of credit is, in itself, an important palliative, since the cost of the necessary capital can thereby be largely reduced, so that the farmer may borrow without hopeless and lifelong embarrassment." But the mere reduction of interest would not mean necessarily or generally a reduction of indebtedness; rather, as general economic history teaches, greater mass of debt; borrowings would be larger because of the cheapness of money; the annual cost would remain the same, but the volume would be doubled. It is, then, essential to discover methods of credit, which, while supplying capital at half the present rates, will equally tend to keep borrowing down. Co-operative credit societies or village banks will not only achieve or tend to achieve these objects, but will equally develop many desirable and even essential characteristics such as those of thrift, prudence, self and mutual help; will initiate those forms of co-operation which tend to assure to each man the full value of his labour, and those stimulating ideas of progress so greatly needed by a conservative and

isolated peasantry; such societies will, as in Germany and Italy, everywhere form centres of economic and moral progress.”

24. It is obvious that co-operative societies in India have failed to keep these ^{Five essential conditions.} high ideals before them and have consequently failed to effect the improvement in the standard of village life which was expected. If the movement is to be revitalized the societies must become village banks in the wide sense in which Nicholson used the term. To achieve this the present mode of work must be modified, in five directions: (1) the bank must take up the whole of the village life within its ambit; (2) it should aim at including every one in the village; (3) there must be a greater adherence to essential co-operative principles; (4) there must be constant dealings and continuous touch with the members and (5) concentration on a few selected areas should be aimed at rather than wide multiplicity and diffusion. It is necessary to explain at some length the implications of each of these points.

25. The first point which was the main theme of the first bulletin requires to be further elaborated in the light of our analysis of the rural problem. It will be more convenient to explain this in detail after all the five conditions mentioned here are dealt with in general. In brief the village bank must not be merely a source of credit but must help in the business of marketing of crops and purchases of necessities, take an

(i) The whole of the village life to be embraced.

active part in agricultural and industrial development, influence and improve social and religious customs. It should make special efforts to develop corporate life and to be helpful and useful in every direction. Every avenue of waste should be checked and all methods for increasing production should be developed. These ideals must be formulated from the very beginning; they cannot be suddenly imported at a later stage; in fact once the working of the institution has crystallised into narrow grooves it is difficult to enlarge it. Members must be from the very beginning trained in these ideals which must be steadily pursued. The Bank should work to a programme and activities should be taken up one by one. Results should be reviewed from year to year and a fresh programme prepared depending upon the achievements made. The Banking Union and the departmental staff can render useful help in this matter. The Banking Union which should be organised on the lines indicated in the first bulletin should be in the closest touch with the village bank and should constantly guide it. A close connection between the two will enable the village bank to develop at a rapid rate and to undertake the varied activities connected with village life.

26. The second condition follows from the first. If the whole of the village life is to be dealt with successfully by the bank its membership must be as wide as possible and include every worker in the village. The reason usually advanced for

(ii) Everyone in the village to be included.

restricting membership is that everyone in the village is not of the same standing and the combination of the strong with the weak results in the former getting their way and the interests of the latter being neglected. But even limitation on membership has not always prevented this and a general complaint against the present co-operative credit societies is that few big members appropriate to themselves large loans. The only safeguard against this is proper control and supervision and greater interest in the work of the bank by every member. The object of the bank should be to raise the lowest to the level of the most efficient. There should be therefore room for everyone. Each one will get service from the bank according to his needs and credit or standing. Even the poorest man, who is unfit for receiving any credit, can get other advantages from the bank such as cheap purchases, moral support in the cutting down of social and religious expenditure, training in business and co-operative education. The village economy includes not only the grower of food but the blacksmith, the carpenter, the weaver, the curer of hides and skins, the scavenger and a host of other village servants. Every one of them suffers from economic and social handicaps and can be usefully assisted by the bank in the matter of provision of capital, organisation of his business and so on. Every man in society has a problem and the bank can by comprehensive action make a considerable contribution to its solution. It can tackle as many of the problems as possible by

adding to its membership as the management acquires experience and gains confidence.

27. The third condition, a greater adherence to co-operative principles, is likely to be considered by co-operative workers as a counsel of perfection which their actual experience has shown to be difficult of being translated into practice. It is not intended to suggest that the difficulty does not exist or to belittle it. A change in the method of approach is likely, however, to ensure fuller compliance with co-operative principles. The following measures are suggested as a practical means for achieving this purpose:—

(iii) Adherence to co-operative principles.

28. The first co-operative principle is that credit must be based on thrift and prudence. One important cause for this being overlooked is that the primary society is not at present required to make any effort to raise funds for itself. The central banks are there to raise the capital and are only too eager to pass it on to the primary societies. The primary society must realise that it is not merely a commission agent but a bank whose soundness should be judged by its capacity to raise capital locally. It must therefore endeavour to find its capital by collection of the idle hoards and the savings of the villagers before it approaches the central bank for loans. It may not be able to get locally all that it needs in the beginning and the deficiency must be made good by loans from the central bank or the banking union, but the ideal

(a) Insistence on the bank raising its own capital.

must be to become self-supporting as far as possible. This will also teach the lessons of self and mutual help. This is no counsel of perfection. Even at present there are primary societies which are able to work on their capital; in Hyderabad State alone there are 300 such societies which are able to lend to their members at $6\frac{1}{2}\%$. In the same state the writer came across in one rural town a so-called urban society, whose members were however mostly small agriculturists, working entirely on the share capital subscribed by themselves. Unfortunately this principle of primary societies raising their own share capital out of the savings of the members and not by an inflation of their loans and also trying to get deposits from members as well as other people in the village has not been observed in most places and thrift and mutual help only adorn the maxim books of the societies.

29. The second direction in which present methods should be altered is in the mode of dealing with members. It must be such as will conduce to saving and avoiding all possible waste. It is an axiom that co-operative societies exist for dispensing controlled credit but the manner in which credit is now granted often leaves little room for control. What is needed is controlled expenditure and this can be ensured only if the society works like a commercial bank for all purposes. One of the main functions of a bank is to effect economies in the actual use of cash and the village bank if it is organised on a comprehensive

basis will be in a very good position to do so. Almost everything that a member needs can be obtained for him by the bank, by indents or through recognised stores, affiliated to the banking union. There will be thus less necessity to hand over actual cash to the members and this will lessen the chances of loans being misapplied or used for extravagant or unnecessary expenditure. A similar control over the cash earned by the member can be exercised if the crops and products of industry are sold through the bank and the proceeds credited to the members' accounts. It is the fact that the whole of the proceeds of a year's labour reach the agriculturist in a lump sum at one time that leads to reckless expenditure, lack of saving and uneconomic living. The money deposited in the bank can be disbursed to the member according to his needs throughout the year and will in the meanwhile be safe and remunerative. If members can be trained to have all their dealings through the bank and draw the money as needed, habits of thrift and prudence will be automatically inculcated. For his current needs a member should have an overdraft or cash credit with the bank on which he can draw from time to time up to a safe limit prescribed according to his repaying capacity, actual cash being handed over only where the bank cannot supply the goods itself or through a recognised co-operative store with which it has entered into an arrangement for this purpose. To encourage the habit of dealing with the bank in this manner a lower rate of interest might be charged on advances

given in this manner than on fixed loans. The bank must also take care to see that a member's needs whether in money or goods within the credit limit allotted to him are met promptly and that he is not required to have recourse to an outside agency. Delays in the supply of credit have often been the cause of members' disloyalty.

30. Lest it might be said that these are impracticable suggestions it would be worthwhile giving here an actual instance of how work on these lines is being done by a co-operative society which came under the notice of the writer recently. It is not a primary village society but its method of work is on the lines suggested above and can easily be adopted with suitable modifications by a village bank. The society in question is that of the employees of the Mysore Mills. Besides being a thrift and credit society it conducts a co-operative shop which stocks all the goods generally required by the members like rice and other grains, fuel and charcoal, cloth and other sundry articles of daily use. Members purchase all their requirements from the shop. The rule is that all sales are to be made on a cash basis but where a member requires credit for purchases he can get it from the credit section. In order to prevent members from habitually living beyond their means each member's credit for the purpose of purchase of current needs is limited to a certain portion of his monthly salary. Within this limit he can make purchases from the shop and at the end of the month the whole amount outstanding

against him is deducted from his salary. At each transaction the member has to produce his pass book in which his salary, the shares held by him, the credit limit sanctioned and all transactions are recorded. The result is that the members get only a small portion of their pay in cash after all the material requirements of their family have been satisfied and there is less temptation or possibility of their wasting the money on drink or other evil habits and leaving the family ill-fed and ill-clothed. The system prevents the members from running up credit with local dealers at exorbitant rates of interest and paying unfair prices for the goods and gives them fair measure and good quality and the profits made by the shop are also shared by them in the form of rebates on sales. But the main advantage is that the member gets most of his income in the form of his actual requirements and little in cash. It may be said that a village bank will not have the same control over its members' income but it must attempt to get that control by getting the produce of members sold through it or encouraging the deposit with it of all the sale proceeds. If there is a will to work the society or bank in this manner it should not be impossible to train the members to do this.

31. Lastly, the best education in co-operative principles is obtained by the
(c) Management by members. management of the bank by the members themselves. The system of group secretaries employed by a central bank or union doing everything for a village society has probably been

more responsible than anything else for the lack of understanding of co-operative principles by members. Where the bank's activities are wide a paid staff is necessary but it is better that it should be employed by the village bank itself than that it should be in the service of an outside agency. The direct control must be of the bank's own committee of management though supervision and guidance may come from the union or from the Co-operative Department. A radical alteration in the system of work on these lines is not unpractical and will go a long way to ensure the understanding and observance of co-operative principles.

32. The manner in which the fourth condition of constant dealings and continuous touch with the members can be fulfilled has already been incidentally explained in the preceding paragraph. Where the co-operative society exists for credit only and meets once or twice a year only to disburse loans and to recover them the bond between the society and the members tends to become of the most slender kind. A village bank which undertakes varied services and is open all the year round is able to maintain continuous contact with the members and the bond is strengthened a hundred-fold. Greater interest is taken in the bank, a feeling of loyalty develops and the bank becomes a really co-operative institution. To systematise and facilitate its work the bank may settle one or two fixed days in the week on which it will remain open for transacting business and enabling members

(iv) Continuous dealings with members.

to draw or deposit money. This will have the further advantage that it will give the members the same facilities which they get from the money-lender who lends small amounts from time to time as required. Each member should have a pass-book in which particulars about his landed and other property, the encumbrances and other charges on them, his paying capacity, the number of shares held by him and the credit limit sanctioned for him should be given on the first page. Every transaction, loans, deposits, sales and purchases, should be immediately recorded in the passbook, so that he can see that the bank is a better institution than the moneylender who hardly ever shows or explains the accounts. When the bank has accumulated sufficient funds of its own it is desirable that it should have its own building. This will have a psychological effect in showing the members the physical existence of the institution, besides being of practical value in providing a meeting place. A further strengthening of the bond can be achieved by making the general meeting an important annual event when accounts are explained and all the activities of the bank are passed in review. The accounts and the report should be published and circulated beforehand and as much publicity should be given to the work of the bank as possible. This will stimulate the interest of the members and arouse the curiosity of those who are still outside its fold. It is only by constant service and by keeping the interest of the members alive that the village bank can become a living social institution

33. The necessity for the last condition, selection of a proper area and concentration on it, is always stressed in theory but too often lost sight of in practice. There can be no doubt that in many parts of India societies have been established in far too great a hurry. In fact at one time there seemed to be a race between the various provinces in increasing the number of societies. The result is that there have been a number of still-births, a high early mortality and a large proportion of derelicts. This will be apparent from the following figures compiled by Mr. Darling. The last column has been added from the figures in the departmental reports.

Province.	Number of primary societies in 1934.	Societies put into liquidation since the beginning of the movement.	Percentage of column 3 to total number of primary societies. (Col. 2 & 3).	Percentage of unfit societies (D and E class) to the total number of societies. (Col. 2).
1	2	3	4	5
Bengal ...	19,830	1,991	9	22.8
Punjab ...	21,276	3,908	15	19.5
Bihar & Orissa ...	8,789	2,404	21	21.1
Madras ...	13,211	752	22	13.3
Bombay ...	5,675	1,737	28	11
United Provinces...	5,970	3,690	38	72
Central Provinces...	3,847	3,633	49	31
Burma ...	1,460	3,998	73	47.8
	80,118	25,108	24	28.9

Separate figures for societies which were registered but never functioned are not available but most of them must be included in the figures in column 2. The appalling waste of effort and money due to hasty expansion is demonstrated by these figures which

show that 53 per cent, or more than half the societies have been cancelled or are on the way to liquidation. The lesson taught by this experience must not be overlooked when organising village banks. A co-operative village bank cannot be brought into existence by mere mechanical methods or departmental fiat. It is a human institution which must grow out of a felt want. It is true that dissatisfaction with present conditions and the effective desire to make a change have first to be created in a village and will not occur automatically. But the ground must be prepared thoroughly with due care and effort and certain minimum possibilities of development must exist. A new type of leadership is required among those who are to work the bank. They must have an insight into the problem and enthusiasm for effecting reform. They must be trained and guided continuously. Thus without a proper selection of the area and subsequent concentration on it, success is not likely to be attained. To start numerous banks of the kind all at once is of no use. A few good ones which can serve as an example to others will be far more effective in the long run.

34. Having thus set out the main principles on which the village bank should
 Activities of the bank.—
 (i) Better farming. work let us now consider what specific activities it should undertake in order that the economic, social, religious and other handicaps from which the agriculturist suffers may be removed. The bank must take up each aspect of the problem and try to find out in what manner

it can assist the farmer by limiting his expenditure and increasing his income. To take first the inadequate return which the farmer gets from his crop the first thing necessary is a better yield of crop with less expenditure and avoidance of waste. For this he will require in the first place better manure, better seed, better implements and better cattle. In all these matters the bank can render valuable assistance. It can arrange by the joint effort of its members to get natural manures like cowdung, village waste, etc., conserved by improved methods. It can purchase on a wholesale basis through the Agricultural Department and supply to the members at profitable rates good chemical manures, improved varieties of seeds suitable for local conditions and better implements. For those members who are unable to have their own ploughs it can stock them to be let out on hire. It can improve the breed of draught cattle by keeping its own stud bulls of recognised strain and persuading the villagers to get all the scrub bulls castrated. If the agriculturist can raise his own draught cattle of a better type than those which he buys at present, the large sums spent on cattle purchase will be saved and he will get much better work out of them. In this connection the question of cattle insurance might be taken up by central or provincial societies. This has so far proved a difficult problem owing to the very short duration of cattle life and the poor income of the agriculturist. When village banks have assisted their members in the improvement of their economic

position they might find it possible to get their cattle insured. Maintenance of good types of cattle also requires better feeding and better veterinary service. A strong village society should be in a position to negotiate with the Government as well as arrange with its own members for the reservation of proper pasture lands in the village and their utilization in rotation instead of the present wasteful practice of grazing the whole area at once. The bank can also arrange with the veterinary department and persuade its own members to get better veterinary aid. With joint action of the members it can arrange to grow timber for fuel in order to prevent the waste of cowdung as fuel. The waste of time and effort and the decreased return from land due to the sub-division and fragmentation of holdings will next require attention and for this purpose it could take up the consolidation of holdings on the lines of the co-operative societies in the Punjab.†

Another plan is joint cultivation which means the pooling together of their land by several members and its cultivation as one big farm. This makes possible the use of costly machinery and the growing of expensive crops on a large scale and removes the handicaps which follow the small scale organisation of agriculture. This will be a difficult experiment and cannot be undertaken everywhere but where circumstances are favourable

† *Note*.—The Baroda Government have passed comprehensive legislation on this subject both for the prevention of sub-division and the consolidation of holdings. R. B. Govindbhai H. Desai (retired Naib Dewan, Baroda State) has given a complete description of the Scheme in his book, "Prevention of Fragmentation and Consolidation of Holdings in the Baroda State."

and the necessary material is available there is no reason why it should not be tried. Another vital necessity of agriculture is irrigation and where this facility is not available and is necessary the construction or repair of a village tank if possible by joint subscription could be undertaken or the bank could arrange for financing members to sink wells. With irrigation facilities the growing of garden crops and fruit trees can be encouraged. The employment of a joint watchman or common fencing for the fields of several members for guarding the crops and preventing the depredations of wild beasts, birds, etc., would also result in considerable saving to the members. Particular localities may have other problems regarding the growing of crops and they can all be tackled in similar manner by the joint action of the members helped by the village bank.

35. After the efficient production of crops has been organised, their marketing requires attention. To decide what a village bank can do in this matter it is necessary first to survey briefly the marketing facilities which the co-operative movement is able to give its members. The most elementary and simplest institution is the co-operative commission shop. This does not really engage in co-operative marketing because it only acts as the commission agent for the sale in the market of each member's produce separately. It thus takes the place of the commission agent and its only advantage to the agriculturist is that it protects him from illegal

(ii) Better business: co-operative marketing.

deductions and tries to look after his interest better than the professional commission agent who very often pays more attention to the interests of the purchaser. Unfortunately the commission shop is seldom able to get him a better price and cannot generally be so accommodating as the commission agent. Such a commission shop can usually be profitably organised only for big landlords holding large areas of land and producing large quantities. A society of such substantial people is able to employ an efficient staff, keep in close touch with the market, command the confidence of the buyers, get a premium for the better quality offered by them and effect sales on the basis of samples. The Okara Zamindars' Society in the Punjab is for instance working successfully in this manner. But the societies of small agriculturists do not enjoy these advantages and have not in actual practice been able to show substantial results. It would not be of much use for a village bank to take up this form of marketing nor would it be possible for it to undertake this work unless there was a market in the village itself. Where however no other better facilities for marketing are available and a good co-operative commission shop is working within easy distance the village bank might induce its members to take advantage of it. The second method of co-operative marketing is that followed at Kodinar and by some of the credit societies in the south. Here the produce is sold not in the regular markets but in the village itself or a near-by centre to agents of firms and big

merchants who go there to make their purchases. There is a greater element of co-operation in this since negotiations are made with the merchant for sale in bulk and a slightly better price is obtained. The society does not take any risk since no money is advanced by it to the members who give delivery of their produce to the merchant individually. It requires however the growing of the same quality of crop by all the members but as the same variety is usually grown by most people in the same village this is generally not difficult. It would also be possible for a village bank to ensure the growing of the same type of crop by supplying a uniform quality of seeds to its members. This is therefore the simplest way of arranging co-operative sales for a village bank and it is desirable that before more complicated schemes are undertaken the bank should acquire experience of marketing in this manner. The third method is that followed by the Cotton Sale Societies of Bombay. Here the produce of all the members is pooled usually in the yard of a ginning factory where it is ginned and pressed and then sold by the society in pucca bales. The society is usually able to insist on members supplying particular kinds of cotton and different varieties are separately stocked and ginned. Under this system the members obtain the maximum benefit since their produce is sold in the form in which it is handled in the general market. Such societies are working very successfully in several parts of the Bombay Presidency and it is desirable that where possible

similar marketing societies should be formed which could pool together the produce of the members, grade it and prepare it in the form in which the commodity is generally handled in the market before sale. Where such societies exist the village society or bank should get affiliated to them for the purpose of getting its members' produce sold. Such marketing societies generally make advances to the members up to a certain percentage of the value of the goods handed over by them to enable them to carry on till the goods are finally sold and the village bank should make arrangements for getting these advances towards the re-payment of their crop loans. It will be seen that in all these three types of marketing no attempt is made to hold over the produce for better prices. In the sale society the produce is retained only for processing and till a purchaser is found. There is a fourth kind of society, the Godown Society, whose object is to enable the produce to be held over till better prices are available by giving facilities for storing and giving or enabling the owner to get advances on the produce so stored till it is sold. This kind of business is not very suitable for small agriculturists who have only small quantities to sell and in whose case the cost of storage might come to more than the possibly higher ultimate price. It also requires a very careful study of price trends with acquaintance with forward prices, straddling, hedging and all the other features of highly developed commodity markets and it does not seem desirable that a village

bank should embark on these speculative activities. There is another way in which the village society can render help in marketing. Markets are governmentally regulated only in a few places in India and elsewhere they are run mostly by contractors who bid for them at auctions and levy all kinds of rates or by an association of merchants who allow a number of deductions to be made from the sale proceeds. Where a strong village society exists there is no reason why the regulation of the market should not be taken over by it so that the producers will get a square deal and the society might approach the Government to give it such control or at least get proper rules prescribed for the transaction of business.

36. Organising production and marketing
 (iii) Subsidiary occupations. will go a long way to improve the farmer's income. As was pointed out in the preliminary analysis, however, farming by itself is not very paying and if the general economic condition of the farmer is to be improved either his old occupations which he has lost must be revived or substitutes found for them. There is much vague talk now-a-days about subsidiary occupations for farmers. Cloth weaving, carpentry, toy-making, etc., have been suggested without appreciation of the fact that those traditionally employed in these professions in the villages are themselves in a bad way. Farming may not be a whole time job but the aim should be to make it so and the only things which a farmer can easily and profitably do in addition

to farming are those which are closely connected with his proper avocation. Cottage industries unconnected with farming might, if markets are available for the products, be taken up by the landless labourers or other unemployed classes in the villages and where the village bank has such members it should arrange to train them for such work. These were never the occupations of the farming class and in their case we must look for the occupations which they have lost through modernization and see whether they can be revived or other suitable pursuits related to farming can be devised.

37. As we have already seen the main
 (a) Processing occupation which the agriculturist
 of crops. has lost owing to the introduction
 of machinery and large scale organisations is the
 work of processing of his crops with the result
 that he has to sell his products in an unfinished
 condition and gets a lower price for it. It would
 of course be uneconomical and hopeless to try to
 get back entirely to the old system and to compete
 with factories by manual labour. There are how-
 ever some types of processing which can still be
 better done by individuals than factories and it is
 this kind of processing which the village bank
 should try to get done by the farmers. Thus for
 instance hand pounded rice and meal are richer in
 nutritive value than milled rice and flour, and rice
 and wheat could be prepared for the market in this
 form by the farmer. Various other commodities
 like oil seeds, sugar-cane, cashew nuts can be

similarly processed on the farm. Even in the case of cotton it has been found that the cotton seed removed by hand ginning is better for cultivation purposes than that obtained from ginning factories. Small hand gins could be purchased cheaply through the society by the farmer who might keep enough cotton out of his crop to be ginned at home by his womenfolk to give sufficient seed for sowing while the cotton so obtained could be utilised for spinning and sold as cotton yarn. Processing of the types for which machinery is indispensable can only be done economically in factories but even here the primary producer can obtain a share in the profit if co-operative factories can be established. Well organised sale societies of producers might find it profitable to create such factories. Some cotton sale societies have already organised ginning and pressing factories and co-operative sugar factories, rice mills, cashew nut factories and other factories might also be established on similar lines. This is of course beyond the village bank's sphere or capacity but is indicated here as a line of advance for central co-operative marketing societies as a means of improving the economic position of the primary producer.

38. Besides the processing of crops the most suitable side pursuits for farmers are:—cattle breeding, dairying, poultry farming, bee-keeping, etc. Of these poultry farming and bee-keeping are of somewhat recent introduction and their suitability cannot be said to have been completely established.

(b) Dairying,
Poultry breeding
and Bee-keeping.

The diseases of poultry are not yet properly understood and both the foreign as well as country breeds are liable to be swept off in large numbers by epidemics. The additional income earned from the sale of eggs, even when properly organised as in the Martandam Co-operative Eggs Society, is meagre and elsewhere it may be found difficult to effect any sales of the eggs at all, without elaborate and expensive marketing arrangements. The same may be said about bee-keeping. Where proper advice and guidance regarding the working of these pursuits is available and they can be properly organised the members might be encouraged to take them up, as even a small addition to the farmer's income is welcome, but by far the most suitable and profitable occupation for the farmer is the traditional one of cattle breeding and dairying. This will not only provide him with the cattle needed by him for cultivation purposes but enable him to supplement his income by the sale of milk, ghee and butter. The bank could organise the sale of these articles on a co-operative basis. The keeping of cattle will also give the farmer the manure he needs. There is considerable scope for improvement in the quality of cattle and in the foodstuff given to them so that a substantial addition could be made to the income derived from this source.

39. Another method of helping the very small agriculturist and the poorer members of the bank is to organise grain bank sections. This may be illustrated by the

(iv) Grain banks.

example of the work done by the Lalitadripur Co-operative Society in Mysore. Here each member is required to subscribe fifty seers of jawar for a share and one seer as entrance fee. All the grain so collected is stored in properly made grain pits in charge of the society and out of this collection when the stock of grain with the members is finished in May and June, grain loans are issued to them for consumption. The loans are re-paid in kind at harvest time with the addition of fifteen seers per cent as interest. After deducting twenty-five per cent out of the profit as reserve the rest is distributed as dividend to the shareholders but instead of being actually handed over to them is included in their contribution for further shares. The entire transactions take place in grain. The members are saved the necessity of resorting to the local grain dealer and are ensured the supply of grain of a good quality and on fair terms. There is no swelling of the price as in the case of the grain dealer who first converts the grain sold by him into cash, selling as dear as possible, charges interest on this sum, and then again re-converts the whole of the amount into grain, giving a disproportionately low price so that the borrower has sometimes to pay as much as 100% on the loan. The Lalitadripur Society was started in 1929 with 28 pallas (1 palla=100 seers) of grain and now possesses 95 pallas. It has been able to utilise the whole of its stock in loans every year and has worked most successfully. Other ways of helping the farmers economically may be found in particular areas. The main thing is to keep an open mind,

to take up each problem as it arises and not to be deterred by the theoretical objections to any course which may be possible. New activities which may be found suitable can be added as experience is gained. It will of course be necessary to keep separate account for each different section and not to mix up credit, marketing and stores. It may be that where any of these activities develops to a large extent a separate off-shoot of the society may have to be established for the purpose, but the object that each member of the society is to be helped in every possible way to improve his position should not be lost sight of.

40. The bank can also deal with those social and religious customs which adversely affect the farmer's economic position, by inducing the members to agree to abide by rules to eliminate waste of money on ceremonial expenditure and inculcate habits of thrift, reform bad customs prevalent amongst the members, improve their physical, moral and spiritual condition, ensure the observance of rules of hygiene, inculcate a sense of self-respect and resistance to corruption and assist in making arrangements for the education of members and their children and for the organisation of games and all useful occupations which render the life of the community more pleasant and liberal. Reforms in social and religious customs which press heavily upon the poorer members of the community can be brought about most effectively if the leaders of the

(v) Better Living

community themselves agree to the change and set an example by regulating their own expenditure on ceremonial occasions. If therefore the caste leaders who are members of the village bank agree to such rules even those poor people who are not members of the bank will be benefited. The model bye-laws of the Better-Living Societies in the Punjab specify these objects but instead of starting separate societies for these purposes these rules can be engrafted on existing credit societies gradually as the members are prepared for their acceptance. The society can go even further and take up those works of village administration which are beneficial to the community as a whole where there is no provision for any other institution like a village panchayat being formed. The objection sometimes raised that this would be beyond the scope of a co-operative society would not arise where the society is comprised of most of the residents in the village, since these works would be for their benefit. For instance, the Lalitadripur Society already referred to, which consists of 215 members representing all the families in the village has besides a credit section which supplies current credit as well as loans for the liquidation of the scaled down prior debts of good members, a building branch, a grain branch, a milk supply society and a panchayat for settling disputes, and also undertakes social and welfare activities which include the conduct of adult educational classes, village improvement works, medical assistance, propaganda against the drink evil and curtailing expenditure on marriages,

organising vaccination and inoculation on a large scale, lectures on malaria and other diseases, awarding prizes for the best cattle and clean houses, organising Bhajans and maintaining a library. These activities are mostly self-supporting. The adult education is, for instance, entrusted to the school master on payment of a remuneration of Rs. 5/- which is collected by way of subscriptions from members attending the class. Medical aid is provided by arrangement with the Sub-Assistant Surgeon in Mysore who pays two visits a week on a remuneration of Rs. 10/- per month. The penal interest received from members is earmarked for this purpose and the medicines are supplied free by the doctor from the government dispensary. For works of village improvement people pay a cash contribution or do manual labour. Co-operative societies for rural re-construction are organised on similar lines in the Hyderabad State where there is no separate legislation for village panchayats. These societies undertake the construction of roads, playgrounds and wells partly by local contributions and partly by grants made by the District Local Board. They arrange for medical and veterinary assistance. They get the lanes and bazaars swept and drains cleaned by employing sweepers, arrange for lighting of the roads, get manure pits dug and maintain medicine chests out of which free medicines are supplied. Village disputes are settled by the society. Villagers are encouraged to grow vegetables and flowers in their back-yards. It will thus be seen that there is nothing novel in Indian co-operative societies

undertaking such work of rural reconstruction so long as the cost is met by separate contributions up to the extent of the payment which the villagers would have been required to make under a village panchayat supplemented by government or local fund contributions. In fact such concentration of activities would be very useful in the beginning and help in the growth of the spirit of self and mutual help.

41. Reference is necessary to the problem of ^{Liquidation of} prior debts on which considerably ^{old debts.} more experience is available than when Nicholson wrote. It has been found that though entanglement in other debts makes it difficult for a member to get the full benefit of co-operation, it is undesirable and unwise for a society to set about repaying his other creditors immediately on his admission to the society. Such liquidation of old debts has generally proved to be a bad bargain, and left the society with frozen credits and often bad debts. A member must first show that he has learnt the lessons of honesty, straightforwardness, punctuality and thrift by his dealings with the society for some time, that he is amenable to discipline and has learnt the proper use of credit before he can be considered worthy of such special help. It has also been further established that the raising of long term funds by the issue of debentures is not practicable for a village bank and it must when it decides to get the prior debts of a member extinguished seek the help of a land mortgage bank. It should

however be emphasised that the real object of a land mortgage bank is to lend money to finance improvements not to liquidate previous debts and that the latter function should only be undertaken where necessary to make possible the former. In particular the willingness of a land mortgage bank to advance funds for the repayment of old debts should not be allowed to rush the village bank into getting the debts of members liquidated at the start. The main danger in the present rapid development of land mortgage banks and the financing by them of debtors without doing anything to ensure that the borrower will in future be able to organise his business in an economic manner, is that they will after a few years be in the same position as the present co-operative banks which have been compelled to realise their security and have become encumbered with unsaleable land. If such a result is to be prevented it is necessary that members with debts must first serve, so to say, a period of probation with a village bank. The stages should be: (1) training in the use of credit and business habits as a member of the village bank; (2) when his credit-worthiness which means not merely his landed security but essentially his thrift and sincerity has been established, the bank should negotiate with the money-lender for the settlement of the debt; (3) if a satisfactory adjustment is agreed to by the creditor, recommendation for the grant of the necessary loan should be made to the land mortgage bank; (4) if the creditor is obdurate, the member should be helped to have recourse to a

debt conciliation board if one exists or to a village or other Civil Court where any other legislation for reduction in interest, etc., is in force; (5) the land mortgage bank should then be approached for the payment of the debt so compounded. If village banks adopt this procedure they will not only be of considerable assistance to their members in freeing them from their load of debt, but will also make the working of the land mortgage banks and debt conciliation boards more effective and the results achieved more lasting.

42. When the village bank develops into a properly organised institution it will ^{Link with the money market.} further serve to bring the agriculturist into close touch with the money market. The present reluctance of commercial banks to deal with co-operative banks is due to the feeling that the turnover of business in co-operative societies is not even reasonably quick and that loans given by them inevitably become locked up for a long time. If the village bank deals with its members in a comprehensive manner, and can ensure the sale of their produce through its agency the recovery of crop loans will become easy, certain and quick. Crop finance and marketing finance can be kept separate by the bank and in both cases the bank or any other marketing agency that may be organised for the purpose for a group of societies will, in times of seasonal stringency of money, be able to get its paper discounted by commercial banks or the provincial co-operative bank through the banking union or

central bank. The dealings of the provincial co-operative bank or the commercial bank will thus be more closely related to the dealings of the village banks with its agriculturist members, and a class of agricultural paper will be created which will enable the Reserve Bank to come into the field if and when necessary.

43. To conclude, the general lines of work Summary of general lines of work. of a co-operative village bank may be summarised as follows:—

- (a) The objects of the bank should be comprehensive and should be clearly defined in the bye-laws.
- (b) Management of the bank, account keeping, etc., should be done on the spot by local people locally trained. No group secretary should be appointed for keeping primary accounts.
- (c) Local deposits must be encouraged. To meet withdrawal of deposits cash credits might be arranged with the banking union but care must be taken to see that defaults by members are not habitually tolerated with the result that the banking union gradually pays out all deposits and becomes the sole source of finance.
- (d) The business of the bank must be carried out in a systematic way with due publicity.

- (e) Particular care must be taken in the first two or three years to see that the society works on proper lines and that backsliding is avoided. Members must receive a thorough training in practical work.
- (f) Rules should be properly observed. Respect for rules should be created. At the same time they should not be made a fetish. Properly considered modifications of rules on unessential matters to improve the working should be freely permitted. Such amendments need not require departmental sanction with consequent delay and damping of the enthusiasm of the workers.
- (g) If deposits are taken reserves should be built up and invested outside the business of the bank.
- (h) Property statements of members should be carefully prepared and kept up-to-date. Transfer of land without the knowledge and permission of the society should be stopped or controlled or even penalised.
- (i) The bank should have its own building at the earliest opportunity. This should be the centre of all social activities. Till a bank possesses its own building the village school might be used for the purpose. The

keeping of the books of the bank with the president or secretary should not be permitted.

- (j) The bank must never lose touch with the member. He must come to the bank for something or other throughout the year. Absence of such touch leads to indifference, default and disloyalty. The bank should never be allowed to degenerate into a mere loan office.
- (k) There should be a taluka conference every year held under the auspices of the union. There the work of all societies and the union should be reviewed and a general programme of work for the societies and union laid down. This should be combined with the annual meeting of the union. Questions relating to social and economic problems can be discussed informally at such conferences. Set speeches should be avoided and the village people should be encouraged to take a part in the discussion.
- (l) In the beginning all the eligible men from the village may not join the bank as members but they must be encouraged, if they care to take advantage of the bank to join in other activities apart from credit where-in the bank does not undertake a

liability, in the same way as the bank takes deposits from non-members. It must have a place for everybody in the village according to his needs and capacity. Rich and poor alike must get service from it.

- (m) Members should be encouraged to conduct their business through the bank, getting their requirements and selling their produce. Sale-proceeds must be deposited with the bank and paid out only as required. This will result in controlled expenditure and avoidance of waste.
- (n) The bank must stand for certain ideals and have a certain amount of prestige associated with it. It must stimulate essential qualities like truth, honesty, mutual trust, self-help and thrift.

44. Village banks of the nature advocated here will obviously be more difficult to organise, administer and supervise than mere credit societies. Those who are to be entrusted with this work, viz., the staff of the co-operative department, the non-official workers as well as the paid staff will have to be much better equipped for the purpose. They must receive a systematic and intensive training not only in the principles of co-operation but in their practical application to rural re-construction, agricultural improvements, business technique, etc.

Training of the staff.

They must be closely acquainted with village conditions and the psychology of the villagers. They must be able to work with tact, persevere in spite of initial reverses and be imbued with apostolic fervour. They must learn before they can teach and the syllabus for training must be of as practical and comprehensive a nature as possible. The progress of the banks will depend upon the guidance and encouragement which they receive, and those who are to give it must themselves be competent for the purpose. Where the supervising staff itself is lacking in clear ideas and initiative, where it is afraid to cover new ground and distrusts new experiments, not only will lethargic and indifferent banks not receive any stimulus but those which are keen to go forward will find their way blocked by ignorance and conservatism at every step and their ardour will cool.

45. If village banks are organised and worked under these guiding principles adopting the practical suggestions made above for giving effect to them they will go a long way to bring about the economic regeneration of the rural population. The prosperity of the agriculturist cannot be built upon the scaling down of debt by legislation or its redemption by the state or by land mortgage banks, nor can it be brought about by mere reduction in the rates of interest and allowing repayments in easy instalments. All these remedies must prove worse than useless in the end unless a simultaneous effort is made to improve the economic

Comprehensive
co-operative so-
cieties can alone
bring about rural
economic im-
provament.

position of the farmer and this requires starting from the bottom. The process is slow but it is the only sure way. The primary co-operative society must be revived and new life put into it by extending the activities into new and useful spheres.

46. The mere instinct of self-preservation is leading people into making such efforts. Societies whose members have fallen hopelessly into arrears in the repayment of their loans are in many parts of India adopting the device of getting a part of each member's produce, and recovering their dues by selling it. For instance, in Burma, the practice of members giving part of their produce to the society towards the repayment of their dues is being introduced as one of the important measures for rehabilitating the societies. Similarly in several societies in Travancore State the custom is for each member to give over some of his cocoanut trees to the society which collects the produce and auctions the entire collection to merchants crediting the sale proceeds to the accounts of the members. On account of the wholesale quantities offered by the societies they usually get two to three rupees more per thousand cocoanuts than the retail rate. Joint sale of all produce not primarily for repayment of debts but to obtain a better price is only another step forward and once the benefit of joint action is understood joint purchase of needs must follow. The pace must not be forced but a standstill policy actuated by a distrust of all changes is not likely

Rehabilitation
of the co-opera-
tive movement by
reorganisation of
primary societies.

to improve the position of those members of co-operative societies whose debts have grown burdensome. The problem of overdues facing several co-operative central banks cannot be solved merely by reduction in rates of interest and the writing off of bad debts and grant of long-term instalments. In fact, the banks which are in the worst position must find that they can ill afford to take these steps as reduction of interest on deposits in their cases is difficult owing to the fear that deposits might be withdrawn and a reduction in their own margin is inadvisable owing to the growing amount of bad debts. A policy of coercion on a large scale defeats its purpose as it makes recoveries even more difficult and forces down the price of land compelling the banks to undertake the odious and profitless task of acquiring and managing the lands. For such banks the adoption of a progressive policy like that indicated above for improving the economic position of their members is the only way in which they can ultimately stabilise their position. Most of these banks have discontinued dealings with the societies since the depression started. This has made recoveries even more difficult as members have lost interest in their societies and ceased to feel any loyalty towards them. To bring them back into the fold of co-operation is a difficult task but in the interest of the movement as well as the welfare of the agriculturist it must be attempted. Their interest must be revived by establishing fresh points of contact with them. Though it might seem dangerous from a strictly business point of view it might be worthwhile starting even

financial dealings with those members whose overdues are clearly due to misfortune and not to dishonesty or extravagance, provided care is taken to advance only the minimum amount necessary for the current expenses for growing the crops and the handing over of the entire sale proceeds of the crop by the member to the society or the bank can be ensured. This is not such an impossible task as it might seem and even liquidators have in some cases succeeded in getting recoveries by getting members of cancelled societies advances from banks for raising crops. In other cases banks have made special arrangements for watching the crops grown out of fresh advances and getting them sold for recovering the loan. But even more necessary than such monetary advances to keep the members going is the taking up of other all-sided activities which will ultimately put more money in the pockets of the members. Central banks whose assets have become frozen will find that in order to liquefy them their best course will be to take up their societies gradually, giving first preference to those which can be most easily supervised and which contain or can be fortified by the introduction of some promising members, to be developed and re-organized into multi-purpose societies or true village banks on the lines advocated here. It is only in this way that the confidence of the members can be re-established, hope re-kindled in their hearts and their financial position improved and it is only when the agriculturist members emerge from their present

hoplessly involved condition that the central co-operative banks can hope to put themselves on a sound footing.

-47. The work of resuscitating and re-organizing primary societies is of sufficiently vital importance to the central banks, the co-operative movement in general and the country at large to justify expenditure for this purpose by co-operative banks and unions as well as Government. The provincial co-operative banks, which in some cases find that they are unable to utilise a large portion of their deposits in the business of financing co-operative institutions on account of the already heavy outstandings against them and in others are being called upon to prop up central banks by advancing money to them to pay off depositors thus getting the frozen and bad debts of those banks transferred to themselves, should find it to their advantage to utilise part of their profits in helping the central banks to improve their position by making the primary societies more sound and creditworthy. With few exceptions provincial banks have not in general appreciated the necessity of their taking a lead in the matter and even where large common good funds have been accumulated they are not being put to a proper use in revitalising the movement and building up sound primary societies. Where such funds exist both the central and provincial banks might consider whether they would not be rendering a real service to themselves as well as the co-operative movement by utilising them to establish or re-model primary societies on

Financial assistance by Provincial Co-operative Institutions and Government.

comprehensive lines. Co-operative federations, institutes or unions which are entrusted with the work of supervision, education and propaganda have a special responsibility in this respect and their funds are primarily intended for this purpose. Governments, which have already recognised their responsibility for building up a sound co-operative movement by taking the initiative in the matter of establishing societies and are incurring expenditure on maintaining co-operative departments for inspection and audit of societies and on grants to co-operative institutes for supervision and propaganda, can very well insist on the institutes utilising part of the funds given to them in this manner which will give far more useful results than the mere employment by institutes of inspectors and supervisors to induce members and societies to pay up their dues. If one good trained officer is placed in whole-time charge of a few societies instead of half a dozen for different purposes, as sometimes happens, with the object of re-organising them by the infusion of new blood and by gradually expanding their activities as experience is gained the expenditure incurred on his pay will be more than repaid in the increased business to the banks and general prosperity of the members and give far more satisfactory and enduring results. With such constant guidance and fostering care, insistence on the co-operative principles laid down by Nicholson and their application to every aspect of the member's life the condition of these societies should be revolutionized in a few years' time and instead of being

looked upon with distrust by the members as some of them are at present they will be considered, as they indeed will be, as the real benefactors of the rural population.

48. To conclude, complicated and difficult as the village problem is, it is not insurmountable. The remedies are however necessarily slow and cannot give spectacular results in a short time. But an all-round programme like that suggested in this booklet carried out in a practical manner with faith, vision and perseverance will succeed in bringing about a far more enduring improvement in village life than any superficial scheme which ignores the essential facts about village economy. As Nicholson says "it is not in great schemes or institutions, not even in specially granted privileges, that success lies, but in the unassuming labours which starting with simple ideas, simple aims and simple facts overcome each difficulty as it arises and perfect the systems which shall be found suitable to the needs of the country. Success can only arise from the long-continued practical efforts of zealous men who while informed in the details of every method yet tried can yet live among the people vivify them with their own spirit and intelligence, energise them with some of their own enthusiasm, and with them, work out in actual fact, even though on the humblest lines", a practical programme of improvement.

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