

*Ad Hoc Advisory Committee
on Handloom Finance*

PROCEEDINGS OF THE FOURTH MEETING



RESERVE BANK OF INDIA
BOMBAY

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INTRODUCTION

THE *Ad hoc* Advisory Committee on Handloom Finance was constituted by the Reserve Bank in December 1959 in consultation with the Textile Commissioner, Bombay and Chairman, All-India Handloom Board for (i) periodically reviewing the progress made in the scheme of providing finance for the production and marketing of handloom cloth, (ii) discussing difficulties met with in implementing the scheme and the improvements that could be effected, and (iii) reviewing the progress made in the pilot centres started in different parts of the country for intensive implementation of the scheme. The members of the Committee are: Prof. D. G. Karve, Deputy Governor, Reserve Bank of India, Bombay (Chairman); the Textile Commissioner and Chairman, All-India Handloom Board, Bombay; the Director of Handlooms, Andhra Pradesh, Hyderabad; the Registrar of Co-operative Societies, Bihar State, Patna; Shri K. S. Subramania Gounder, President, Salem Central Co-operative Bank Ltd., Madras State; Shri D. S. Sali, Member, All-India Handloom Board and Chairman, East Khandesh District Industrial Co-operative Association Ltd., Jalgaon and Shri V. Sivaraman, Joint Chief Officer, Agricultural Credit Department, Reserve Bank of India, Bombay (Member-Secretary).

In addition, the Committee may invite, if necessary, the Registrar of Co-operative Societies of a State or any representative of the handloom industry when problems of handloom finance relating to any particular State come up for discussion by the Committee.

The fourth meeting of the *Ad hoc* Advisory Committee on Handloom Finance was held in Bombay on 26 June 1962. The following members attended the meeting: Prof. D. G. Karve, Deputy Governor, Reserve Bank of India, Bombay; Shri C. N. Sastry, Director of Handlooms, Andhra Pradesh, Hyderabad; Shri K. S. Subramania Gounder, President, Salem Central Co-operative Bank Ltd., Salem, Madras State and Shri V. Sivaraman, Joint Chief Officer, Agricultural Credit Department, Reserve Bank of India, Bombay.

The Registrar of Co-operative Societies, Bihar who is a member of the Committee regretted his inability to attend the meeting. Shri D. S. Sali, another member also did not attend. Shri W. R. Natu, Chairman of the All-India Handloom Board and Textile Commissioner could not attend as he was indisposed; Shri Anil De, Vice Chairman of the All-India Handloom Board and Joint Textile Commissioner attended the meeting on his behalf. Shri B. Venkatappiah, Chairman, State Bank of India, an invitee, regretted his inability to attend the meeting.

Among the officers of the All-India Handloom Board and the Reserve Bank who attended the meeting were Shri S. S. Aggarwal, Secretary, All-India Handloom Board; Shri M. A. Chidambaram, Deputy Chief Officer; Shri G. Chandrasekharan, Assistant Chief Officer; Shri K. Narayanachar, Assistant Chief Officer and Shri N. H. Bhatt, Rural Credit Officer of the Agricultural Credit Department, Reserve Bank of India, Bombay and Shri G. S. Shukla, Deputy Chief Officer, Agricultural Credit Department, Bombay Regional Office.

This publication gives the notes circulated in connection with the meeting and the proceedings. The notes have been suitably edited for this publication. The subjects included in the agenda were as follows :

- (1) Review of action taken on the recommendations of the Third Meeting of the Committee
- (2) Co-operative Spinning Mills—Comparative study of bye-laws
- (3) Financing of wool weavers' co-operative societies
- (4) Reduction in rebate on sale of handloom cloth and introduction of a scheme of contributory thrift fund or any other form of assistance to handloom industry in lieu thereof
- (5) Review of the working of the pilot schemes in various States.

NOTE ONE

REVIEW OF ACTION TAKEN ON THE RECOMMENDATIONS OF THE THIRD MEETING OF THE COMMITTEE

This note briefly refers to the action taken on the recommendations made at the last meeting of the *Ad hoc* Advisory Committee on Handloom Finance.

Execution of a continuing guarantee deed for a period of five years

Recommendation :

“The Chairman suggested that more details regarding the actual procedure followed by the Registrars of Co-operative Societies and the State Governments in the matter of forwarding loan applications, executing guarantee deeds, etc. should be collected and the subject placed before the next meeting of the Committee”.

A circular (Annexure I) was issued to all the State Governments except Assam and West Bengal and the Union Territory of Pondicherry requesting them to intimate the procedure followed by them in obtaining loan applications from the central banks and forwarding them to the Reserve Bank and the procedure followed for execution of guarantee deeds. Replies have been received from the Andhra Pradesh, Kerala, Madhya Pradesh, Madras, Orissa, Maharashtra and Rajasthan States and Pondicherry.

The general procedure in these States is as under:

The Registrar of Co-operative Societies/Director of Industries and Commerce estimates, in advance, the finance required by the weavers' co-operative societies in the State in consultation with the central and apex banks and requests the State Government to stand guarantee for the estimated amount. After the State Government communicates to the Reserve Bank its willingness to stand guarantee for the required amount, the Registrar obtains through the apex bank concerned the applications of the central banks for sanction of credit limits duly

recommended by the former and after scrutiny forwards the applications to the Reserve Bank with his recommendations. Only in the case of Maharashtra the applications are routed through the State Government with the recommendation of the Registrar.

The State Government executes a guarantee deed for the amount for which it has agreed to stand guarantee and forwards the same to the Reserve Bank. On receipt of the guarantee deed executed by the State Government, the Reserve Bank permits the State Co-operative Bank to operate upon the credit limits sanctioned to it.

In the case of Pondicherry, as the Government of Pondicherry is not competent to stand guarantee to the Reserve Bank, the guarantee has to be obtained from the Government of India. The credit limit applications are forwarded by the Registrar of Co-operative Societies, Pondicherry with his recommendations to the All-India Handloom Board. The Board scrutinises the applications in consultation with the Government of India and forwards the same to the Reserve Bank indicating the willingness of the Government of India to stand guarantee.

The Governments of Orissa and Madras have already executed guarantee deeds for Rs. 10 lakhs and Rs. 302.10 lakhs respectively for loans proposed to be obtained from Reserve Bank of India for the year 1962-63. The Government of Maharashtra have informed us that they have extended a continuing guarantee to the extent of Rs. 50 lakhs for a period of 3 years. It is also indicated that action is being taken separately to execute the guarantee deed for the year 1962-63.

The Governments of Bihar, Gujarat, Mysore and Punjab have not replied. The position in this regard will be reviewed again at the next meeting.

Continuance of the payment of interest subsidy and guarantee of losses during the whole of the Third Five Year Plan period

Recommendation :

“It was decided that (a) the All-India Handloom Board and the Reserve Bank would write to the State Governments

requesting them to expedite settlement of claims of central banks for subsidy for interest (b) the Reserve Bank would find out from the Registrars of Co-operative Societies whether interest was being charged by central banks to societies at 3 per cent or 5½ per cent and advise the central bank to charge only at 3 per cent and to claim the interest subsidy from the Government (c) this subject should be discussed in detail at a later stage”.

(a) All the State Governments except West Bengal and Assam and the Union territory of Pondicherry were addressed in the matter of early settlement of claims of central banks for interest subsidy by Government (Annexure II). The All-India Handloom Board also has addressed the State Governments in this regard.

The Madras Government had reported that subsidies upto the quarter ended 31 December 1961 had already been sanctioned and that there was no delay on their part. The other Governments have not sent us any reports.

(b) A circular letter (Annexure III) was issued to the Registrars of Co-operative Societies of all States except Assam and West Bengal and the Union Territory of Pondicherry calling for information regarding the actual rate of interest charged by the central banks in their States in respect of funds lent to the weavers' societies out of their own resources as also from the borrowings from the Reserve Bank. In cases in which the banks were charging more than 3 per cent the Registrars were asked to advise the banks (i) to charge only a uniform rate of 3 per cent to the societies and (ii) to claim the subsidy of 2½ per cent from the Government.

Replies have so far been received in this regard from five States.

1. Gujarat

The Registrar states that the rate of interest charged by all central banks except two, is only 3 per cent irrespective of whether

loans are provided from their own funds or out of funds borrowed from the Reserve Bank of India. The two central banks coming under exceptions were charging interest at 6 per cent and $6\frac{1}{2}$ per cent for loans issued from their own funds and claimed subsidy. But their cases were not considered for payment of subsidy. The Registrar has stated that the uniform rate of 3 per cent is being insisted upon. The names of central banks have not been indicated.

By refusing to admit the claims of the two central banks for payment of subsidy, the central banks do not stand to lose, but it is the weavers' societies that are to suffer by having to pay high rates of interest.

2. *Kerala*

The central banks in Kerala State are charging only 3 per cent interest on loans issued to the weavers' co-operative societies without reference to the source of funds.

3. *Madras*

The central banks in Madras State excepting the Salem Co-operative Central Bank are charging 3 per cent interest on loans issued to weavers' co-operative societies from out of the Reserve Bank finance as well as their own funds. The Salem Co-operative Central Bank is charging $5\frac{1}{2}$ per cent interest on loans issued from its own resources and passes on the subsidy sanctioned at $2\frac{1}{2}$ per cent to the credit of the concerned weavers' societies. The Registrar has issued instructions to the Salem Co-operative Central Bank to charge only 3 per cent interest even on the loans issued from its own resources and claim the interest subsidy.

(4) *Pondicherry*

The weavers' co-operative societies in Pondicherry State are at present financed by the Pondicherry State Co-operative Bank from cess fund loans granted by the Government of India and also from its own resources. The apex bank is charging 5 per cent interest on the loans issued to weavers' co-operative societies. The Registrar has stated that when funds are borrowed by the Pondicherry State Co-operative Bank, under Reserve Bank of

India scheme, the bank will be advised to charge only 3 per cent and claim subsidy. The Registrar may have to be informed that whatever be the source of funds, weavers' societies will have to be charged only 3 per cent interest and subsidy claimed from Government.

(5) *Madhya Pradesh*

The central banks charge only 3 per cent interest on the loans issued to weavers' co-operative societies from Reserve Bank funds. They have been advised to charge only 3 per cent interest on the loans issued to the societies out of their own resources.

Reminders have been issued to the other States. The position will be reviewed again at the next meeting.

Financing of Industrial Co-operative Associations

The Committee in their second meeting deferred consideration of the issue of financing of industrial co-operative associations until the receipt of the resolutions of the Seminar on Industrial Co-operatives held at Delhi on 3rd, 4th and 5th April 1961. The above Seminar discussed the subject and resolved to examine (i) the feasibility of organizing a few strong, viable and efficient apex industrial co-operative marketing federations dealing with multitude of products and having the necessary different sections and (ii) the extent to which the existing organizations can take up sales of the additional products for which a federation was proposed.

This issue could not come up for the third meeting of the *Ad hoc* Advisory Committee as the necessary statistical information regarding the business etc., of the industrial associations was not available. The data now gathered are indicated below.

Maharashtra :

In Maharashtra State there are 23 district industrial co-operative associations. The Registrar of Co-operative Societies furnished particulars of the working of 15 such associations; of the remaining 8 associations, 3 working at Aurangabad, Parbhani and Bhir are stated to be not interested in undertaking marketing of handloom cloth; 2 other associations are financially weak and

information has yet to be collected from the remaining 3 associations.

The main objects of the Associations are as follows :

(i) To promote and develop local industries and particularly small scale and cottage industries

(ii) To inform, advise and guide industrial members of the Association or its affiliated societies in regard to the purchase of raw materials and the production of suitable patterns and designs which may be in demand

(iii) To purchase, supply and sell on an indent basis, on its own account or on consignment basis, raw materials and finished products of cottage and small scale industries and of industrial co-operatives

(iv) To organize, supervise and develop primary industrial co-operative societies in the area of the Association, etc.

It is observed that the objects of the Associations cover a wide field of activities.

The total production and sales of each of the Associations for the three years 1958-59 to 1960-61 in the handloom sector and other industries are given below :

Name of the Association	Handloom Sector		Other Industries	
	Total production	Total sales	Total production	Total sales
	(Rs. in lakhs)			
	(Period 1958-59 to 1960-61)			
1. Wardha	0.33	0.19	—	—
2. Nanded	0.01	0.01	0.11	0.09
3. Akola	0.44	0.21	0.03	0.01
4. Bhandara	—	—	—	—
5. Latur	0.01	0.01	0.04	0.02
6. Jalgaon	17.54	15.14	0.35	0.31
7. Nutan (Sholapur)	0.39	0.29	—	—
8. Amraoti	0.55	0.37	1.44	1.45
9. Nasik	13.14	13.45	0.69	0.79
10. Yeotmal	0.82	0.68	0.11	0.02
11. Poona	5.92	5.98	—	—
12. Chanda	1.23	1.19	—	—
13. Ratnagiri	0.01	0.01	—	—
14. Nagpur	—	—	—	—
15. West Khandesh (Dhulia)	22.78	24.01	—	—
Total	63.17	61.54	2.77	2.69

It is observed from the above statement that five of the associations have done fairly large volume of business in the handloom sector compared to other industries. Six of the 15 associations have not shown any progress in the other industrial sector. The volume of business in the other industrial sector pertaining to 2 associations is insignificant compared to the business in handloom cloth. We have called for detailed information in respect of each of the associations together with their balance sheets and copies of registered by-laws.

Mysore :

The information called for from the Registrar of Co-operative Societies has not yet been received. From the available records, it is observed that there are four district industrial co-operative associations, one each in Belgaum and Dharwar Districts and two in Bijapur District viz. one in Jamkhandi Division and the other in Bagalkot Division. The objects of the Associations are identical to those of their counterparts in Maharashtra State. The working of the industrial associations in Bijapur District which is available in our records is given below :

(i) *Jamkhandi Division Industrial Co-operative Association*

The paid-up share capital and reserve fund of the above Association on 12 March 1962 stood at Rs. 5,525 and Rs. 7,780 respectively. The number of members on the above date was 76, including 28 weavers' co-operative societies and 45 individuals. The production and sale of cloth of the Association during 1960-61 amounted to Rs. 15,771 and Rs. 18,157 respectively.

(ii) *Bijapur District Weavers' and other Industrial Co-operative Association*

As on 31 January 1962 the Association had a membership of 167 of which only 34 were industrial societies, the remaining members being individuals. The share capital and reserve fund of the Association as on 31 January 1962 amounted to Rs. 7,710 and Rs. 16,487 respectively.

The Association is running sale depots at Bagalkot, Bijapur, Guledgerd, Nangund, Talikot and Sindji. The purchases and sales

effected by the above depots during 1 July 1961 to 31 January 1962 amounted to Rs. 1.25 lakhs and Rs. 1.17 lakhs respectively.

We have called for detailed information in respect of all such associations in the State and a note will be submitted for the next meeting of the Committee.

Review of the decision of the Seminars held in different States

As decided at the second meeting of the Committee the resolutions passed at the seminars held in different States were classified and communicated to the All-India Handloom Board with a request to take action on subjects relating to them and also to urge upon the State Governments concerned to take action on such matters which related to them. The summarised statement of the seminar recommendations along with the action taken on each one of them was examined at the 46th meeting of the Standing Committee of the All-India Handloom Board held on 3 March 1962.

Proportion between the owned funds of weavers' co-operative societies and their investments in the shares of other co-operative institutions e.g. spinning mills etc.

Recommendation :

“It was decided that a circular letter should be issued in this regard to all States. The Chairman wanted that further data collected by the Agricultural Credit Department should also be analysed quickly to find out whether 40 per cent of owned capital of societies could be safely fixed as the minimum limit for retention in business and thereafter the Chairman of the Handloom Board might be consulted before issuing the circular.”

A letter was issued to the Registrars of Co-operative Societies of all States conveying the view of the Committee that the ceiling limit for outside investments by weavers' co-operative societies could be fixed at 60 per cent of their investable owned funds. We had enclosed with each letter a draft copy of the circular proposed to be issued by us for their comments. A copy of the circular with the enclosure is appended. (Annexure IV).

Replies have been received from Gujarat, Madhya Pradesh, Kerala, Uttar Pradesh and the Union Territories of Pondicherry, Delhi, Tripura and Himachal Pradesh. While the Deputy Registrar of Co-operative Societies, Himachal Pradesh has no comments to offer, the Registrars of Co-operative Societies of Tripura, Gujarat, Madhya Pradesh, Pondicherry and Kerala are in agreement with the suggestion made in the draft circular. The Registrar of Co-operative Societies, Kerala, has suggested that the societies may be instructed to deposit their funds after making obligatory investments only in the co-operative central banks.

In his reply, the Director of Industries, Uttar Pradesh has pointed out that the investment of the funds of co-operative societies is governed by Section 32 of the Uttar Pradesh Co-operative Societies Act and Rules 82 to 85 framed thereunder. He is of the opinion, that it would not be quite correct to say that Government securities, National Savings Certificates, shares in co-operative institutions are all bought under pressure. As the statutory reserve fund has to be invested outside, National Savings Certificates and Government Securities are considered safe investments with good rate of interest. Shares in co-operative institutions are bought either for certain advantages to be obtained or to help co-operative institutions to grow up, which is also a desirable end. More often it is persuasion rather than pressure which is used. He is of the opinion that investments should not be limited to any percentage.

Reminders have been issued to such of those States which have not yet sent their replies. The position will be reviewed again at the next meeting.

Need for State participation in the share capital of primary handloom weavers' co-operative societies

Recommendation :

“The consensus of opinion was that if any State Government desired to participate in the share capital of industrial co-operatives and handloom societies they might do so. It was not necessary to suggest to the State Governments that they

should participate in share capital of weavers' societies in the pilot areas. Shri Natu, however, said that if any State Government came out with a scheme for loans to participate in the share capital structure of handloom societies in the pilot areas, the Handloom Board could consider the case on merits."

According to the information received from the All-India Handloom Board no proposal has so far been received from any State Government.

Modification of the scheme of guarantee of losses to one of guarantee against default

Recommendation :

"The Chairman thought that in practice it may not be possible to adopt the guarantee scheme for default which is applicable to other industrial co-operatives in toto for weavers' societies according to the rules framed by the Government of India. The rules may have to be examined further and central financing agencies and the Governments may have to consider the suggestion."

"The Committee decided that it would, in principle, recommend guarantee against default for adoption by State Governments in respect of handloom weavers' co-operative societies also, and that to start with it might be tried in the pilot areas."

The matter was taken up with the All-India Handloom Board. It was placed before the 47th meeting of the Standing Committee held on 21 May 1962. It was agreed that the scheme of guarantee against default as proposed might be recommended to the Government of India for acceptance.

*Working capital enhancement from Rs. 300 to Rs. 500 per loom—
Question relating to procedure, etc.*

A circular letter at Annexure V was issued to the Registrars of Co-operative Societies of all States communicating to them the

enhancement of the ceiling limit of working capital from Rs. 300/- to Rs. 500/- per loom and forwarding to them a copy of the modified form of statement No. 9 in the form of loan application.

Limitation of subsidy for interest and guarantee for losses to the ceiling limit of working capital

A circular letter at Annexure VI was issued to the Registrars of Co-operative Societies of all States. We requested them to advise central banks to split up the accommodation extended by them to weavers' societies into two accounts, the first account being limited to cash credit sanctioned to provide working capital upto a ceiling of Rs. 500/- per loom to the societies in respect of which only the concessions granted by the Government of India were applicable and the second account being maintained in respect of accommodation given in excess of this limit.

We have received a copy of the letter addressed by the Madras State Co-operative Bank to the Registrar of Co-operative Societies, Madras. The Board of Management of the Madras State Co-operative Bank felt that the proposed distinction of advances upto Rs. 500/- per loom from advances in excess of Rs. 500/- per loom would only discourage the financing banks and curtail the finance made available by them to weavers' societies and as a result, production, especially of the finer counts, would suffer. The Board has passed a resolution to this effect and has sent a copy of the resolution to the Registrar of Co-operative Societies, Madras for necessary action. We have not received any communication from the Registrar in this regard.

Review of the position of staff for supervision and audit of weavers' co-operative societies in various States

Recommendation :

"The Chairman said that the Reserve Bank and the Handloom Board should continue to persuade the State Governments to appoint the full complement of supervisory, audit and inspection staff under the handloom scheme."

A circular letter at Annexure VII was issued to all the State Governments. Replies have so far been received from Madras, Orissa, Uttar Pradesh and Himachal Pradesh. The Government of Madras has furnished particulars regarding staff for supervision, audit and inspection. The scale of staff is in accordance with the standard prescribed by the Government of India except for the deficiency of 9 supervisors. The Registrar has proposed to send proposals for sanction of additional staff. The Government of Orissa also has furnished particulars. It has stated that action is being taken to fill up the seven posts of Audit Inspectors which are vacant now.

The Uttar Pradesh Government have stated that the suggestion of the *Ad hoc* Advisory Committee for the appointment of full staff on the scale indicated by the Government of India was not implemented as the Reserve Bank finance scheme had not yet been operated in the State. The Government of Himachal Pradesh have informed us that since there are only 12 weavers' societies in the State they do not feel the need for separate staff for supervision and audit of the weavers' societies. Reminders have been issued to other States. The position will be reviewed again at the next meeting.

Review of the working of the pilot scheme in various States

Recommendation :

"The Chairman in conclusion suggested that it would be worthwhile to review the progress in the pilot areas afresh to find out whether the work in the pilot areas could be intensified, if necessary, by concentrating on only some of them. It was decided that the position should be analysed further from this point of view and discussed at an early date."

A separate note has been prepared on the progress of the working of the pilot scheme in various States and the same appears as NOTE FIVE.

ANNEXURE II

RESERVE BANK OF INDIA
Central Office
AGRICULTURAL CREDIT DEPARTMENT
BOMBAY NO. 1.

No. ACD.INDC. 1634/HS.49(6)-61-62

20 March, 1962

29 Phalgun, 1883 (Saka)

The Secretary to the
Government of

Dear Sir,

Continuance of the payment of interest subsidy and guarantee of losses for loans under Section 17(2) (bb) or (4)(c) of the Reserve Bank of India Act during the whole of the Third Five Year Plan period—Settlement of claims of central banks for interest subsidy by Government

The question of the settlement of claims by the State Governments in respect of subsidy payable to central banks came up for discussion at the third meeting of the *Ad hoc* Advisory Committee on Handloom Finance held on 4 January 1962. It was pointed out at the meeting that claims for subsidy due to the central banks were not being settled promptly by the Government and that appreciable amounts under this item were getting locked up. The Chairman of the All-India Handloom Board who was present at the meeting stated that the State Governments had been authorised to dispose of these claims without reference to the All-India Handloom Board and that they had also been provided with funds. The meeting, therefore, decided that the State Governments should be requested to expedite the settlement of the claims of central banks. In view of above, we request you to arrange to get these claims settled promptly.

Yours faithfully,
Sd./-
p. Chief Officer.

ANNEXURE III

RESERVE BANK OF INDIA
Central Office
AGRICULTURAL CREDIT DEPARTMENT
BOMBAY NO. 1.

ACD.INDC. 1636/HS.49(6)-61-62

20 March, 1962
29 Phalgun, 1883 (Saka)

The Registrar,
Co-operative Societies,

Dear Sir,

Continuance of the payment of interest subsidy and guarantee of losses for loans under Section 17(2)(bb) or (4)(c) of the Reserve Bank of India Act during the whole of the Third Five-Year Plan period—Sharing of interest subsidy between State and central co-operative banks

We invite your attention to our circular letter No. ACD. INDC. 238/FS-6-60 dated 9 February 1960 (copy enclosed) regarding the question of sharing interest subsidy between the state and central co-operative banks. During the discussion on the above subject at the third meeting of the *Ad hoc* Advisory Committee on Handloom Finance held on 4 January 1962, it was pointed out that some of the central banks were charging 5½ per cent interest to the weavers' co-operative societies for the amount lent to them out of the funds drawn on the credit limits sanctioned under Section 17(2)(bb) or (4)(c) of the Reserve Bank of India Act and pass on the subsidy of 2½ per cent to the primary weavers' co-operative societies, as and when received by them from the Government. This is against the principle on which the subsidy is made available.

We shall be glad if you can kindly inform us about the actual rate of interest charged by the central banks to the societies in respect of funds lent to them out of their own resources as also from the amount borrowed from the Reserve Bank of India.

In cases in which the Banks are charging more than 3 per cent, the banks may be advised (i) to charge only 3 per cent to the societies and (ii) claim the subsidy of $2\frac{1}{2}$ per cent from the Government.

Yours faithfully,
Sd./-
p. Chief Officer.

RESERVE BANK OF INDIA
Central Office
AGRICULTURAL CREDIT DEPARTMENT
BOMBAY NO. 1.

No. ACD.INDC. 238/FS.6-60

9 February, 1960
20 Magha, 1881

The Registrar,
Co-operative Societies,

Dear Sir,

*Sharing of Interest Subsidy between State and Central
Co-operative Banks*

As you are aware, we started financing handloom industry from the financial year 1957-58 onwards through the State and Central Co-operative Banks under Section 17(2)(bb) or (4)(c) of the Reserve Bank of India Act. According to the scheme we lend to apex banks at $1\frac{1}{2}$ per cent below the Bank Rate i.e. at $2\frac{1}{2}$ per cent per annum (at present). The Central Banks have to lend to the ultimate borrower at 3 per cent per annum. The Government of India have agreed to give a subsidy of $2\frac{1}{2}$ per cent to provide sufficient margin of profit to the financing banks. Under this arrangement the apex bank and the central bank get a margin of 3 per cent between them. We request you to let us know (i) how this margin of 3 per cent is shared between the Apex Bank and the Central Bank and (ii) the arrangement made

to pay the subsidy of 2½ per cent with details regarding the institution which claims the subsidy and who settles these claims on behalf of the Government and the procedure followed in checking the claims, etc.

Yours faithfully,
Sd./- K. A. PADMANABHAN
Deputy Chief Officer.

ANNEXURE IV

RESERVE BANK OF INDIA
Central Office
AGRICULTURAL CREDIT DEPARTMENT
BOMBAY NO. 1.

No. ACD.INDC. 1356/HS.49(6)-61/62

5 February, 1962
16 Magha, 1883 (Saka)

The Registrar,
Co-operative Societies,

Dear Sir,

Weavers' co-operative societies—investment of owned funds outside their business—limits fixation of

The question of regulating the investment of owned funds of apex and primary weavers' co-operative societies outside their business, so as to enable them to utilise enough funds in their business and thus be in a position to offer adequate cover for their outside borrowings has been engaging our attention for some time. After a detailed examination of the question by the *Ad hoc* Advisory Committee on Handloom Finance of the Reserve Bank of India, it was felt that the ceiling limit of such outside investments could be fixed at 60 per cent of the investable owned funds of societies. We propose to issue suitable

instructions in this regard. Before issuing these instructions, we would like to have your observations on the matter. A draft circular which we propose to issue on this subject is sent herewith. We shall be glad if you will offer, before the end of February 1962, your comments on the suggestions made in the draft circular.

Yours faithfully,
Sd./- G. CHANDRASEKHARAN
Assistant Chief Officer.

DRAFT CIRCULAR

RESERVE BANK OF INDIA
Central Office
AGRICULTURAL CREDIT DEPARTMENT
BOMBAY NO. 1.

No. ACD.INDC /HS.49(6)-61/62

The Registrar,
Co-operative Societies,

Dear Sir,

Weavers' Co-operative Societies—Investment of owned funds outside their business—Limit fixation of

In the course of inspection of some apex and primary weavers' co-operative societies, it was noticed that some of them have not been able to provide adequate cover for their outside borrowings. These societies are expected to offer a minimum margin of 10 per cent in the cover for their borrowings. In other words, the outside borrowings of such societies should be less than 90 per cent of the stock in trade held by them as security for these borrowings. The inability of the societies to fulfil this condition is mostly due to investment of their owned funds to a disproportionately large extent outside their business. This problem was examined by the *Ad hoc* Committee on Handloom

Finance with reference to the position prevailing in some societies selected at random and the instructions given in this circular are based on the study.

2. The owned funds of societies are composed of (i) paid-up share capital, (ii) statutory reserve fund, (iii) building fund and (iv) other reserves like price fluctuation fund, depreciation reserve, etc. According to the statutory rules and instructions of the Registrars of Co-operative Societies, weavers' co-operative societies are expected to invest their reserve fund outside their business as deposits in the District Central and Apex Co-operative Banks as the case may be. They may, however, utilize a portion or the whole of the reserve fund in their own business with the permission of the Registrar. Some societies build up a building fund out of their profits. It may take years for them to accumulate sufficient money to construct or acquire a building. Meanwhile, these funds are utilized in their business. In some cases, the amount accumulated in the building fund may exceed the amount invested in the building with the result that the surplus is utilised in business. The owned funds which the societies could utilise in their business or invest outside in a manner other than what is required under the rules or instructions of the Registrar will thus be composed of the un-invested portion of the reserve fund, the portion of the building fund not invested in a building and the share capital and other reserves if any. The investments that societies normally make can be classified under two heads viz. (1) investments which are of an obligatory nature and (2) investments of an optional nature, as indicated below :

Investments of an obligatory nature :

(i) *Shares in financing banks*: Societies are generally required to take shares in financing banks in proportion to their borrowings. Usually the proportion is 5 per cent.

(ii) *Shares in apex weavers' societies*: Societies are required to take shares in apex weavers' societies. Usually the investment is regulated at Rs. 5 per loom owned by the members of the society.

(iii) *Shares in co-operation spinning mills*: Of late, a number of co-operative spinning mills are being organised in several States. These spinning mills are promoted by the apex and the primary societies. The rate at which the primary societies are to invest in the shares of these apex societies has not been laid down. Due to the enthusiasm evinced by the societies and the local officers, some societies are investing very large sums in the shares of the mills. We feel that in this case, as in the case of investments in the shares of apex weavers' societies, there should be certain definite standards in proportion to the strength of the society concerned. These investments may also be at the rate of Rs. 5 per loom owned by the members of the society. So far as the apex society is concerned, it should regulate its investment in spinning mills with reference to its owned funds and its other commitments and the need to keep sufficient owned capital in the business of the society.

(iv) *Furniture and fittings*: Societies have to purchase some furniture and fittings for their offices and show-rooms in order to carry on their trading activities.

Investments of an optional nature :

Societies generally invest funds in Government Promissory Notes, National Saving Certificates, debentures of co-operative institutions or shares of other co-operative societies. Such investments are made mostly on pressure from the various bodies or officers sponsoring these cases. These investments are not obligatory from the point of view of working of the societies and can, therefore, be regulated keeping in view the paramount need for the societies to utilise a good portion of their owned funds within their business.

3. With a view to examining what should be the proportion that could be suggested for adoption by the societies, we scrutinised the balance-sheets of some societies picked up at random and analysed their investable owned funds and their investments. The investable owned funds of these societies have been taken to mean the sum total of (i) the reserve fund minus the statutory investment, (ii) the building fund to the extent to which it is not

invested in a building, (iii) paid-up share capital and (iv) other reserves. A portion of these investable funds has been invested outside both in investments of an obligatory nature and of an optional nature. The balance has been utilised in the business. An analysis of these societies with reference to (i) the percentage of the portion of investable owned funds utilised in business to the total investable owned funds and (ii) the percentage of the portion of the investable owned funds utilised in business to the outside borrowings of the societies has been worked out and is given below :

Distribution of societies according to percentage of investable owned funds utilised in business to borrowings—

		Between					Over	Total
		10-20	20-30	30-40	40-50	50-60	60	
Distribution of societies according to percentage of investable owned funds utilised in business to total investable owned funds—	90-100						3	3
	80- 90			1	1		2	4
	70- 80				1		1	2
	60- 70		1				3	4
	50- 60					1	1	2
	40- 50		1					1
	30- 40	1	1		1			3
	20- 30	1	1					2
	10- 20	1	1					2
	Total	3	5	1	3	1	10	23

It is found from the above analysis that societies which have utilised in their business more than 40 per cent of their investable owned funds have generally been able to give a larger cover for their borrowings i.e. more than 30 per cent. Societies which have utilised in their business less than 40 per cent have generally been able to give a lower cover only, viz., less than 30 per cent. It is, therefore, considered safe for societies to retain in their business at least 40 per cent of their investable

owned funds or in other words to limit their outside investments both of an obligatory and optional nature to a ceiling of 60 per cent of their investable owned funds.

We request you to instruct all primary weavers' co-operative societies and apex weavers' co-operative societies to regulate their investments in such a manner as to retain in their business a minimum of 40 per cent of their investable owned funds.

Yours faithfully,

ANNEXURE V

RESERVE BANK OF INDIA

Central Office

AGRICULTURAL CREDIT DEPARTMENT

BOMBAY NO. 1.

No. ACD.INDC. 1306/HS. 1-61/62

23 January 1962

3 Magha 1883

The Registrar,
Co-operative Societies,

Dear Sir,

Financial accommodation from the Reserve Bank of India under Section 17(2)(bb) or (4)(c) of the Reserve Bank of India Act for 1962-63—Applications of central co-operative banks and Apex or Regional Weavers' Societies for the fixation of credit limits

Please refer to our circular No. ACD. INDC. 1363/FS. 6-60 dated 19 January 1961 wherein we had called for applications of the district central co-operative banks for fixation of credit limits under Section 17(2)(bb) or (4)(c) of the Reserve Bank of India Act during 1961-62. The credit limits sanctioned to the central co-operative banks for the year 1961-62 are operative

till 31 March 1962. To ensure that district central co-operative banks are continuously provided with funds during the year commencing from 1st April 1962, we request you to obtain applications from the central co-operative banks in your State for fixing credit limits for the year 1962-63 and forward them to us with your recommendation.

2. (i) The applications should be sent in the form enclosed to our letter No. ACD. INDC. 162/FS. 6-59 dated 4 February 1959. The Government of India have enhanced the ceiling limit of working capital from Rs. 300 to Rs. 500 per loom. Statement 9 of the loan application form has, therefore, been modified to include particulars of weavers' societies requiring working capital at the revised rate. A copy of the revised statement is enclosed. The central co-operative banks may be advised to furnish the particulars of weavers' societies proposed to be financed by them in the revised form.

(ii) In our circular letter No. ACD. INDC. 877/HS. 49 (5)-61/62 dated 10 November 1961, we have agreed to accept the total amount of cash credit sanctioned to weavers' societies as cover for the borrowings of the central bank from apex bank instead of the outstandings under the cash credit account and modified the certificate on page 14 of the loan application form to be furnished by the central bank in this regard. A specimen of the revised certificate is given below for ready reference.

"We hereby certify that the cash credits sanctioned to weavers' societies in respect of production and marketing activities during 196 — were at no time less than the amount drawn from the Reserve Bank of India".

3. In paragraph 8 of our circular letter No. ACD. OPR. 57/FS. 6-57 dated 7 January 1957 we advised that the applications might be forwarded to us through the State Co-operative Bank and the Registrar of Co-operative Societies with their recommendation. The Registrar was also requested to obtain from the State Government and communicate to us their undertaking to stand guarantee for limits recommended. We have found that there have been delays in obtaining and sending such an undertaking

from the State Government. In order to avoid such delays and expedite sanction of credit limits to central banks and apex weavers' societies, we request you to follow the procedure outlined in our circular No. ACD. INDC. 242/HS. 49(4)-61/62 dated 4th August 1961 addressed to the State Government and copy endorsed to you.

4. We request you to forward the applications before 28 February 1962 or as early thereafter as possible so that we may process these applications and issue sanction orders without any delay.

Yours faithfully,
Sd/- K. A. PADMANABHAN
Deputy Chief Officer.

Revised Statement. 9

STATEMENT SHOWING THE PARTICULARS OF THE HANDLOOM WEAVERS' SOCIETIES TO BE FINANCED FROM THE FUNDS RECEIVED FROM THE RESERVE BANK.

As on _____ 19

Sl. No.	Name of the Society	Membership	Paid-up share capital	Statutory Reserve Fund	Other reserves	Investments			
						(a) In shares of other co-operative institutions	(b) G.P. Notes, debentures, etc.	(c) Others	(d) Total
1	2	3	4	5	6	7			
			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Total loans outstanding to the Central Bank		Other borrowings, if any	Amount spent during the previous year (Specify year)			Value of cloth produced during the year April-March	Value of cloth sold during the year April-March		Through other agencies e.g. Regional or State Weavers' Society
From Cess Fund	Other loans		For purchase of yarn	For payment of wages	For purchase of cloth, if any, from members not produced on society's account		By the society itself		
8	9	10	11	12	13	14	15	16	
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	

Contd.....)

NOTE ONE

Stock at the close of the year		Net profit (+) or loss (-) (Specify year)		Total No. of active looms working at present	No. of new looms proposed to be admitted	Total requirements of the society for the existing looms and those proposed to be admitted						
Cloth	Yarn	Amount of net profit	Amount of accumulated loss			Looms requiring working capital at Rs. 300		Looms requiring working capital at Rs. 400		Looms requiring working capital at Rs. 500		Total of b, d & f (g)
						No. (a)	Amount (b)	No. (c)	Amount (d)	No. (e)	Amount (f)	
17	18	19	20	21	22	23						
Rs.	Rs.	Rs.	Rs.			Rs.	Rs.	Rs. *	Rs.			

Amount of owned capital available (4 + 5 + 6 - 7)	Borrowed capital which will continue to be available for the year (8 + 10)	Maximum amount which the society requires 23(g) - (24 + 25)	Amount proposed to be lent by the central bank during the year including renewal of the amount outstanding in Col. No. 9	REMARKS
24	25	26	27	28
Rs.	Rs.	Rs.	Rs.	

N.B.: Columns 3, 9, 10, 14, 21, 28 to 33 of the present statement have been deleted.

Column 23 (a to g) has been added in the revised statement.

Headings of columns 24 to 28 have been modified in the revised statement.

ANNEXURE VI
RESERVE BANK OF INDIA
Central Office
AGRICULTURAL CREDIT DEPARTMENT
BOMBAY NO. 1.

No. ACD.INDC. 1763/HS. 49(6)-61/62

6 April, 1962
16 Chaitra, 1884 (Saka)

The Registrar,
Co-operative Societies,

Dear Sir,

*Limitation of subsidy on interest and guarantee for
losses to the ceiling limit of working capital*

The Government of India, in their circular letter No. HB/236/61 (Pol) 6139 dated 15 November 1961, have decided that the concessions extended by them by way of subsidy on interest and guarantee to meet losses in respect of loans to handloom weavers' co-operative societies will be limited to the ceiling limit of working capital which is, at present, Rs. 500/- per loom. The study relating to the needs of weavers' societies for working capital undertaken by the Reserve Bank of India has revealed that working capital may be required by societies on the following scale per loom.

Count of yarn used	Length of the Warp- Range of length in yards	Working capital required per loom
		Rs.
20s to 40s	21-115	300
20s to 40s	200-300	500
60s	17-32	400
60s	200-380	500
80s	28-48	400
100s	200-380	800

The Reserve Bank of India would have no objection to central banks sanctioning cash credits to societies at rates in excess of Rs. 500/- per loom provided the extra amount over and above Rs. 500/- is met from the own resources of the central banks. As the concessions given by the Government are now limited to the ceiling limit of Rs. 500/- per loom, central banks are advised to split up the accommodation given to the primary weavers' societies into two accounts, whenever necessary. The first account will be limited to cash credits sanctioned to provide working capital up to a ceiling of Rs. 500/- per loom to the societies. The second account will be in respect of the accommodation given in excess of this limit. Central banks may charge interest on the second account at their normal lending rates. We request you to advise central banks accordingly.

Yours faithfully,
Sd/- (G. CHANDRASEKHARAN)
Assistant Chief Officer.

ANNEXURE VII

RESERVE BANK OF INDIA
Central Office
AGRICULTURAL CREDIT DEPARTMENT
BOMBAY NO. 1.

No. ACD.INDC. 1638/HS.49(6)-61/62

22 March, 1962
1 Chaitra, 1884 (Saka)

The Secretary to the
Government of

Dear Sir,

*Review of position of staff for supervision and audit
of weavers' co-operative societies in the various States*

The third meeting of the *Ad hoc* Advisory Committee on Handloom Finance held on 4 January 1962 reviewed the position

of staff employed in several states for supervision and audit of the weavers' co-operative societies. The available information on the subject revealed that in some States full complement of staff had not been appointed and in some other States the staff was not put in position although sanction had been accorded for the appointment. The successful implementation of the Reserve Bank of India scheme of handloom finance depends, to a large extent, on the adequate staff for supervision and audit. The State Government may, therefore, take suitable action to provide full complement of staff for supervision, inspection and audit under the handloom scheme.

Yours faithfully,
Sd/-
p. Chief Officer.

NOTE TWO

CO-OPERATIVE SPINNING MILLS—

COMPARATIVE STUDY OF THE BYE-LAWS

A comparative examination of the bye-laws of the various co-operative spinning mills in India was done by the Agricultural Credit Department and it was observed that there was no uniformity in their contents particularly in respect of membership, borrowing powers and management. The study also indicated that there were some variations from accepted co-operative principles. In Reserve Bank's letter No. ACD.INDC 879/HS. 83-61/62 dated 16 November 1961 addressed to the Chairman of the All-India Handloom Board (Annexure), the variations noticed were communicated with a request that they might be examined and suitable action taken in consultation with the Government of India. This letter was discussed by the Standing Committee of the All-India Handloom Board held on 3 March 1962.

One of the most important suggestions made by the Agricultural Credit Department was that general principle No. 9 of the All-India Handloom Board throwing open the membership of the Mills to all kinds of individuals and institutions might be modified to restrict membership to the weavers' societies only or to cotton growers' only who have a community of interest. Our representative who attended the meeting clearly explained our view points and impressed on the members the need to alter general principle No. 9 as indicated above, so as to conform to the basic principles of co-operation. The members were of the opinion that throwing open membership to all kinds of individuals and institutions was specially permitted to enable the spinning mills to collect adequate share capital and therefore there was no need to alter the same.

The minutes recorded at the meeting (as subsequently modified) are given below :

“On behalf of the Reserve Bank, Shri Narayanachar explained that the exclusion of societies other than those

of weavers had been suggested because there would be no common economic interests amongst the subscribing members. Shri Mahadevan was of the view that the existing pattern laid down by the Board was adequate. This was supported by Shri Nadkarni. *Nawab Aizaz Rasool suggested that the Reserve Bank might forward suggestions, if any, for the consideration of the Standing Committee. This was accepted.*"

The suggestions of the Agricultural Credit Department had already been communicated to the Chairman of the All-India Handloom Board in their letter No. ACD.INDC. 879/HS.83-61/62 dated 16 November 1961 (Annexure) and there is nothing further to suggest at this stage. In the circumstances, the Committee may kindly consider whether a restatement of the suggestions communicated already may be made or whether any changes are necessary.

ANNEXURE

RESERVE BANK OF INDIA

Central Office

AGRICULTURAL CREDIT DEPARTMENT

BOMBAY-1.

D.O. No. ACD.INDC.879/HS.83-61/62

16 November 1961
25 Kartika, 1883 (Saka)

Dear Shri Natu,

We find that Co-operative Spinning Mills have been set up recently at Chirala (Andhra Pradesh), Dharwar (Mysore), Limbdi (Saurashtra), and Etawah (Uttar Pradesh). An examination of their bye-laws shows that there is no uniformity in their contents and that there are some deviations also from accepted co-operative principles. We mention below a few points which we noticed.

(1) *Membership*

The basic principle governing the formation of co-operative societies is that it should be an association of persons with common economic interests and the main object of the society should be the promotion of the economic interests of its members. Therefore, co-operative spinning mills can be of one or other of the following types :

- (i) Growers of cotton can organise themselves into a spinning mill to process the cotton grown by them into yarn in order to get a larger price for their product
- (ii) Consumers of yarn, viz. co-operative weavers' production societies or individual weavers etc. can set up a mill in order to purchase cotton at a cheap rate and to spin it into yarn and use the yarn for their production work
- (iii) Skilled and unskilled labourers can organise a mill in order to provide employment to themselves. They can purchase cotton from producers, spin into yarn and sell

it to consumers. It may be difficult to organise mills of this type as these persons may not be able to raise the initial capital which will be large.

The first Co-operative Spinning Mill which was formed at Guntakal in the old Madras State was an association of primary weavers' societies and the apex weavers' society with the object of producing yarn required for their consumption. The producers of cotton (agriculturists) and the workers are not members of this mill. Only consumers of yarn are members. This was the ideal type with which we started this kind of organisation. We find, however, that this ideal is being deviated from in varying degrees as mentioned below :

The bye-laws of Co-operative Mills at Chirala provide for admitting, as members,

- (i) weavers' co-operative societies,
- (ii) co-operative societies other than weavers,
- (iii) individuals and
- (iv) the Government.

The bye-laws of Karnatak Co-operative Mills provide for the admission of

- (i) individuals preferably cotton growers,
- (ii) weavers' co-operative societies,
- (iii) co-operative societies other than weavers,
- (iv) central co-operative banks and
- (v) the Government.

The bye-laws of the Saurashtra Co-operative Spinning Mills provide for admission of

- (i) primary weavers' societies,
- (ii) apex weavers' co-operative societies,

- (iii) co-operative banks and central banks,
- (iv) individuals, preferably cotton growers and
- (v) the Government.

The bye-laws of Uttar Pradesh Co-operative Spinning Mills provide for the admission of

- (i) individuals (traders, cultivators, cotton growers, weavers, etc.)
- (ii) weavers' co-operative societies,
- (iii) other co-operative societies and
- (iv) the Government.

We find that the general principles laid down by the All-India Handloom Board (L.9) lay down that membership of co-operative spinning mills should be open to

- (i) weavers' co-operative societies and apex weavers' co-operative societies,
- (ii) any other co-operatives, and
- (iii) individuals, preferably cotton growers and handloom weavers.

Presumably the new co-operative mills have thrown open membership to other than weavers' societies, and individuals in order to comply with this provision.

✓ These mills are meant to manufacture yarn required by weavers' co-operative production societies and we do not find any need for admitting as members other co-operative societies or central banks or individuals. In fact the interests of individuals who are cotton growers are in conflict with those of weavers' societies and it is not proper to provide for the admission of both these classes of persons as members of the same society. There is

no community of interest among them. We suggest that the general principles may suitably be altered and instructions issued to Spinning Mills to redeem the share capital subscribed by individuals and other classes of societies.

(2) *Borrowings*

In the model bye-laws suggested by the Committee on Co-operative Law, the maximum borrowing limit of the industrial co-operative production societies is fixed at 8 times the paid-up share capital and the reserve fund or any lower limit fixed by the Registrar. In the Karnatak Mills, the maximum borrowing power is fixed at 20 times the paid-up share capital plus the reserve fund and building fund minus accumulated losses. In the bye-laws of Uttar Pradesh Co-operative Spinning Mills, the annual general meeting may authorise the Board to raise additional capital by means of loans, deposits or debentures of a sum which shall not exceed 10 times its owned capital on such terms as it may be necessary. In the Guntakal Mills, the maximum borrowing power is fixed at twice the paid-up share capital and reserve fund and in the Chirala Spinning Mills, it is 5 times its paid-up share capital and reserve fund. It is not desirable to permit these Mills to borrow at a higher multiple than 5 times the paid-up share capital plus reserve fund. The acquisition of lands and the erection of plant and machinery should be met largely from the share capital and to a restricted extent from borrowings. It is the working expenses that will consume borrowings, in large measure and for this purpose 5 times the owned funds of an institution with strong share capital structure would be enough.

(3) *Management*

The Committee on Co-operative Law has suggested that the management of the affairs of an industrial co-operative production society may vest in a Board of Directors consisting of 9 members, the State Government or any authority specified in this behalf by the State Government having powers to nominate 3 directors on the Board. The bye-laws of the Uttar Pradesh Co-operative Spinning Mills, however, provide for 5 nominees of the State Government, besides the Director of Industries as its President. It is not desirable to have too many Government nominees on the Board of Directors.

Other States are also taking steps to organise Spinning Mills and it is desirable to adopt a uniform set of bye-laws and pattern of working for all of them. A few minor modifications can, however, be allowed to suit local conditions. We request you to get the matter examined and take suitable action in consultation with the Government of India.

Yours sincerely,

Sd/-

(K. A. Padmanabhan).

Shri W. R. Natu,
Chairman,
All-India Handloom Board,
15, New Queen's Road,
Bombay-4.

NOTE THREE

FINANCING OF WOOL WEAVERS' CO-OPERATIVE SOCIETIES

The All-India Handloom Board had been suggesting from time to time that, as in the case of the cotton handloom industry, the silk and wool industry could also be recognised for financial accommodation under Section 17(2)(bb) of the Reserve Bank of India Act. In pursuance of this, the Agricultural Credit Department studied the conditions of the wool industry in the co-operative sector in a few States, namely Mysore and Rajasthan. Similar studies have been conducted by the officers of the All-India Handloom Board in Andhra Pradesh in addition to Mysore.

The studies reveal that considerable reorganisation in respect of the co-operative societies—both at the primary and apex levels—will have to take place. The reports on Mysore and Rajasthan were forwarded to the respective State Governments. Their comments have not yet been received.

(a) *Studies undertaken by the Reserve Bank*

(i) MYSORE

The report on the working of the wool weavers' co-operative societies in Mysore State reveals that, though a satisfactory framework exists from an organisational point of view, certain improvements in the working of the woollen weavers' societies including the apex organisation in Mysore are considered necessary. Some of the salient points are given below:

1. The Apex and the primary societies have to be reorganised in the manner suggested in the report. For instance, there is a combination of banking and trading at the apex level. Reorganisation of the machinery for purchase and concentration on servicing of primary societies, both in regard to supply and marketing, are also considered necessary.

2. Primary weavers' societies should be reorganised into production and sale units.

3. Central banks should agree to finance the wool weavers' societies.

4. Government may appoint the necessary staff for supervision.

5. Government may agree to pay subsidy to central banks and state co-operative bank to enable them to provide working capital loans at 3 per cent interest per annum to the ultimate borrowing society, as in the case of cotton societies.

6. Government may guarantee the ultimate loss to the financing banks in the same manner as in the case of cotton handlooms.

The officers of the All-India Handloom Board also have undertaken the study of the Co-operative Woollen Industry in Mysore State. Their general observations are similar to those indicated above.

(ii) RAJASTHAN

In 1959, one of the officers had undertaken a study of sheep and wool industry in Rajasthan State. It was observed that the sheep breeders' societies had to be reorganised before they could be brought under institutional financing and that Government assistance was essential on a large scale for this purpose in the initial stages.

In the month of October 1961, Shri J. C. Ryan, the then Chief Officer, visited the Rajasthan State Co-operative Bank and the Jaipur, Ajmer, Jodhpur and Bikaner Central Co-operative Banks and a few credit and marketing institutions for agricultural produce, sheep and wool development and some research centres of the Sheep and Wool Improvement Department. As a result of his tour, a scheme to finance marketing of wool as the first step in assisting this important activity of the Rajasthan

peasant was finalised, after discussion with the Registrar, the Secretary to the Government and the Ministry. In November 1961, the scheme was forwarded to the State Government and the apex and central co-operative banks, with whom also discussions were held by the Chief Officer. The Registrar of Co-operative Societies informed us that the scheme was under their consideration. The suitability or otherwise of recognising the industry for financing under Section 17(2)(bb) of the Act may be taken up after a reply from the State Government is received.

(b) *Study undertaken by the All-India Handloom Board in Andhra Pradesh*

The salient features of the report on the working of the wool industry in Andhra Pradesh are indicated below :

1. There are 70 wool weavers' co-operative societies in Telangana and 35 in the Andhra region.

2. The woollen handloom industry has been very backward in the matter of improving the technique of production, etc.; the implements used by them are very crude.

3. The production of the woollen handloom industry in the Andhra State is mostly coarse kambals and blankets and the quality of the finished products is not good.

4. The assistance given by the All-India Handloom Board and also the Khadi Commission for providing share capital and working capital loans to apex and primary woollen societies has served as a fillip to the development of wool weavers' co-operative societies.

5. There is an apex society working at Hyderabad for the benefit of the primary wool weavers' co-operative societies in Telangana.

6. The main objects of the apex society are to raise funds and provide financial assistance to the primary societies, to purchase raw materials, appliances, and arrange for marketing of their goods.

7. As far as earnings are concerned, the position of wool weavers cannot be considered as satisfactory. If all of them can be encouraged to use fly-shuttle looms, then their production can increase, thereby increasing their earning capacity.

8. The present ceiling of Rs. 200 as working capital per loom is not sufficient and its increase to Rs. 500 per loom has been suggested.

The report on the working of wool industry in Andhra Pradesh reveals that the reorganisation of the wool weavers' co-operatives is essential before this industry is approved for our finance.

Though considerable spade work has to be done in placing the wool co-operatives on satisfactory footing, the industry appears to be one, which, with some encouragement, may be able to develop on economic lines. However, the views of the State Governments and the apex organisations on these reports may have to be obtained before any further action could be taken in the matter. The views of the *Ad hoc* Committee are solicited.

NOTE FOUR

REDUCTION IN REBATE ON SALE OF HANDLOOM CLOTH AND INTRODUCTION OF A SCHEME OF CONTRIBUTORY THRIFT FUND OR ANY OTHER FORM OF ASSISTANCE TO HANDLOOM INDUSTRY IN LIEU THEREOF

The report of the Working Group (Study Team) for the Handloom Industry had recommended that a scheme should be instituted for giving matching contribution to the thrift fund in respect of those weavers who had an unbroken record of loyalty to the co-operative society. While making this recommendation the Working Group observed:

"One of the reasons for the slow progress of the weavers' co-operative movement was the absence of loyalty of weaver members. We are of the opinion that loyalty of members could largely be secured if the societies are in a position to provide continuous employment to them. At the same time, in order to enable the societies to assist their members in times of difficulties and thus preserve their loyalty, we consider that it is necessary to institute a scheme of thrift fund, to which the weavers should contribute a part of their wages and the Government should make a matching contribution. Weavers of some of the societies have already started contributing an anna per rupee of their wages. The scheme of a Government contribution to thrift fund has already been considered by the Board and recommended to Government. This has obtained wide currency among weavers. It has been brought to our notice that the weavers feel that whereas they have fulfilled their part of contributing their share, the Government of India have not fulfilled their part. We understand that the Government of India have not found it possible to accept this proposal on account of the paucity of resources, but we are of the opinion that this question requires to be reconsidered, particularly in view of the very much larger outlay contemplated in the Third Five Year Plan. (As the principal aim is the provision of assistance to weavers in times of emergency, the scheme of a matching contribution of an anna in the rupee to the thrift fund should be instituted in

respect of those weavers who have an unbroken record of loyalty to the co-operative movement for, say, a period of five years.”)

The All-India Handloom Board while accepting this recommendation, modified the period of continuous membership of the weavers in the co-operative fold from 5 to 2 years.

The scheme relating to the contributory thrift fund, on the basis of the recommendation made by the Seminar of Weavers' Co-operative Societies in Andhra Pradesh in October 1960, as also the recommendation of the Working Group (Study Team) were considered by this Committee at its second meeting held on 18 April 1961. At this meeting Shri Natu indicated that the recommendation of the Working Group was being considered by the Government of India. Therefore, the Committee, at that stage, did not desire to give any opinion in the matter.

The All-India Handloom Board has pointed out that the issue of Government contribution to the thrift fund has not yet been accepted by the Planning Commission and Government; such a scheme has wide repercussions and these repercussions will have to be examined by Government before they agree to the scheme; at the same time, Government stand committed to the policy of shifting the emphasis from rebate to more positive forms of assistance. The Planning Commission, while approving the Third Five-Year Plan, has made the following observations:

“The progressive enlargement of programmes of positive assistance is expected to make it possible to reduce the role of subsidies, sales rebates and sheltered markets in the Third Plan. In the field of Khadi, it is hoped to bring about a gradual reduction of prices through technical improvements, pooling of production costs and economy in transport and other distribution charges. Rebates on sales of Khadi particularly of silk and woollen khadi, will be reviewed with the object of replacing them, as far as possible, by suitable management grants. As regards village industries also, it is proposed that the present subsidies and/or rebate sales in respect of their products should be replaced by gradually tapering management grants. Similarly, in the handloom

industry, emphasis will be shifted from sales rebates to more positive forms of assistance.)

The Government of India also have since made the following observations on the scheme of contributory thrift fund recommended by the All-India Handloom Board on the basis of the recommendation of the Working Group:—

“The proposal has been considered in consultation with the Ministry of Finance. (Ministry of Finance is of the view that the time is not yet ripe to introduce the Thrift Fund scheme with a matching contribution by Government as proposed by the Handloom Board, as any such step would only be at the cost of the development schemes during the Third Five-Year Plan. The Ministry might, however, consider the scheme provided the rebate scheme is given up.)

“On the other hand, it is clear that the Board is of the view that the rebate scheme cannot be given up at the present and that Thrift Scheme should be introduced at least on an experimental basis. The amount available for the development of handloom industry during the Third Plan period is limited and there may not be any surplus left after meeting developmental costs to try out new schemes. It may not, therefore, be possible to try out the thrift fund scheme unless the Board is prepared to give up the rebate scheme.

“The Board is, therefore, requested to re-examine the Thrift Scheme and state whether any possibility exists of introducing it, at least, in selected areas on an experimental basis. It may also be indicated as to how the extra cost consequent on the implementation of the scheme is going to be met.”

The Standing Committee of the All-India Handloom Board at its 45th meeting held on 3 March 1962 discussed the above subject. At this meeting, it was suggested by some of the members that the rebate might be reduced from 5 per cent to 3 per cent and the thrift fund introduced in weavers' societies from the savings effected by the reduction, and that the scheme might be tried in selected areas.

The Reserve Bank has been of the opinion that the rebate is a consumers' rebate and not a producers' rebate and any reduction in rebate would have repercussions on the marketability of handloom cloth. Owing to difference in cost of production of mill and handloom cloth, if the societies were unable to market their cloth, they would not be able to pay back the loans taken by them from the central banks for working capital purposes. The All-India Handloom Board was, therefore, informed that the Reserve Bank should be consulted before any reduction in rebate was decided.

At the same time it is also a point for consideration whether the continuation of the scheme of rebate for an indefinite period is desirable in principle. The rebate scheme is open to several abuses and in many cases, weavers' co-operatives themselves, particularly from Andhra Pradesh, have expressed a feeling that some other alternative scheme to help the weavers may be considered in place of the rebate. The rebate which was originally meant to be a consumers' rebate has, in a number of cases, virtually become a producers' rebate in the sense that it is utilised by weavers' co-operative societies in paying wages to members at a rate higher than the market rate. In reality the consumer, therefore, does not stand to gain in respect of his purchase from a co-operative society, though the psychological effect of a rebate, the gain from which is more apparent than real, on the consumers' preference for co-operative cloth cannot be ignored. The natural effect of a reduction in rebate will, therefore, be to bring down the selling price of cloth correspondingly to keep it on par with the market level of prices. This, in turn, will bring down the profits of a society, unless steps are taken by the society to reduce the wages paid by it to its members to the level of wages obtaining in the market. The abolition of rebate which no doubt is necessary has, therefore, to be done very gradually so that neither the consumer's interest now created by the rebate nor the financial position of the societies is adversely affected in any manner.

To see if as an experimental measure, the thrift fund scheme could be introduced in selected areas as suggested by the Government of India, some members of the Handloom Board had made the following suggestions:—

1. Weavers' co-operative societies may be given freedom to reduce the retail rebate from the present rate of 5 per

cent to 3 per cent and utilise the balance of 2 per cent for contribution to the thrift fund.

2. The societies may maintain the rebate at 5 per cent but exclude altogether certain varieties of cloth from the benefit of rebate scheme.

The Secretariat of the All-India Handloom Board, which has examined the suggestions, is of the view that both the proposals are not feasible. In case freedom is given to societies to reduce the rebate, it would directly result in different rates of rebate being allowed to the same variety of cloth by societies at different centres. Societies which choose to reduce rebate will be allowing only 3 per cent rebate while a neighbouring society in the same area, which does not agree to the reduction of rebate, will be allowing 5 per cent rebate. This would adversely affect the marketing of cloth in the same State. They are of the view that the rate of rebate must be uniform throughout the country.

In regard to the proposal to exclude altogether certain varieties of cloth from the rebate scheme, the Secretariat of the All-India Handloom Board is of the view that this would also result in practical difficulties. One society may exclude certain varieties of cloth, while another society would exclude a different variety with reference to the local market conditions. When this is done, the particular variety of cloth which does not get rebate at one centre will sell with rebate at other centres. This will seriously affect the marketability of cloth.

Even in the matter of introduction of the contributory thrift fund, the Secretariat has expressed the view that it is not a practical proposition as it would result in inequities. It is of the view that the amount that will accrue to societies as a result of the 2 per cent reduction in the rebate will vary from society to society depending upon its turnover and, therefore, the benefit which will accrue out of this amount to individual weaver members would also vary from society to society, depending on the amount of wages earned by each member. Further, the savings on account of reduction of 2 per cent in the rebate will be much more than a matching contribution. It has expressed the view that this surplus will be

more if, as is contemplated, the thrift fund scheme is to be thrown open only to those weavers who have put in a minimum period of membership with the society.

Therefore, the Secretariat of the All-India Handloom Board has suggested an alternative scheme for adoption as a result of the saving by reduction in the rebate.

The weavers' societies may be given a higher subsidy in interest on funds borrowed from the financing banks. At present co-operative central banks are paid a subsidy of $2\frac{1}{2}$ per cent in respect of advances made to weavers' societies. This subsidy is now proposed to be increased to $4\frac{1}{2}$ per cent, the ultimate lending rate to weavers' societies being reduced from 3 per cent to 1 per cent. It is estimated that the saving on account of the 2 per cent reduction in rebate would approximately be Rs. 72 lakhs, while the liability for payment of higher interest subsidy would approximately work out to Rs. 18 lakhs.

In so far as the two proposals made by the members of the Standing Committee of the All-India Handloom Board, viz. giving freedom to weavers' societies in the matter of reduction of rebate or applying the reduction to only certain varieties of cloth are concerned, we may agree with the views expressed by the Secretariat of the All-India Handloom Board that they are not workable propositions. But we may not agree with the view expressed by them on the proposal to introduce the contributory thrift fund. The inequities in the matter of obtaining benefit on account of the thrift scheme from member to member will naturally be there as the contribution depends on the amount of wages earned by each member. It will be an incentive for members to work more for the society and derive the maximum benefit. (At present the loyalty of members is divided between the society and the master-weaver. He is reluctant to leave the master-weaver for the reason that he is able to get cash advances in times of need. The societies do not at present make any cash advances to members except a small amount as advance wages. By the introduction of the contributory thrift scheme and also providing for giving cash advances (recoverable in small instalments) up to the limit of the members' contribution, the societies can wean away their

members from the hold of the master-weavers. We may inform the All-India Handloom Board that the introduction of contributory thrift scheme would prove advantageous in developing the handloom industry.

It is admitted that the expenditure on account of the thrift fund will cover only a portion of the savings on account of reduction in the rate of rebate. The available amount may have to be utilised fruitfully for the improvement of the industry. We may therefore, also agree to the scheme of the Secretariat of the All-India Handloom Board for reducing the lending rate from 3 per cent to 1 per cent to the societies, and for payment of enhanced subsidy of $4\frac{1}{2}$ per cent to the financing banks. The reduction in the lending rate will also go to lessen the cost of production to some extent. When the rebate is taken away completely and the wages paid to the members by the societies are on par with the market rate, the cost of cloth produced by the co-operatives should necessarily compare favourably with the market prices.

If any balance is left even after meeting the expenditure on the interest subsidy scheme, it may be put into a fund to be utilised to meet the increasing expenditure in future years on the above alternative schemes.

The advice of the Committee is solicited on the following points:

- (i) Whether we could agree to the policy of gradual reduction of rebate;
- (ii) Whether there should be a scheme of contributory thrift fund utilising the savings from reduction of rebate grant;
- (iii) Whether the form of assistance to be given to weavers' societies from the savings effected by the reduction in rebate may be by way of enhanced subsidy of $4\frac{1}{2}$ per cent to the central co-operative banks, the lending rate to the ultimate borrower i.e. primary weavers' co-operative society being 1 per cent instead of 3 per cent;
- (iv) Whether any balance left over after meeting the above two items of expenditure may be put into a fund to meet the increased expenditure in future years on the above schemes.

NOTE FIVE

REVIEW OF THE WORKING OF THE PILOT SCHEMES
IN VARIOUS STATES

At the third meeting of the *Ad hoc* Advisory Committee, the Chairman had observed that the progress made in the pilot areas was not encouraging and it would be worthwhile to review the progress in the pilot areas afresh to find out whether the work in the pilot areas could be intensified, if necessary by concentrating on only some of them. It was decided that the position should be analysed from the above point of view and discussed later. The position as at the end of March 1962 in various pilot areas is given below :

1. *ANDHRA PRADESH**Pilot area*--East Godavari District

The pilot scheme was started on 12 April 1960. There are 106 cotton weavers' societies in the district and of these 93 are active societies. The total number of looms in the area is 35,094 of which 27,281 are in the co-operative fold. The working of the weavers' societies since the last meeting of the Committee is more or less steady.

Loomage

The number of active looms remained at 12,216 at the end of March 1962, including 57 looms brought into the co-operative fold during the quarter.

Production

The targets fixed for production of cloth during the financial year is 154.89 lakhs yards in respect of two circles in the district. As against this the production for the year ended March 1962 was 85.18 lakhs yards; the production during the last three months viz., January to March 1962 was 8.39 lakhs, 8.09 lakhs and 8.76 lakhs yards respectively as against 9.43 lakhs yards in October 1961. Thus there is a decline in production during the last six months and the production per loom per month worked out to 71.7 yards in March 1962 as against the average of 75.2 yards in the corresponding month of March 1961. The special officer has reported that the target fixed is somewhat on the high side.

Financial requirements

Out of the 106 societies working in the area, 95 societies are affiliated to the four central banks working in the district and of these, 76 societies are being financed by the central banks. The cash credits sanctioned to these societies by the central banks which stood at Rs. 5.91 lakhs on the date of introduction of the scheme increased to Rs. 12.77 lakhs at the end of October 1961 and to Rs. 13.48 lakhs by the end of March 1962. The total amount outstanding against the above limits was Rs. 9.39 lakhs at the end of March 1962. The operations of the cash credit accounts by the societies appear to be generally satisfactory.

The State Government had executed a blanket guarantee deed for 1961-62 for Rs. 100 lakhs (old Andhra area only) and the total amount of credit limit sanctioned to central banks by the Reserve Bank in the Andhra Districts against the guarantee was Rs. 76.64 lakhs. The credit limit sanctioned by us to the four central banks in the pilot area for 1961-62 was Rs. 17.09 lakhs, forming 22.2 per cent of the total limit fixed for the Andhra Districts. As against the sanctioned credit limit of Rs. 17.09 lakhs, three banks in the pilot area had drawn Rs. 8.46 lakhs only. The Rajahmundry Central Bank did not draw on the credit limit though they had sanctioned cash credit limits to the extent of Rs. 2.48 lakhs from their own funds. The central banks in the pilot area had reimbursed themselves from the Reserve Bank credit limit to the extent of Rs. 8.46 lakhs only as against their cash credit sanction of Rs. 13.48 lakhs to the societies as on 31-3-62.

Formation of new societies and revival of old societies

The Special Officer has reported that there are possibilities of organising fresh societies in Kakinada Circle and that the report in this regard is awaited. There were 13 dormant societies at the end of March 1962 and it is reported that suitable steps are being taken to revive them.

Staff arrangements

The staff arrangements are said to be satisfactory in the pilot area. It is, however, observed that the post of the Joint Registrar

sanctioned for working of the scheme has been vacant since January 1962. The General Deputy Registrar, Rajahmundry Circle has been placed in additional charge of the office of the Special Joint Registrar. The State Government have been requested to post a Joint Registrar early, so that the scheme may continue to work satisfactorily.

2. MADRAS

Pilot area—Area of the Salem District Co-operative Central Bank Ltd.

Number of societies and loomage

The following figures indicate the progress in the working of the pilot scheme as at the end of March 1962.

There were 150 cotton weavers' societies of which 147 were active. There were proposals to register two new societies. The Special Officer has reported that there is no prospect of reviving the 3 dormant societies and they are to be liquidated.

The number of looms in the co-operative fold was 47,710 as against 1,35,289 looms in the area. The active looms increased from 27,275 in March 1961 to 32,229 at the end of March 1962. The target fixed for production was 25.76 lakhs yards per month for 1961-62. The production during March 1962 worked out to 21.5 lakhs yards as against 18.57 lakhs yards during March 1961. The production during the 12 months ending March 1962 was 275.35 lakhs yards, i.e. working out to a monthly average of about 23 lakhs yards. The production per active loom per month thus worked out to about 71 yards.

Provision of working capital

The Salem District Co-operative Central Bank was sanctioned by the Reserve Bank of India a credit limit of Rs. 45.00 lakhs for 1961-62 against which the bank had drawn Rs. 43.16 lakhs. However, the central bank had provided financial assistance by way of cash credits to 134 societies to the total extent of Rs. 50.63 lakhs thus providing Rs. 7.47 lakhs from its own funds. The operation on these cash credit accounts by the primaries appears to be fairly satisfactory.

Staff for supervision

The requirements of staff as per Government of India standards and the staff actually in position are as follows :

Number of societies: 150

	<i>Standard strength of staff</i>	<i>Staff in actual position</i>	<i>Deficit</i>
Junior Supervisors	15	15*	—
Senior Supervisors	5	2	3
Inspectors for the central bank	2	**	—
Designers	2	—	2

*4 supervisors are working in the office as clerks.

**The Government have sanctioned 4 inspectors but they have not yet been placed in position.

The State Government have not yet taken action to upgrade the post of special officer to that of a Joint Registrar as suggested in the original scheme. In fact the Deputy Registrar now appointed to work on the Pilot Scheme is also attending to the general administration of the weavers' societies in the district; the general duty Deputy Registrar has been divested of supervision over weavers' societies. This is not what is contemplated under the pilot scheme sanctioned by the Government of India.

3. MAHARASHTRA

Pilot area—Area of the Sholapur District Industrial Co-operative Bank

The pilot scheme commenced working on 1 October 1960. The number of weavers' societies (cotton) in the pilot area increased from 47 as on 31 October 1960 to 52 as on 31 March 1962. Of the 52 societies, the number of dormant societies was 7. One cotton weavers' society was registered during March 1962.

Loomage

The number of looms in the co-operative fold increased from 8,795 as on 31 October 1960 to 9,013 as on 31 March 1962 and

the number of active looms increased during the above period from 4,291 to 5,369.

Production

The production of cloth declined from Rs. 55.12 lakhs during 1960-61 to Rs. 46.61 lakhs during 1961-62. It is, however, observed that the total production upto the end of March 1962, exceeded the proportionate figures of target fixed. The production per loom per month worked out to 74.5 yards for 1961-62 as against 91.7 yards per month during 1960-61. The Registrar is being requested to examine the position and to take the necessary steps to improve matters.

Finance

A credit limit of Rs. 3.89 lakhs was sanctioned by Reserve Bank of India to the Sholapur District Industrial Co-operative Bank for 1961-62 for financing the weavers' societies in the area. Including the finances provided from the bank's own funds, a sum of Rs. 8.29 lakhs was outstanding against societies as on 31 March 1962.

Activisation of societies

The Special Officer reported that two dormant societies were revived by sanctioning loans to them during February 1962. In regard to other societies, enquiries were stated to have been undertaken and completed in respect of three societies during the month and these are expected to be liquidated during the course of the month. The remaining one society is expected to be revived.

Staff for supervision

For the supervision of 52 societies, the staff requirements on the standard fixed by the Government of India are 2 Senior Supervisors and 5 Junior Supervisors and 2 Inspectors for the bank. The actual staff in position as at the end of December 1961 was, 7 Inspectors including 2 Inspectors appointed by the bank. In addition, the Department had provided one Co-operative Officer, one Industrial Supervisor and one junior clerk. Thus the staff position appears to be satisfactory though they have not been categorised on the lines indicated by the Government of India.

The position in this regard as at the end of March 1962 is not available.

The Deputy Registrar of Co-operative Societies, Sholapur, continues to be in charge of the pilot scheme. No special staff has been sanctioned for working the pilot scheme. The Joint Registrar for Industrial Co-operatives, Maharashtra State is designated as Project Officer. The Deputy Registrar of Co-operative Societies, Sholapur, has been designated as Assistant Pilot Project Officer.

4. MYSORE

The scheme has been introduced in two districts, viz. Bijapur and Chitaldurg.

(i) *Bijapur District*

The pilot scheme was started in the district on 26 July 1961 and the Special Officer of the rank of a Deputy Director of Industries and Commerce took charge on the same day. The pilot area was visited by an officer of the Agricultural Credit Department in March 1962 to assess the progress made in the pilot area.

Staff

There has been no improvement with regard to appointment of staff for the supervision of the societies. It was, however, observed that 11 Inspectors sanctioned under the Khadi and Village Industries Scheme were working in the district. Some of these Inspectors have also been given co-operative training. It is stated that some of the Inspectors belonging to the old Village and Cottage Industries Department, Bombay, now transferred to Mysore State and working under the Assistant Director of Industries, Bijapur, had picked up adequate experience in the work relating to supervision of weavers' societies and other industrial societies. It has been suggested by us that such of the Inspectors as are qualified and suitable for supervising weavers' societies may be absorbed as Junior and Senior Supervisors as envisaged under the scheme.

Loomage

Eleven new societies were organised and 600 more looms were brought into the co-operative fold since December 1961.

Production

The societies produced 26.83 lakhs yards of cloth valued at Rs. 36.61 lakhs during the 7 months' period from 1 July 1961 to 31 January 1962. This worked out to an average of 2.5 yards per day per active loom working in the co-operative fold, as against the average production of 2 yards at the time of starting the scheme. There has been some improvement in this direction.

Working Capital

Out of 116 weavers' societies, 93 are affiliated to the Bijapur District Industrial Co-operative Bank. The bank has provided a total working capital of Rs. 8.81 lakhs to the primary societies as on 31 January 1962 both from its own resources and from funds drawn from the Reserve Bank of India. The Reserve Bank had sanctioned a credit limit of Rs. 4.31 lakhs to the Bijapur Industrial Co-operative Bank for the year 1961-62.

(ii) Chitaldurg District

The area was visited by an Officer of the Agricultural Credit Department in March 1962.

Loomage

The total number of looms in the district is stated to be 5026 and the number of looms in the co-operative fold is only 1866. The number of looms actually working for the societies is said to be 301. Of these, 190 are said to be working on pure cotton yarn, whereas the remaining are working on art silk and cotton mixed. The coverage of looms in the 25 societies is very poor and there seems to be no prospect of improving the position in the near future.

Production of cloth

Out of 25 societies in the district, 6 societies are said to be working as non-production societies. The production of all the societies in the district was 2.26 lakhs yards for the 12 months ended 31 January 1962 working out to an average of 2½ yards per active loom per day while the average production was 3 yards during the corresponding period the year before. There has not been any improvement in this regard.

Working Capital

Only 9 weavers' societies are affiliated to the Chitaldurg Central Co-operative Bank. The societies are not taking advantage of the availability of finance from the central banks. The total amount of cess fund loans outstanding against societies as on 31 March 1962 was Rs. 3.27 lakhs. The owned capital of the societies has been invested mostly in the shares of the apex weavers' societies, etc. The actual working capital available for societies is about Rs. 3.27 lakhs made available from cess fund.

Findings

The successive studies of the working of the weavers' societies in the District reveal that there are no prospects of improving the working of the primary societies in this area. With only 25 societies in the District, out of which about 50 per cent are dormant or indifferent, it will be difficult to run the District on a pilot basis. The Special Officer also is not hopeful of working the scheme successfully.

A meeting of the Secretary to the Government, Department of Industries and Commerce, Special Officer of the Pilot Project, Joint Director of Industries and the Deputy Registrars of Industrial Co-operatives was held on 2 June 1962. The Minister for Industries, Government of Mysore presided over the meeting. The difficulties in working the pilot scheme in the Chitaldurg District are reported to have been discussed. One of the Officers of the Bangalore Regional Office of the Agricultural Credit Department attended the meeting. It is reported that during the course of discussion, the Minister drew pointed attention to the condition of the weavers' movement in the district and emphasised that unless remedial measures were undertaken it would not be possible for the Reserve Bank of India to finance the societies in the area. The Minister is reported to have observed that an officer of the Co-operative Department (Assistant Registrar) may be posted as Special Officer, since his co-operative experience would be helpful in solving the problems raised by the Inspecting Officer of the Reserve Bank of India. The Minister felt that the present incumbent, who is a Deputy Director of Industries, would not be useful. He appears to have advised the concerned officers

to examine this and submit a note. The other recommendations made at this meeting are indicated below:

(a) Share capital of weavers' societies in the district should be strengthened.

(b) Non-weaver members should be removed from the fold.

(c) More and more looms should be brought into co-operative fold.

(d) Emphasis should not be on powerlooms in Chitaldurg district since the pilot project for handloom weavers was in operation. In other words, supply of powerlooms should be stopped in the area.

(e) Supervision in the area should be strengthened by posting the necessary staff.

(f) Accounts of societies should be audited promptly.

(g) Adequate marketing arrangements should be made by starting a district marketing society, if necessary.

The position may be reviewed in the next meeting after studying the progress made as a result of the implementation of the recommendations indicated above.

Staff

The Special Officer of the grade of Deputy Director of Industries appointed for the scheme assumed charge on 12 June 1961. There has been no improvement with regard to appointment of staff for the supervision of the societies in the District.

5. KERALA

Pilot area—Trivandrum District

The Deputy Registrar appointed by the Government took charge as special officer of the pilot scheme on 20 September 1961. The progress made since he took over charge is indicated below.

Number of societies and looms

The position in this regard as at the end of January 1962 revealed that out of 166 cotton weavers' societies, 142 were active covering 14,918 active looms. The number of active looms recorded an increase of 53 compared to the position as at the end of August 1961. The reason for not enlisting more looms is stated to be want of adequate finance. During the year 1961-62 there was considerable delay on the part of the State Government in applying to the Reserve Bank of India for sanction of credit limits. The credit limit applications were received by us only in the month of March 1962. As a result of our advice, the Kerala Government has already forwarded to us the credit limit applications of central banks for 1962-63 to the extent of Rs. 32.305 lakhs.

Production

The special officer in his report has indicated that some of the societies expressed difficulty in fixing targets for production on the ground that they would not be able to market all the goods produced. He has, however, indicated that average production per annum per loom works out to about 350 to 400 yards. The production up to the end of January 1962 was 46.91 lakhs yards and on this basis the production per loom works out to 310 yards per annum. This is very low.

Finance

The Trivandrum District Co-operative Bank was sanctioned a credit limit of Rs. 7.36 lakhs for the year 1961-62 on behalf of 64 weavers' societies. The amount was drawn by the bank at the end of March 1962.

Working of societies

While forwarding a copy of the report of our study conducted in September 1961, we suggested that steps might be taken to implement the scheme on the lines indicated therein. In reply, the Government indicated that the societies were reported to be working as production and sale units and that suitable instructions were given to assign serial numbers to goods and maintain accounts as per variety and price. The societies have also been instructed to fix targets for production.

Staff

The Government advised us that the scale of pay of senior supervisors has since been enhanced to Rs. 150-250 and that the Handloom Development Officers' posts in Trivandrum District have been converted into Gazetted posts.

6. GUJARAT

Pilot area—Two districts have been selected in this State, viz. Kaira and Ahmedabad

The scheme in Kaira District was started on 21 June 1961 and in Ahmedabad on 21 July 1961. The position about the working of the pilot scheme as at the end of March 1962 revealed the following:—

There were 47 cotton weavers' societies, of which 6 societies were dormant. As a result of the efforts of the Special Officer, 4 new societies were organised.

The total number of looms in the co-operative fold was 5,833 of which 2,000 were active. The active looms included 103 looms brought into the co-operative fold during March 1962.

The target fixed for production was 25.17 lakhs yards for 1961-62 and as against this 16.80 lakhs yards of cloth were produced up to the end of March 1962.

The Kaira and Ahmedabad District Central Co-operative Banks have not approached the Reserve Bank of India for finance during 1961-62. An advance copy of the recommendation of the Registrar for the sanction of a credit limit of Rs. 4.90 lakhs for the Ahmedabad Bank for the year 1962-63 has since been received by us. For the working of 2000 active looms, the banks have provided finance to the weavers' societies to the extent of only Rs. 1.06 lakhs from their owned funds.

7. ORISSA

Pilot area—Area of the Banki Central Co-operative Bank Ltd.

As reported at the previous meeting, the State Government have selected the area of the Banki Central Co-operative Bank

for implementation of the scheme to start with. A special officer of the rank of a Deputy Registrar has been appointed to be in charge of the pilot scheme. He assumed charge on 31 January 1962.

Loomage

There were 11 cotton weavers' co-operative societies at the end of March 1962. The total number of looms in the area was 2,431, of which 1,404 looms were in the co-operative fold and the number of active looms was 663. In the month of March 1962, a seminar of representatives of all the societies was held and steps were stated to have been taken to enlist more members and to activate the looms in the co-operative fold. It is reported that response for the working of the scheme has been encouraging both from the representatives of financing banks and weavers' co-operatives.

Production

The target fixed for production was 23,500 yards for March 1962 and the achievement in this regard was 22,803 yards.

Financial aid

The Reserve Bank sanctioned a credit limit of Rs. 1.25 lakhs for 1961-62 and the central bank sanctioned a total limit of Rs. 2.34 lakhs to the primaries.

Staff for supervision

It is reported that the 2 Junior Inspectors (attached to central bank), 4 weaving masters and 1 weaving supervisor have been appointed for supervision of the 11 societies in the pilot area.

Since the working of the scheme has been taken up only from February 1962, the progress in its implementation will have to be watched. It may be observed that the number of weavers' societies in the selected area is too small i.e. 11. It may be necessary that there should be at least 50 societies for working a pilot area successfully. The Government of Orissa may be advised to extend the pilot area to one or two more districts.

8. MADHYA PRADESH

Pilot area—Area of the Jabalpur Central Co-operative Bank Ltd.

It was originally proposed that the scheme should be tried in the area covered by the Khandwa Central Co-operative Bank. The Director of Industries informed us that the selected area did not appear to be suitable for working the pilot scheme as the weavers in the area were mostly taking to the power looms. He had, therefore, suggested the implementation of the scheme in the area covered by the Central Co-operative Bank, Jabalpur and also inclusion of the area covered by the Seoni, Chhindwara, Narsingpur and Balaghat Central Co-operative Banks. This area was already selected by the All-India Handloom Board. The Government of Madhya Pradesh have also approved this change. An officer of the grade of a Deputy Registrar has since been appointed to be in charge of the scheme. It was suggested to the Government that the Special Officer might be deputed to study the working of the scheme in other States with reference to the information available at the Central Office of Agricultural Credit Department and also visit the pilot areas in Andhra and Madras for an on-the-spot study. This has been accepted and the Special Officer is being deputed for study.

9. BIHAR

Pilot area—Area of the Siwan Central Co-operative Bank Ltd.

The Registrar of Co-operative Societies, Bihar who was personally contacted by the Assistant Chief Officer of the Patna Regional Office of Agricultural Credit Department, observed that the scheme had not been implemented by the Department and that no progress had been made in this regard. The Registrar, however, promised to look into the matter.

PROCEEDINGS

The following members attended the meeting:

Prof. D. G. Karve (*Chairman*), Shri K. S. Subramania Gounder,
 Shri C. N. Sastry, Shri V. Sivaraman (*Member-Secretary*).

Shri S. S. Aggarwal, Secretary, All-India Handloom Board and the following officers of the Agricultural Credit Department, Reserve Bank of India attended the meeting:

Shri M. A. Chidambaram, Shri G. S. Shukla,
 Shri G. Chandrasekharan, Shri K. Narayanachar,
 Shri N. H. Bhatt.

The Registrar of Co-operative Societies, Bihar, who is a member of the Committee, regretted his inability to attend the meeting. Shri D. S. Sali, another member, also did not attend. Shri W. R. Natu, Chairman of the All-India Handloom Board and Textile Commissioner could not attend as he was indisposed; Shri Anil De, Vice-Chairman of the All-India Handloom Board and Joint Textile Commissioner, attended the meeting on his behalf. After welcome of the members by the Chairman, the various items on the agenda were taken up for discussion.

ITEM ONE: REVIEW OF ACTION TAKEN ON THE RECOMMENDATIONS OF THE THIRD MEETING OF THE COMMITTEE

Execution of continuing guarantee dated for a period of five years

The Chairman observed that some of the State Governments had already adopted the suggestion made by the *Ad hoc* Advisory Committee to furnish the necessary guarantee for credit limit from Reserve Bank, in the beginning of the financial year itself. There was marked improvement in the receipt of loan applications from the State Governments this year. Madras, Kerala, Orissa and Maharashtra State Governments have already forwarded their loan applications. As regards the execution of guarantee deed, the State Governments of Madras and Orissa had already executed

the guarantee deeds in respect of credit limits recommended for the central co-operative banks in their States for the year 1962-63. Credit limit applications and guarantee deeds from other State Governments were also expected shortly.

Shri Subramania Gounder said that the central banks were unable to submit their loan applications in time, because of the procedural delay in collecting the information about individual weavers' co-operative societies in the statement prescribed by the Reserve Bank. For the weavers' co-operative societies also, it was difficult to forecast their requirements for the year; as such, the central banks found it difficult to give the necessary data called for by the Reserve Bank in advance. Shri Sivaraman explained that the data required in Statement No. 9 of the loan application form was the minimum required to assess the requirements of the weavers' co-operative societies and the quantum of credit limit for the central co-operative bank. Shri Sivaraman added that the Agricultural Credit Department would, in all cases, like to have an idea of the active loomage already possessed by a society, the number of fresh looms proposed to be brought into its fold, the resources it already had and the further resources it would require to carry through its estimated targets. These were the data called for by the Reserve Bank of India. The Chairman stated that the various returns called for by the Reserve Bank from the central co-operative banks were constantly under review. Every effort would be made to rationalise the various forms in which financial agencies had to submit the information in their applications for credit limits and any constructive suggestions made in this respect would be duly considered. But compliance with requirements of current forms was at all times an indispensable condition of getting due service from the Reserve Bank of India. The Chairman indicated that if the procedure for collection of data by the central co-operative banks from the weavers' co-operative societies and submission of loan applications by the central banks to the departments and the State Government, already indicated in the circular No. ACD. INDC. 242/HS. 49(4)61-62 dated 4 August 1961 (Annexure I to Note one of Third Meeting Proceedings) were adhered to, it would be easier for the Reserve Bank to convey the sanction of credit limits well in advance of the financial year.

Continuance of the payment of interest subsidy and guarantee of losses during the whole of the Third Plan period

The Chairman observed that some of the State Governments had already issued instructions to the central banks to give concessional loans to weavers' societies at 3 per cent interest and claim subsidy from the Government. The case of the two central banks in Gujarat which were refused subsidy, as these banks had charged interest at higher rates in respect of loans issued from their own funds, should be looked into. The objective of the scheme was to help the weaver; as such, any difficulty in the arrangement for the disbursement of the loan by the central bank to the weavers' co-operative societies at the stipulated rate of interest of 3 per cent should be removed, so that the societies would not suffer by having to pay higher rates of interest. Shri Subramania Gounder explained that the Salem Central Co-operative Bank was passing on funds, on which the subsidy would be available to the societies, at 3 per cent. In respect of finance from its own resources, on which the subsidy was doubtful, the rate of interest was, however, 5½ per cent. Subsequently, if any subsidy was received from the State Government, the benefit was transferred to the weavers' co-operatives. The Chairman observed that uniformity should be maintained in respect of the rate of interest charged on loans issued by the central co-operative banks to the weavers' societies for production and marketing under the scheme of concessional finance.

Financing of Industrial Co-operative Associations

Shri Subramania Gounder desired that the Reserve Bank might forward a copy of the bye-laws of the Industrial Co-operative Associations collected from Mysore and Maharashtra to other States for their information. The Chairman agreed to this suggestion. The Chairman indicated that collection of information in respect of Associations in the remaining States should be expedited and a full note submitted to the next meeting.

Proportion between the owned funds of weavers' co-operative societies and their investments in the shares of other co-operative institutions like spinning mills

Shri Subramania Gounder desired that the circular proposed to be issued by the Reserve Bank should be finalised at an early date and the decision of the *Ad hoc* Advisory Committee should be communicated finally to all the States very early, so that the State Governments might issue suitable instructions to the primary weavers' co-operative societies for investment of their funds in the shares of co-operative spinning mills. Many State Governments have recently come forward with proposals to set up spinning mills in the co-operative sector, and it would be in the interests of the weavers' movement to take the decision very early. The Chairman desired that the other State Governments may be requested to expedite their replies and definite proposals may be put up before the next meeting of the Committee.

Limiting subsidy for interest and guarantee for losses to the ceiling of working capital

In reply to Shri Subramania Gounder's suggestion that for purposes of subsidy towards interest and guarantee for losses, the ceiling for working capital need not be rigidly fixed at Rs. 500/-, the Chairman observed that the ceiling was necessary in order that the State Governments might know in advance the limit up to which they had to guarantee the amount of working capital issued by central co-operative banks. The Governments cannot be asked to extend guarantee for any additional amount over and above the ceiling fixed for the purpose. Shri De concurred with the opinion. He observed that all the weavers' co-operative societies might not require Rs. 500/- per loom. This was only a ceiling for purposes of guarantee, and the average working capital per loom might not even come up to Rs. 400/-. The possibility of providing working capital finance at a rate higher than the ceiling of Rs. 500 was not ruled out as some of the looms producing better quality goods of finer counts might require working capital at higher rate. The Madras State Co-operative Bank is of the view that there should not be any ceiling for purpose of interest subsidy or guarantee against loss and had sent a communication to that effect to the Registrar of Co-operative Societies, Madras. However, the All-India Handloom Board had not received any representation from the Registrar of Co-operative Societies, Madras on the subject of the limitation

of interest subsidy as also the guarantee for losses. The Chairman wanted that the position might be reviewed in case a specific request was received from any State Government.

Action taken on the other items was noted.

ITEM TWO : CO-OPERATIVE SPINNING MILLS—COMPARATIVE STUDY OF THE BYE-LAWS

The Chairman explained in detail the principles involved in the formation of co-operative spinning mills. The general principle is, that it is not desirable to form a co-operative society where a community of interests is not in existence and therefore, mutuality of service and benefit relations, which is the essence of co-operation, is non-existent. Such a position would result in conflict between the various interests. If the essential co-operative principles were not kept in mind, the co-operative spinning mills would assume the nature of joint stock companies registered under the Co-operative Societies Act. The Reserve Bank would have to take into account the extent of co-operative character of an institution, in deciding its applications for different kinds of assistance. There were of course, difficulties in collecting the necessary share capital required to set up a co-operative spinning mill, but some other modes of collecting the amount should be thought of rather than sacrificing the principle. Shri C. N. Sastry pointed out that the total contribution made by individuals towards share capital was relatively insignificant but a limited number of individual members whose association would be of benefit to the institution might be admitted as sympathisers. He suggested that it might not be advisable to restrict membership to only co-operative institutions. The Chairman explained that what was objected to was not the admission of a few selected individuals for their expert knowledge, but admission of individuals for the purpose of getting financial help from them was objectionable from the co-operative point of view. Shri Subramania Gounder said that some co-operative spinning mills were already set up with a composite membership and, therefore, it might be necessary to introduce a provision in the bye-laws in such spinning mills to redeem the shares contributed by the individuals. Shri Aggarwal of the Handloom Board said that the members of the Standing

Committee of the All-India Handloom Board were not in favour of changing the existing general principle. Shri Anil De explained that the spinning mills would not be able to attract necessary capital if restrictions were imposed on the membership. He referred to a letter sent to the Handloom Board by the Reserve Bank of India to the effect that the membership should be confined to one class of persons having identical interests only. Shri Sivaraman explained that it was felt that the interests of producers of cotton and the interests of consumers of cotton, viz. the weavers, were at variance with each other and there could not be a harmonious combination of conflicting interests. The Chairman, however, explained that the modern advanced form of co-operation envisaged the combination of producers' and consumers' interests, and this was also a desirable feature. Cotton growers' and weavers' co-operative societies and in some cases even the workers of the co-operative spinning mills may have to be admitted as members. Though in the short run, producer and consumer, employer and employee, may have conflicting interests, over a long period they can have only common interests. But a moneylender or trade-member of a co-operative credit or production society is a misfit and should be avoided. A financing member of a spinning mill is incompatible with the proposition that those who are interested in some way in spinning are joining together in a co-operative. The financier is interested in financing, not in spinning. Individually some of those may be very good men, even self-sacrificing men. But they do not fit in as members. They may lend a deposit if they so wish. The Reserve Bank would not, however, issue any directive on the subject and though the suggestion made by the Bank was not obligatory, it should be clear that the Bank would judge the co-operative character of the institutions before any finance was provided. The Chairman said that the All-India Handloom Board might collect further data on the subject and furnish its recommendations to the Reserve Bank for further consideration.

ITEM THREE : FINANCING OF WOOL WEAVERS' CO-OPERATIVE SOCIETIES

Shri De explained that some of the State Governments had represented to the All-India Handloom Board that the Reserve

Bank of India should provide finance to the wool weavers' co-operative societies. Government of India was also pressing for the switch-over to an institutional system of finance in respect of wool weavers' co-operative societies as well.

The Chairman indicated the studies conducted so far by the Agricultural Credit Department and the ingredients required were, a good promotional agency, a network of sound co-operatives, and the willingness of the Government of India to support the industry with subsidies and other assistance. Credit comes only as a residuary thing. The State Governments and the respective institutions should prepare the necessary background so as to enable the introduction of institutional finance. In this connection, Shri Sivaraman added that the Agricultural Credit Department had sent detailed reports on wool weavers' societies in Rajasthan and Mysore to the respective governments, but the State Governments had yet to implement the suggestions made in the report. The Chairman desired that the All-India Handloom Board might also pursue the matter. He added that the willingness of the Government of India to guarantee the loans and to pay interest subsidy should also be ascertained.

ITEM FOUR : REDUCTION IN REBATE ON SALE OF HANDLOOM CLOTH
AND INTRODUCTION OF A SCHEME OF CONTRIBUTORY
THRIFT FUND OR ANY OTHER FORM OF ASSISTANCE
TO HANDLOOM INDUSTRY IN LIEU THEREOF

Shri Subramania Gounder was of the opinion that the rebate should be continued as the marketability of the cloth would be affected if any reduction in the rebate was made and consequently the recovery of finance provided by the banks would become difficult. The Chairman said that the marketability of cloth perhaps depended much upon the price and the quality of the produce rather than on the rebate alone. Moreover, the handloom industry cannot expect assistance from the Government for an indefinite period. After an initial period of assistance, the industry has got to become self-reliant. Shri Aggarwal of the Handloom Board said that the State Governments were asked to give concrete proposals for the introduction of contributory thrift fund and the sources from which funds required for the purpose would be

found. The Chairman suggested that the All-India Handloom Board might give a full report on the subject at the next meeting of the Committee. Discussion on this item was, therefore, postponed to the next meeting.

ITEM FIVE : REVIEW OF THE WORKING OF THE PILOT SCHEMES
IN VARIOUS STATES

The Chairman remarked that the progress in the working of the pilot schemes was not very satisfactory. One of the reasons that had come in the way of success was the non-appointment of staff, both technical and administrative, meant for the scheme. In order to get the real benefit, the All-India Handloom Board may urge the State Governments to put the required staff in position. The results of these schemes have significance not only for handlooms, but for the whole field of village and cottage industries.

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