### PROCEEDINGS

#### OF THE

## CONFERENCE OF REGISTRERS

OF

## **CO-OPERATIVE CREDIT SOCIETIES**

HELD AT

## SIMLA

ON TH

### 25th September 1906, and following days.

WITH APPENDIX.



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#### Programme of Conference of Registrars of Co-operative Credit Societies, September 1906.

I.-General Progress made.

II.-Cash Banks.

A.-Village Banks.

(1) Number of mombers—class of members—area—limited or unlimited liability—entrance fees—deposits by members—loans by non-members or by Government—rate of interest paid on deposits—objects for which loans are made to members—interest charged to members—punctuality of repayment extent and reasons for default—action taken to enforce punctuality—expulsion of unsatisfactory members—causes of failure of village banks. Growth of reserve fund. How it is held. For what purposes it may be used.

(2) The managing body. The manager. The accountant. Supervisors. Accounts. Disputes.

(3) Help to be got from (a) leading land owners, (b) money-lenders, (c) others. Opposition experienced, and how to ovércome it. Litigation, and how to avoid it.

B. Urban Societics.

Same heads as above.

O. (à) Central Banks.

(b) District Banks.

(c) Land Mortgage Banks.

D. Inspection, audit and control.

E. How best to finance the movement.

III.—Grain-banks—Dharmagolas. Their special advantages and difficulties. Village and central granarics.

IV.—Co-operative Village and Central Seed Societics.

V.—Other forms of co-operation—

(a) Weaving.

(b) Sugar-boiling.

(c) Sugar manufacture.

(d) Other purposes.

VI.—(1) Rules and by-laws under the Act.

(2) Amendment of the Act.

(3) Privileges granted by Government.

VII.—(1) Societies' year.

(2) Form of Annual Report and Statements

Addendum to Programme showing notes and other documents received and the heads under which they were discussed.

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P

#### Minutes of a Conference of Registrars of Co-operative Credit Societies held at Simla on the 25th September 1906 and following days.

1. The Hon'ble Sir Denzil Ibbetson welcomed the Registrars. He said the societies in their present stage are experimental and it is too carly to feel assured of success, but the progress made seems encouraging. Probably most of the present societies owe their existence more or less to official initiative, and many of them would die of inanition if the stimulus of active encouragement was withdrawn. Success would be assured when existing societies were able to run alone, and their number was being constantly added to by spontaneous imitation. He elicited the opinions of the individual Registrars as to the prospects of ultimate success, and all were hopeful, and some sanguine. He dwelt upon the importance of simplicity and elasticity. He suggested that the figures reported by the United Provinces and the Punjab showed a tendency to rapid development, which might be dangerous. Minute attention on the part of the Registrar to the affairs of each society is requisite in the early stages, and cannot be afforded where the number of societies is very large. One failure ... would more than counterbalance 20 successes. By failure he understood actual loss of their money to members or depositors. The chance of such failure must be absolutely put out of court.

2. The members of the Conference recorded their regret at the enforced absence through ill-health of Mr. Hall, Registrar of Burma.

3. The President suggested that certain matters might well be dealt with by sub-committees, working in the afternoons, their conclusions being recorded and laid before the Conference. The object of the Conference was not to pass resolutions, but to allow of exchange of ideas and the record of opinions which might be of advantage to the Registrars and to the Government of India and the Local Governments, before whom the results would be laid.

4. It was agreed that a sub-committee consisting of—

Mr. McNeill, convenor,

- "Robertson
- " Charriar
- " Cobden-Ramsay

should consider the question of the annual report and lay its conclusions before the Conference. The following points were laid down for consideration and report:----

- (i) the form in which the combined statements of all Provinces should be compiled for submission by the Government of India to the Sccretary of State;
- (ii) the desirability or otherwise of uniformity in certain of the statements appended to the reports to Local Governments by the Registrars;
- (iii) if such uniformity be desirable, the form in which those statements should be prepared;
- (iv) the desirability or otherwise of a certain uniformity of arrangement in the letterpress of the provincial reports;
- (v) the possibility, and if so the form, of uniform statements to be submitted to Registrars by societies.
- 5. After some discussion it was resolved that a sub-committee consisting of-Mr. Hope Simpson, convenor,
  - " De,
  - " Thompson,
  - ,, Gaskin,

should consider the rules and by-laws framed in the various Provinces and make to the Conference such recommendations on the subject as they might see fit.

### 11.-Cash banks. A.-Village banks.\*

6. The question of limiting (i) the number of members in village banks and (ii) the area in which they work was discussed. It was ascertained that the principles governing number and area were dependent on local conditions. The general conclusion reached was that no limitation in either number or area is necessary, as there exists in the conditions of election and joint and several responsibility an automatic check, which prevents the institutions becoming unwieldy.

7. Class or tribal banks were then considered. Several interesting institu-tions of this type, among the native Christians of Bengal, the Saraswatis of Bombay, the Rajputs of the Punjab and the Jats and Tharus of the United Provinces were mentioned. The general opinion was that, though the tribal organization should as far as possible be utilized, it would be a mistake to foster tribal banks at the expense of institutions admitting the members of more than one caste.

8. Regimental societies were discussed. All members agreed that thesoldiers of one regiment could legitimately be held to be a class for the purposes of Section 3 of the Act. It was decided that the Registrar of the United Provinces should prepare a notet on the subject to be submitted to the Government of India.

9. The next point dealt with was limited and unlimited liability in village societies. Except in Madras, where several societies work with limited liability, the general practice is for such societies to follow the ordinary rule of unlimited liability. Even in Madras all societies registered since August 1905 have been registered on the basis of unlimited liability. The question of the desirability of an amendment of Section 8 (1) of the Act, with the object of facilitating share capital as a basis of village societies was then fully discussed. Messrs. Charriar, Shama Rao, Gaskin, Thompson and Hope Simpson considered the amendment necessary. Mr. McNeill was of opinion that the proviso to the section rendered it unnecessary. Messrs. Cobden-Ramsay and De agreed that amend-ment was unnecessary. It was resolved that the former five Registrars should meet and record their reasons for the proposed amendment, and the latter their rcasons against it.1

10. It was recorded that the general practice everywhere is to charge entrance fees varying from 4 annas to Re. 1 in rural societies.

11. The question of deposits by members was then discussed. In Bengal and the United Provinces the system of members' savings deposits appears about to become common. In other provinces, such deposits by borrowing members are rare. In Madras several societies provide for the savings of members, which however are put in as share capital, not as deposits. All Registrars agreed that members' savings deposits should be encouraged.

12. The next point considered was that of loans by non-members. In Madras and Mysore 7 or 71 per cent. is said to attract deposits by non-members. In Bombay the societies have little if any commercial credit and obtain loans only from friendly outsiders. In the Punjab and the Central Provinces the market has not yet been approached on business terms. In Eastern Bengal and Assam there are scarcely any outside loans. In Bengal money is forth-coming both from financial institutions and from outsiders as a commercial investment. In the United Provinces it is obtainable in certain districts from 7 zamindars, as an investment, at 6 per cent.

13. The President then enquired the rates of interest charged by village money-lenders on agricultural loans to ordinary cultivators. These were reported as follows :--

Madras-large loans 9 per cent.—small 12 to 15 per cent.

Mysore-12 per cent.

<sup>•</sup> Vide note on Village Banks in the Gonda District-infra Appendiz pages 9 to 11. † Vide note on Co-operative Credit Societies in Regiments of the Indian Army-infra Appendiz pages 12 and 13

<sup>1</sup> i sile notes No. 16 and No. 17-infre Appendix pages 56 to 58.

### ERRATUM.

For "Saraswatis" in para. 7 of Proceedings of 25th September 1906 substitute "Sarasvat Brahmans." -5

Bombay-except Gujarat, 12 to 15 per cent,

Gujarat-rich borrowers from 6 per cent, upwards.

poor "from 15 per cent. upwards.

Central Provinces-18 to 25 per cent.

Bengal-18 to 25 per cent.

Eastern Bengal-18 to 24 per cent. Assam-371 per cent.

Punjab-24 per cent. for fairly solvent borrowers: 18 per cent. a low rate.

United Provinces—Oudh and Meerut Divisions, 12 to 18 per cent.

", ", ", other Divisions, 37} per cent. 14. The President enquired the net return earned by the local money-lender on his capital. The Registrars reported 1—

Madras—9 per cent. to 12 per cent.

Mysore—9 per cent. to 12 per cent.

Bombay, except Gujarat, 9 per cent.

Gujarat, 5 to 6 per cent.

Central Provinces-9 per cent. to 12 per cent.

Bengal-9 per cent. to 12 per cent.

Punjab-12 per cent.

Eastern Bengal and Assam, Ryot money-lenders-18 per cent,

Kabuli and Kaya-25 per cent.

United Provinces—12 per cent. to 15 per cent.

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15. The next point discussed was the rate of interest paid by village banks on members' deposits, on loans raised from outsiders and on loans made to members of the banks. They were reported to be approximately as follows :----

Province.		Rate paid on members' deposits.	Rate paid on loans from outsiders.	Rate charged on loans to members.
Madras	•••	7 per cent.	7 per cent.	9 per cent.
Mysore	•••	9 "	9 ,,	12 "
Bombay, excluding Gujarat	•••	61 "	5 to 6 "	9 <b>1</b> ".
, Gujarat		3 or 4 🦙	4 to 6 ,,	61 "
Central Provinces, excluding	Berar	7	None	9 <b>i</b> to 12 ,,
n n Berar		41 1)	None	9 <b>%</b> to 12 "
Bengal	•••	31 to 61 ,,	•••	123 #
Punjab	•••	5 . "		9 "
Eastern Bengal and Assam	•••	6 <del>1</del> "	61 ,,	9 <del>]</del> to 12 ,,
United Provinces		61 " ·	6 "	121 ,,

In one bank in Bengal and in one in the United Provinces 183 per cent, is charged on loans to members.

The capital raised in Berar at  $4\frac{1}{2}$  per cent. and capital raised in Bombay from the Central Bank at 5 per cent. was described as from friendly or philanthropic sources.

16. The subject of penal interest was considered. Such interest is charged in Madras at 12 per cent. on overdue loans, in Bombay at double the original rate on the loan. In the Central Provinces compound instead of simple interest is charged. In Eastern Bengal and Assam penal interest is charged at  $37\frac{1}{2}$  per cent., while in Bengal, the Punjab, and the United Provinces there is no provision for penal interest in any society. The majority of the Registrars considered that penal interest serves a useful purpose. The remainder were of opinion that the matter should be left to the individual societies for determination in each case, no recommendation for or against the provision being made.

17. The Registrar, United Provinces, objected to loans being granted by societies, at rates of interest so much below the prevailing rate as to be artificial. Mr. Thompson (Punjab) was of opinion that a fair rate would be one slightly below the average rate actually recovered by money-lenders. The general opinion was that except in tracts where prevailing rates of interest are low (e.g., Madras and Bombay) 12} per cent. per annum is a fair rate for village banks to charge to their members. Mr. Charriar (Madras) dissented from the general opinion, and stated as his view that the rate, while not so low as to encourage extravagant or unnecessary borrowing, should be distinctly lower than the average rate charged by money-lenders on their capital, so as to popularize the movement and induce people to obtain their capital through co-operative credit societies rather than from the money-lenders.

18. The question whether the rate of interest charged by village societies should be fixed subject to the sanction of the Registrar was discussed. The majority of the Registrars were of opinion that the Registrar's sanction should be obtained to all changes. The Registrars of the Central Provinces, Bengal and the United Provinces considered it sufficient that maximum and minimum rates should be fixed by the Registrar, and that the societies should be empowered to fix their rates within those limits as might seem to them advisable.

19. It was decided unanimously that the maximum rate of interest to be paid by societies on loans and deposits should be subject to the sanction of the Registrar.

20. On the question as to whether the sanction of the Registrar should be required to each loan raised by village societies, five Registrars thought such sanction should for the present be required, the remaining three that this is unnecessary and inadvisable.

21. The Conference was with one exception of opinion that the maximum amount of liability to be incurred by each society should be fixed from time to time by the Registrar. The Registrar of the Punjab held that if the procedure laid down in minute No. 20 is adopted, that suggested in this minute is unnecessary.

22. The Registrars of Madras, Mysore, the Central Provinces, Bengal and Eastern Bengal and Assam reported that punctuality in repayment of loans by members was the almost invariable rule. In Bombay and the Punjab punctuality is the rule, though adverse seasons have caused delay in certain tracts. In the United Provinces repayments are generally made with satisfactory punctuality.

23. The question of expulsion of undesirable members was next taken up. In Mysore there have been two cases, in Eastern Bengal two, in Assam one and in the United Provinces 10 or 12, all on account of unpunctuality in repayment. On the whole the members as a class were reported distinctly satisfactory.

24. The objects for which loans are granted by village societies were then discussed. Except in the Central Provinces and Bengal, in which all loans have been issued for reproductive purposes, loans are granted for all purposes. In Eastern Bengal half the amount borrowed has been for payment of prior debt at exorbitant rates of interest. The Registrars of Eastern Bengal and Assam, and of the United Provinces reported cases in which loans for marriages had resulted in more moderate expenditure than would otherwise have been the case. Mr. Thompson (Punjab) mentioned that in the Panjawar Society (an unregistered society), before loans for marriages are granted, a schedule of expenditure is demanded and scrutinized and, if necessary, amended by the Committee. The Conference was unanimously of opinion that no order should be issued restricting loans to any specified classes of purpose.

25. The next point taken up was the cause of failure of societies which have been closed. No case of failure involving loss of capital has occurred in any Province. In Bengal, the Punjab, Eastern Bengal and Assam and the United Provinces, some societies have ceased work. The causes have been various, e.g., premature organisation, excess of official encouragement, dependence on individuals, lack of capital. It was agreed that the chief conditions predisposing to failure are, dependence on individual management, failure to educate the general body, too much official assistance, usurpation of power by intelligent members of a society to the exclusion of the members of average intellect, carelessness in the grant of loans and in administration, want of capital, litigation, and bad organisation generally.

26. The question of reserve funds was then considered. The practice varies in various Provinces. In Bombay and Bengal the reserve fund is added to the working capital and issued in loans to members. In the Central Provinces it is as a rule deposited with the local banker at 4 per cent. In the Punjab the by-laws provide that the reserve fund may be used for general purposes. In Madras and Eastern Bengal and Assam the whole of the profits are carried to reserve and deposited in the Post Office savings banks. In the United Provinces 40 per cent. of the gross earnings are credited as profits to the reserve fund and deposited in the Post Office savings bank or in fixed deposit with a joint stock bank, 60 per cent. being applied to a sinking fund for repayment of borrowed capital, and being employed in loans to members until needed for that purpose.

All Registrars agreed that when the reserve fund is sufficiently large to be of importance it should be kept entirely separate from the other funds of the society and separately invested. Five were of opinion that it is essential that the reserve fund should be separately invested, whatever its amount.

27. It was unanimously agreed that the purposes for which the reserve fund might be used should be -

- (i) meeting bad debts for which provision cannot be made out of profits ;
- (ii) repayment of loan instalments which cannot be met from other sources;
- (iii) as an asset of security for loans raised from outsiders.

28. With reference to the managing body of village societies it was reported that they are on the whole competent and industrious, and that meetings are held with sufficient frequency. The manager has everywhere only the ordinary powers of Chairman of Committee.

29. In every Province difficulty has been found in many villages in obtaining the services of accountants. In Bombay and the Central Provinces schoolmasters are usually employed as accountants. In Bombay generally, in certain cases in the Central Provinces and in about half the village societies in the United Provinces honoraria are paid to the accountants. In Madras, Mysore, the Punjab and Eastern Bengal and Assam their services are generally gratuitous. Village accountants are nowhere employed. On the whole the working of accountants is satisfactory.

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#### Minutes of the 27th September 1906.

30. The Conference was of opinion that no strict policy can be enunciated as to the desirability or otherwise of paying accountants of village societies. The procedure must be governed in each case by the circumstances of the individual society. Where a member is accountant it will frequently be possible to obtain his services gratuitously.

31. The question of the desirability of employing supervisors or controllers was discussed. These officers are employed in all the banks of Eastern Bengal and Assam, in Bengal and in one district in the Central Provinces. Elsewhere there are none. The Registrars of Eastern Bengal and Assam and Bengal expressed the opinion that when the requisite stamp of supervisor can be obtained his entertainment is advisable. The remainder of the Registrars thought the supervisors were unnecessary and inadvisable, as their functions are performed by the Registrar and his staff.

32. It was reported that in several Provinces the land-owning classes had been of the greatest assistance in commencing banks on their estates. All the Registrars were agreed that large land-owners can best assist the movement by financing societies and by standing apart from participation in their management, helping the managing body by advice as may be necessary, and showing an interest in the societies' progress.

33. The relations of the village banks to the local money-lenders were next dealt with. In several cases in Madras they have actively helped the movement. The only cases of hostility reported occurred in the Punjab and the United Provinces. The money-lenders in other Provinces maintained a neutral attitude except in the Central Provinces, where the Marwari bannya class is strong. The Registrar reported that these money-lenders were at first suspicious, but that their suspicions appear to have been overcome and that they now take an active interest in the movement. The dangers of this are fully recognized, but it was necessary to include them in order to secure their co-operation. He is of opinion that they might be collected into a Central Bank with the function of advancing money to village societies and he would like to see such an institution formed. In the Punjab the Registrar reported that in some cases agriculturist moneylenders who have joined the societies have attempted to transfer to the societies the debts due to them by other members.

The President expressed the hope that money-lenders would in the end help the movement. They have often been unjustly abused as a class. He hoped that some future day would see the capital and hereditary knowledge of the class combined in joint-stock institutions, which would to a large extent replace the present individual village money-lenders. He was of opinion that endeavour should be made to convince them that the movement is not hostile to their interests and that it would tend to their ultimate advantage.

Except in Madras and Mysore it was generally agreed that it is as a rule inadvisable for the local money-lender to be elected as member of a village society.

34. All Registrars reported that there had been no cases of litigation between village banks and persons who are not members.

35. All Registrars reported that they had received help from classes other than the land-owners. In Madras and in the Central Provinces pleaders have done useful work. In Bombay one merchant advanced Rs. 1,500 or Rs. 2,000 at 4 per cent, and honorary organizers were very useful. In Bengal and parts of the United Provinces European indigo-planters have spent much time and trouble in supervising societies. In Madras Sir Subramania Ayer, the Raja of Ettiyapuram, the zamindars of Nambipuram and Kilacheri Aruliah Naidu, and in Mysore His Highness the Maharaja have helped with funds. In the United Provinces the Cawnpore Woollen Mills made an advance of Rs. 10,000 at 5 per cent. 36. The question of honorary organizers was discussed. In Bombay three retired Deputy Collectors are employed. They are paid travelling allowance at Rs. 5 per diem, or double first class fare. The Registrar thinks highly of their services and is hoping to obtain more men of this stamp. The Registrars of Madras, Mysore, Bombay and Eastern Bengal and Assam considered organizers very desirable as assistants in familiarizing the villagers with co-operative ideas. The other Registrars did not consider such workers necessary at the present stage. It was unanimously considered advisable that the Government of India should empower Local Governments to grant travelling allowance to all classes of honorary organizers employed in co-operative propaganda.

37. The Registrar of the Central Provinces reported that belief in the value of co-operative societies was spreading in the Provinces and that a District Agricultural Association had recently recorded a resolution asking Government to organize societies in that district.

#### B.-Urban Banks.

38. The organization and working of urban banks was next discussed. In Madras there are a number of such institutions, all of which are working satisfactorily except one. The societies are mainly worked on borrowed capital and deposits, shares being in most cases subscribed for but forming a capital of guarantee—no amount or only a very sniall 'portion of the share capital being called up. Where there is no paid-up share capital, all profits after payment of interest on loans and deposits, go to the reserve fund, and this system is increasingly popular. In Mysore there are two societies working among Government officials and small traders. They have issued share capital, and liability is limited. In Bombay there were at the close of last year (31st March last) ten societies. All are still struggling but most are hopeful, those in the smaller towns doing well. In all societies except one share capital has been subscribed and liability is limited. In the remaining society the capital consists of deposits and Government loan and liability is unlimited. In the Central Provinces one society has been working at Harda for 14 months. It has no borrowing members, the share-holders having neglected to elect such. The money is laid out on *hundrs* and the society is not co-operative. There are three other banks recently registered which promise well, specially one among the weavets of Burhanpur. A society among the Government servants in Betul works purely on guaranteed capital, and has raised Rs. 4,000 by deposits from its richer members in sums varying from Rs. 10 to Rs. 600. In Bengal there are four, one among the employés of Messrs. Mackinnon Mackenzie & Co., which is doing well, and three for Government officials. These also are promising. In the Punjab there are two among the Government employés in Simla. The one among the Monotype Press employés charges 18<sup>‡</sup> per cent. on loans. Repayments are very punctual. Seven societies with share capital and limited liability have been registered in Eastern Bengal and Assam.

39. The only case of litigation between an urban bank and a person not a member was reported from Madras where an unsuccessful applicant for membership has sued the bank for damages. The case is pending.

#### C. (a)—Co-operative Unions,

40. The Registrar of the United Provinces, in which area alone with the exception of a recently started institution in the Central Provinces, co-operative unions are at work, made the following statement with reference to the methods on which they are organised and governed :---

1. In practice the chief difficulties met with in the organization of rural societies under Act No. X of 1904 are the following :--

(i) the provision of capital;

(ii) account keeping;

(iii) the caste system.

2. (i) The requirements of an ordinary village bank are small. Probably at the commencement they will not amount to more than a few hundred rupces. The sources whence this amount might be obtained are—deposits by members, the village money-lender, Government, a friendly capitalist. It is obvious that the first source can only supply a very small proportion of the requirements of a body of men who have joined together in order to borrow on their combined credit. The third source supplies—and that only for the present—an amount equal to members' deposits. The second source is practically hopeless. The village moneylender looks on the nascent institutions of the United Provinces with a jaundiced eye. The last source may prove prolific or sterile according to local circumstances. In the majority of places the latter has proved to be the case.

The large mahajan and the joint stock bank will not consider applications for a loan from a number of small men whose credit they do not realize, when the loan is so paltry in amount. Even when convinced of the security the requirement is so small as to make the transaction unprofitable. They see their advantage in loans of thousands and tens of thousands rather than of hundreds.

3. (ii) The difficulty of account keeping is admitted. There are thousands of villages in the United Provinces without a single literate inhabitant. Doubtless the same is the case in some other Provinces of the Empire. It is obvious that a small society with a few hundred rupees of capital cannot pay an accountant.

4. (iii) The caste system prevents effective co-operation except in societies where members are either of the same caste or of castes approximately of the same social standing. There are excellent societies in the Provinces in which kurmis and kisans, or lodhas and chamars form the membership. But it is impossible to expect co-operation between a Brahman and a dhobi, or a Rajput and a chamar. The lower castes cannot therefore obtain the benefits of co-operation in their completeness unless low caste societies are formed. They are as honest and as regular in making payments when they fall due, as their brethren of higher social status, their credit, though perhaps less in amount, is in quality quite as good, but owing to their illiteracy it is impossible, except in very rare instances, to form independent low caste societies.

5. It was in the attempt to solve the three problems stated above that the central system was devised. The system has had results more far-reaching than those anticipated, but these results are to be welcomed. They will be mentioned at a later stage.

6. A Central Bank (which it is now proposed to term "co-operative union") is an institution, the members of which are representatives of a number of small societies affiliated to the Central Bank. Each is elected by the committee of the society which he represents and is, by the bylaws, empowered to pledge the credit of that society for all loans raised by the Central Bank. These members in their turn elect a committee from among their number and in the hands of this committee the general management of the Bank's affairs lies. It is empowered on behalf of the Central Bank to raise loans or accept deposits, as may be necessary or advisable in the interest of the affiliated societies. The accounts of all affiliated societies and of all members of such societies are kept at the office of the Central Bank, profits are credited to its reserve fund and on that reserve fund each affiliated society has a claim in the case of bad debts which have been caused not by mismanagement, but by misfortune or calamity.

7. To this institution the affiliated societies stand in the same relation as individual members of a village society to their society. When the Central Bank is constituted, and thereafter every half year, or annually as the case may be, the members of that institution meet and allot to each affiliated society the maximum credit to which it will be entitled at any one time during the next half yearly or yearly term. This amount having been fixed the Central Bank has no authority over the individual loan. The affiliated society's committee has absolute power of distribution. That committee is responsible for internal management, election of members, distribution of loans, collection of principal and interest and of compulsory deposits. It has also to maintain, or to have maintained, a list of members and a list of loans. There is absolute autonomy within the village society.

8. Affiliation is the privilege of the Central Bank in general assembly. No village society can demand it and no society is affiliated unless the whole body of members of the Central Bank is unanimous in its vote in favour of affiliation. No society is affiliated until registered under the Act as a separate co-operative credit society. On affiliation the members of a society undertake a two-fold obligation. In the first place, they are jointly and severally responsible to the Central Bank for loans advanced by that bank to the members of the society. In the second place, they are responsible in common with all members of all affiliated societies for the loans raised by the Central Bank.

9. There are several very obvious advantages attaching to this system. In the first place, it is in a position to deal in large amounts, and consequently with large capitalists, and with joint stock banks. It can leave the village moneylender alone, unless he consents to lend at low rates of interest, and can deal with men who demand larger business but smaller rates of interest. And experience proves that this is exactly what it does do. In the second place, dealing as it does with large capital and making considerable profits, it can afford professional book-keeping agency, and its accounts are consequently of a higher and more accurate type than can be expected in a small society. In the third place it solves the difficulty of low caste societies, for experience again proves that though the individual low cast member in a mixed village bank has practically no say whatever in the councils of the institution, the representative of such a society in a Central Bank succeeds in obtaining for his members as good terms as those obtained by the higher caste representatives. In the next place, individual loans are made and individual members elected with very much greater care than is the case in a large mixed bank. In the small affiliated society joint and several responsibility is keenly felt, applications for loans are very carefully scrutinized and the character of every applicant for membership is intimately known to every member of the society. Again it provides an automatic method of expansion. As funds become available, more societies can be affiliated, or more members elected to the existing societies. Lastly, it renders the work of supervision very much easier than would be the case were each of the affiliated societies to be independent, with its own set of accounts, its own microscopic reserve fund, its own triffing account at the nearest Post Office Savings Bank.

10. The above is a very brief description of the general principles governing the Central Bank and its affiliated societies. The details of administration, account keeping, method of application for and repayment of moneys, election of officers, etc., can be studied in detail by anyone who may desire to do so in Chapters III, IV and IX of the provisional issue of the Co-operative Credit Manual for the United Provinces. These are matters which must vary from province to province and from time to time. It remains to consider the progress made by Central Banks in the United Provinces, and the criticisms which have been or might be offered on the system as a system.

11. The first Central Bank constituted was that at Bargarh, District Banda, which was formed by splitting up into village and caste societies the large and somewhat unwieldy village bank which had its head-quarters at that place and which did business in 12 or 13 villages. Since then, apart from urban and District Banks, 13 Central Banks have been constituted, the working capital of these societies amounting, approximately, to one lakh of rupees of which some Rs. 14,000 represents members' deposits. The healthiest sign, next to members' deposits, is the fact that capital is in several instances being raised (without any efficial assistance) from local mahajans. I am aware of Rs. 5,000 so raised in the Jewar Bank, and Rs. 3,000 by the Aurangabad Bank, both in the Bulandshahr district, Rs. 5,000 by the Mohanlalganj Bank in the Lucknow district, and Rs. 4,200 by the Miyanganj Bank in the Unao district, and doubtless there are other sums of which I have at present no information.

The growth in number of affiliated societies is also large. The Jewar Bank which commenced with 13 now has 36, the Tharu Bank in Naini Tal Tarai has now 8; it commenced last year with four. In the Kurri Sudaoli Bank in Rae Bareli district the affiliated societies have risen from 21 to 33, in Miyanganj from 17 to 37. The 14 Central Banks have about 250 societies affiliated to them at the present time, the average membership per society being about 18 or 20.

12. From the facts above recorded it is clear that we have in the Central system a simple and automatic method, the popularity and suitability of which is proved by the rapidity with which it has spread in certain districts of the United Provinces. That it is suitable to all Provinces would be a rash statement. That it is succeeding beyond expectation in the land of its initiation is undoubted. The system is of course open to criticism. It is imperfect and the ideal has to a certain extent been sacrificed to expediency.

But I would urge that when the ideal is unattainable for reasons which no human ingenuity can overcome, it is a duty to devise a system which, while approaching as closely as may be to the ideal, at the same time escapes those difficulties, which it cannot overcome. The first criticism which suggests itself to any one conversant with co-operative methods elsewhere is, that the village society having no accounts and only having the management of the money when it is required for specified loans, the educative element inherent in accountkeeping, depositing money in the Post Office Savings Bank, withdrawing it, keeping a reserve fund and the hundred and one other small items of management, is lost. This I confess. I admit that the ideal constitution would be a nest of complete units-a circle of village banks financed by a central bankkeeping their own accounts and reserve funds and charging their members a rate of interest higher than that they pay to the central bank. But that ideal is unrealisable with education at its present stage. It may come in time, but not in our own time. A certain basis of book-learning is required before the educative influence of co-operation can have its full effect. Are we to postpone our efforts at improvement until literary education is universal? The fact that we are now at work proves that the question must be answered in the negative.

13. I have admitted much. I am not prepared to admit anything more. The system as it stands contains all the elements of co-operation for credit, joint and several responsibility for all loans, election of members by those whose responsibility is pledged on their behalf, complete autonomy within the village society, democratic constitution of the central society, management of that society by the members for the members, equal rights of all members of all societies in the privileges of the Bank as a whole and in its indivisible reserve, all these are found in an acute degree in the societies founded on this system. It is in one way on a higher plane than the system of village banks, for it pools the credit not only of individuals but of groups of individuals. It is co-operation among societies in place of among persons. Much of the beauty, many of the frills of the artistic village society are doubtless conspicuous by their absence, but the good solid working principles are there, and until something better is proposed I would recommend the central system 'as a reasoned and reasonable attempt to overcome the difficulties which I stated at the commencement of this note. When something better is worked out, it will be welcomed with alacrity.

### Minutes of the 28th September 1906.

41. The note framed by the Registrar of the United Provinces on Central Banks was discussed.<sup>•</sup> It was agreed at the suggestion of the President that a more appropriate name would be Co-operative Unions.

The Registrar of Madras pointed out that in his province the difficulties about finance and caste did not arise. The account-keeping difficulty was in places felt and might be met as suggested in the note. In Mysore the number of societies is as yet too small to justify the creation of Co-operative Unions. The Registrar of Bombay thought that though in many parts ordinary village societies are preferable, the Co-operative Union might serve a good purpose in certain of the more backward tracts. The Registrar of the Central Provinces preferred, where possible, a district bank dealing with independent village societies. Where impossible the Co-operative Union would doubtless prove of advantage. Its importance lies in its creation of a method by which touch with the banking world can be obtained. The Registrar of Bengal considered the District Bank, dealing with independent societies, a preferable system. There might be an opening for Co-operative Unions in Behar. The Registrar of the Punjab thought that the system described might possibly be appropriate in portions of the Delhi Division, especially Karnal, where the people are more illiterate than elsewhere in the Province. Elsewhere he did not think it would prove appropriate. The Registrar of Eastern Bengal and Assam thought the scheme good but illegal. He suggested that it would be possible to register a Co-operative Union as one society, the affiliated societies being governed by sub-committees of the general Committee.

#### 11.-C. (b) District Banks.

42. It was reported that a Central Bank had been started in Madras with the object of financing village societies. The paid up share capital amounted to Rs. 4,200 and the deposits to nearly Rs. 20,000. Loans are advanced at 71 per Rs. 4,200 and the deposits to hearly Rs. 20,000. Loans are advanced at 75 per cent. to all mofussil societies. Rs. 6 per cent. are paid on deposits. No diffi-culty is anticipated in recovering dues. The institution prevents the raising of money locally at excessive rates of interest. The Registrar may have to start District Central Banks later on. In Mysore and Bengal there are no District Banks. In Bombay there exists a City Bank with ob-jects similar to those of the Madras Central Bank. It has lent Rs. 10,000 to village societies. Its promoters and shareholders are actuated by a philanthropic desire to prove by experiment the safety of investment in village societies. They charge 5 per cent. on loans, but the Registrar has asked them to increase the rate to 6 per cent. The Registrar thinks that District Banks on the same lines are desirable and hopes that they will grow out of existing urban Banks. In the Central Provinces there are no District Banks, but one urban bank has advanced Rs. 1,000 to village societies. The Registrar does not anticipate that it will make further loans to such societies. There is one Co-operative Union in the Provinces, which has begun work on the United Provinces method. In the Punjab there are at present no District Banks. An urban financing society is projected at Jalandhar and a second at Lyallpur. They will be practically Dis-trict Banks. In Eastern Bengal and Assant there are no District Banks, but the Sylhet society is advancing loans to village societies at 9 per cent. The Registrar reported that in the United Provinces there are a number of District Banks, some of which work on the principle of the Co-operative Union, the difference being that the capital is raised, and consequently control exercised, by a body of shareholders. These banks are less truly co-operative than the Co-operative Unions, though autonomy within the village society is maintained. There are true District Banks in several Districts, whose object is to finance independent village societies. This they do at rates varying from 61 to 71 per cent.

+ Fide note on the Moradabad District Co-operative Bank, Ltd., infra Appendix pages \$4-15.

<sup>\*</sup> Fide sufre pages 11-13.

#### 11.-C. (c) Landmorigage Banks.

43. The Registrar of Madras reported that in a number of banks mortgages on landed property are commonly taken, but that the tendency in the smaller institutions is now to prefer personal security. The Registrar of Bombay stated that many borrowers preferred to offer mortgages rather than to provide personal security and that the banks also prefer them, encouraging mortgages in cases of loans for liquidation of debt. In the Punjab the only instance of mortgages being taken was the Panjawar society, which is not registered. The Registrar of Eastern Bengal and Assam reported that mortgages were very seldom taken. He mentioned one case in which a mortgage was demanded to save the borrower from the temptation of raising money on mortgage outside the society. In the United Provinces two landmortgage banks have been registered. They are both in the Ghazipur district among fixed rate tenants and have been formed with the object of freeing those tenures from debt.

The Registrars were unanimously of opinion that when banks desired to lend on mortgage it would be a mistake to discourage them from doing so.

#### 11.-D. Audit, Inspection and Control.

44. The Registrar of Madras reported that his staff consisted of a Deputy Collector, and two Inspectors on Rs. 35 a month. He cited a case in which a single audit took two Inspectors a period of two months. He desired no powers of punishment except the statutory one of dissolution, but considered that Government should give ample supervision. He has neither asked for nor obtained any active help from the District staff and knows no case of inspection by a Collector. Audit and inspection are welcomed by the societies. In Mysore there are no Inspectors and their duties are performed by the clerks of the Registrar's office. The Registrar of Bombay has no inspecting staff. He considers that one will shortly be necessary. In inspection duty he is assisted by the honorary organizers. All audits are carried out by the Registrar. Inspection by Mamlatdars, autho-rised by Collectors under section 21 of the Act, has been of assistance, as a rule. The Registrar considers it a good thing that the Mamlatdars should be in-terested in the movement. There has been no objection on the part of the societies to Mamlatdars' inspections. The societies welcome inspection by the Registrar and are pleased to discuss questions concerning their business. The Registrar of the Central Provinces said that he has no regular inspecting staff but does everything himself. Occasionally men have been placed on deputation to assist him for short periods. Deputy Commissioners and Extra Assistant Commissioners have helped in organisation. The societies welcome inspection No Tahsildars have made inspections. He is strongly of opinion and audit. that the Province requires a whole-time Registrar. It is impossible to carry on the duties of the post satisfactorily in addition to other work. In Bengal there are no Inspectors, but their entertainment will soon be necessary. Collectors and Sub-divisional officers assist in inspection and two clerks are entertained who carry out the annual audit and submit their notes to the Registrar. The societies welcome inspection. The Registrar of the Punjab reported his staff as one Personal Assistant on Rs. 100 and one clerk on Rs. 30. Application has been made for an Extra Assistant Commissioner. The Personal Assistant assists in organization and carries out audits. All audits were last year carried out by the Registrar. When Deputy Commissioner, Mr. Thompson had himself inspected and audited societies in his district. Tahsildars occasionally inspect societies and in the Registrar's opinion, periodical inspection by tahsildars can do no harm. Audit and Inspection are welcomed by the societies. In Eastern Bengal and Assam the Registrar has no inspecting staff. Collectors and Sub-divisional officers never inspect and never give any help. Some local men have been appointed as honorary inspectors by the Registrar and authorised under section 21. One Deputy Commissioner has also authorised two officials under that section. The Registrar of the United Provinces reported that he had three inspectors besides the manager of the Moradabad District Bank, Limited, who is a

paid naib-tahsildar on special duty. Inspection and audit are welcomed by all societies. He has received very great assistance from a large number of Collectors.

It was unanimously agreed-

- (i) that a separate Registrar should be appointed in the Central Provinces;
- (ii) that inspectors should be appointed by the Registrar and should be carefully selected for their personal qualifications, and should receive a substantial rate of pay;
- (111) that they should be of a stamp and status similar to that of Tahsildars, Mamlatdars and sub-Deputy Collectors or Naib-Tahsildars;
- (iv) that Collectors and Sub-divisional officers and, in the Punjab, Revenue Assistants can assist the movement by evincing an interest in the working of the existing societies;
- (v) that inspections and audit should invariably be made on the spot; and
- (vi) that except in very special cases the books of a society should not be called into head-quarters or leave the office of the society.

#### \*E - Finance

45. The paper prepared by Mr. Gourlay on financing co-operative credit socicties in India was considered. Mr. Charriar (Madras) opposed the system of Government guarantee. He considered it liable to induce careless management, and that it may deter capitalists from advancing money to societies to which the guarantee does not extend. It is at any rate unnecessary in Madras. Mr. Shama Rao (Mysore) thought that a guarantee would be justifiable and would assist in establishing confidence. It should be given for a short time only, say five years. Mr. McNeill (Bombay) considered that a Government guarantee is unobjectionable in principle and might be given where necessary. Mr. Gaskin (Central Provinces) offered no opinion either for or against the principle of a guarantee, but thought that local capital should first be exhausted before an attempt is made to procure it from Calcutta or from England. Mr. Cobden-Ramsay (Bengal) considered a Government guarantee both justifiable and advisable. Mr. Thompson (Punjab) had no opinion to offer for or against a Government guarantee. Mr. De (Eastern Bengal and Assam) agreed entirely with Mr. Cobden-Ramsay. Mr. Hope Simpson (United Provinces) objected with Mr. Conden-Kamsay. Mr. Hope Simpson (United Provinces) objected to the proposal. He considered a Government guarantee inadvisable on principle. The object of the movement is two-fold. First, to establish the fact that credit of a group of individuals bound by joint and several responsibility and unlimited liability, is better than the sum of the individual credits of the members of that group. This fact should result in their being able to borrow locally at lower rates of interest than they could in their individual capacity. If they are provided with capital from Calcutta, raised not because of their credit but because of the Government guarantee, this object is entirely lost eight credit but because of the Government guarantee, this object is entirely lost sight Second, to induce the members of those societies to make efforts to of. save money for themselves, and so provide a portion of the capital by their own exertions. This object would also be discouraged by the proposal. A further effect of the present system is to stimulate the passage of hoarded money into circulation. The proposal if carried out would hinder rather than stimulate the use of local capital.

No general opinion on the subject was arrived at by the Registrars. It was however the unanimous opinion that if a bank on the lines of Mr. Gourlay's scheme

<sup>•</sup> Vice Note on the financing of tural Co-operative Credit Societies-is/re Appendix pages 16-22, and Note on the financing of Co-operative Credit Societies in India-is/re Appendix pages 23-33.

were started, co-operative credit societies should be the chief shareholders.

46. The Registrars were generally of opinion that the proposed institution was premature, and its conditions too complicated and too artificial. Mr. Cobden-Ramsay (Bengal) considered that the idea is a good one and worthy of consideration but was doubtful as to whether it is not premature. Mr. Thompson (Punjab) thought that though excellent in provinces which are ready for it, it is a counsel of perfection, and not within the range of practical politics in his province.

47. The question of Government loans under Resolution No. 1-63-3, dated 29th April 1904, paragraph 26, was then discussed. The Registrar of Madras was of opinion that Government subsidies were unnecessary and harmful, and when the Madras allotment of half a lakh of rupees was exhausted, no further allotment would be applied for. Money could be obtained locally with no diffi-The Registrar of Mysore was of opinion that though small advances, culty. might be of assistance, it would be possible to progress satisfactorily without The Registrar of Bombay was distinctly in favour of such advances, advances. and thought that the rule as to equivalent deposits should be relaxed. What was needed in Bombay was ocular proof that the people can manage a society without losing their capital. If this were done with the help of a Government advance it would stimulate the investment of private capital. He would prefer the absence of restriction to the amount deposited, even if it were to involve the removal of the concession as to freedom from interest. Mr. Gaskin (Central Provinces) agreed with Mr. McNeill (Bombay). The Registrar of Bengal also agreed, but he would prefer that when the Rs. 50,000 had been advanced, any further advance should be at 61 per cent. per annum in order to make the transaction businesslike. He considers that new societies should be able to attract local capital as a rule. Some new societies have not taken Government loans. He cannot yet give the reason why they have not done so. The Registrar of the Punjab agrees that Government advances are necessary at present. The Registrar of Eastern Bengal and Assam agrees with Mr. McNeill and Mr. Cobden-Ramsay. Mr. McNeill objected to the proposal that the rate of interest should be raised to 64 per cent. He thought 4 per cent. a fair rate. The Registrar of the United Provinces reported that he found the existing conditions to have worked well and the Government loan to be of great assistance.

48. On the question whether Government should advance takavi loans to co-operative credit societies the Registrars agreed that such advances can be legitimately made under the Agriculturists' Loans Act. They were unanimously of opinion that where societies desire it, such advances might well be made, but that the system of using societies as ordinary distributing agencies should be entirely avoided. The Registrar of the Punjab recorded his opinion that in his province where takavi advances under the Agriculturists' Loans Act are as a rule ouly given in times of scarcity, and at the exact moment at which they are required, the necessity for reference to the Registrar would involve delay which might defeat the object of the advance.

49. With regard to advances under the Land Improvement Act, the Registrars were unanimously of opinion that the case is complicated by the necessity for enquiring whether the improvement is necessary or desirable, and that in consequence it is doubtful whether advanc-s of this description can, except in special cases, be satisfactorily made through the agency of a society.

50. With reference to the principles which should govern the acceptance of philanthropic advances, the Conference was unanimous in its opinion that, when the movement is firmly established, such advances on unduly favourable terms are to be deprecated. In the earlier stages such loans are not objectionable, but the abnormal profits earned by societies from their use, should invariably be employed in building up the reserve fund as rapidly as possible.

#### III.-Grain Banks.

51. The Registrar of Mysore reported that there are two grain banks in that State which deal entirely in paddy and ragi. Advances are made for maintenance only and at 25 per cent. interest for six months. The grain is usually stored in

The paging of the Appendix having been changed in printing, the page references in the foot-notes on pages 16 and 17 are incorrect, and should be read one number less,  $l_{\sigma_1}$  32 for 33 and 33-33 for 34-42.

<sup>·</sup> Vide Menorandum on village grain stores in Mysore State - infre Appendix pages 34-40-

pits in the open and no danger is feared from theft or deterioration. The business is managed by a Panchayat, the sirpanch being in charge of the pits. The capital belongs to the members who subscribed it, and a ledger account is kept for each member. Subscriptions are made at harvest. The system is easy and popular. In Bengal two societies have recently been started, the capital being partly deposited by members and partly provided by Sir D. M. Hamilton. The Registrar is doubtful of success owing to difficulties in management. The objects aimed at are provision of seed and advances for maintenance, but it seems improbable that advances for seed will be possible as there are innumer-able sorts of paddy, and each particular sort is always grown in its own particular field. Mr. Cobden-Ramsay has had some experience of grain stores and is of opinion that owing to the expense of building pukka godowns and of efficient management, profit is very doubtful. In any case he is of opinion that business in grain must be combined with advances in cash. The Registrar of the Punjab reported that there are three or four grain banks, started by Captain Crosthwaite, in the Mianwali District. They all appear to be languishing. Three or four more have been started, but Mr. Wilberforce doubts whether any further advance is desirable. A large grain-dealing business on co-operative lines is about to be started. It will be a trading society, dealing chiefly in wheat, and profits will be divided. The Registrar of Eastern Bengal and Assam described Rae Parvati Sankara Chaudhuri's Dharamgolas. These are not registered. He commented on the large number of charitable loans which are not collected. The Registrar of Bombay reported that a few banks in one district had succeeded admirably while carefully watched by Government officials, but that they had rapidly deteriorated when official assistance was withdrawn.

, In the other Provinces there are no banks of this description.

The Conference was unanimously of opinion that honest and effective management and appropriate storage are essential conditions of success for co-operative grain banks. These conditions present difficulties which in the majority of places it will be impossible at present to overcome, and progress must therefore necessarily be limited to the few favoured localities where these conditions can be met. It was also unanimous in its opinion that where a grain bank is started, a concomitant cash bank is a necessity.

#### IV.-Seed Societies.

52. The only co-operative societies of this description are in the United Provinces. The Registrar reported that of the 12 societies which took advances of grain in bulk from the Government seed depot at Amethi, eight had paid back in full, and four were in arrears. The societies were originally formed in September 1905. Of the eight societies three have this year raised capital, purchased seed grain outright, and distributed it on *sawae* to their members. Arrangements have been made by which the various descriptions of grain are kept by individual members of the Panchayat, one member storing wheat, another gram, a third barley and a fourth peas. The difficulty anticipated is the cleaning and sizing of the grain when repaid. Special assistance will be given at harvest with the object of preventing imperfect grain being stored. It has in each case been found necessary to supplement the seed society by a village bank on a cash basis, as the bannyas have refused to make advances of cash to the members who have ceased to take seed advances from them.

### V.-Societies of other sorts.

#### (a) Weaving societies.

53. The Registrar of Madras reported that one weavers' society had beenstarted in his province. Its working was not yet entirely satisfactory. Three vakils had joined the society in the hope of assisting the weavers and had lent their credit for the purpose of increasing that of the weavers. Rs. 1,5co in all was borrowed from the Madras Central Bank. The members were all carefully selected. The method of working is to purchase raw material and to advance it to the weavers at wholesale rates. The loan of raw material is shown in the books as an advance of its cash value. When the cloth is made the society purchases it at a rate fixed by the Panchayat and subsequently sells it. The value of the cloth fixed by the Panchayat is credited to the weaver's account. The members are also granted advances in cash. The Registrar considered that the educative effect of the society has been good. In its first two months' working it made a loss of six rupees. Since 31st March 1906 the accounts have not been made up and it is consequently impossible to say whethet profit is now being earned. When profits are made, one-half goes to the reserve fund and one-half to repayment of borrowed capital, in accordance with the by-laws. When alt borrowed capital has been thus repaid, half the profits will be divided among the weaver members.

In Mysore there is one such society. It has been recently formed and not yet inspected. In Bombay, Bengal, the Punjab and Eastern Bengal and Assam there are no weaving societies. The Registrar of the Central Provinces reported that one such society had been recently started. Its only aim is to finance weavers and it deals neither in raw material nor in the finished product.

The Registrar of the United Provinces described the Benares Silk Weavers' Association. It has been formed by the weavers with the object of extricating themselves from the toils of the merchants who have hitherto controlled the trade. Capital amounting to Rs. 20,600 has been paid in. The modus operandi is much the same as that cf the Madras society. Raw material is purchased wholesale and advanced to weavers, they being charged two rics per rupee per mensem on the value of the silk. When the brocade is finished it is purchased by the Association, each piece being valued for the purpose by the appraisers, who are members of the Committee. The weaver has the option of taking the price so fixed or of leaving the cloth with the Association for commission sale. The former method is almost invariably chosen. The account of the member is regulated after each transaction, and as soon as he has completed one piece and sold it to the Association a new advance of raw material is made. The Registrar reported that of the capital, Rs. 5,000 had been kept in hand and the remaining Rs. 15,600 had been employed continuously. In the first eight months the turnover amounted to Rs. 45,000 and the profits after payment of all expenses to Rs. 2,300, stock (both raw material and finished product) being taken at cost price. The danger, which was pointed out by Mr. Charriar (Madras), is that the Association may be choked with stock which it is unable to sell rapidly. That danger is realised by the Registrar of the United Provinces and will as far as possible be guarded against. The Registrars were unanimously of opinion that the weaving industry offers a hopeful field for co-operation.

#### V.-(b) & (c) Sugar industries.

54. The Registrars reported that sugar boiling and manufacture were nowhere co-operatively undertaken. The Registrar of the United Provinces drew attention to the experiments carried out by Mr. Mohammed Hadi, M.R.A.C., Assistant Director of Agriculture, United Provinces, which have been reported in Bulletin No. 19 of the Agricultural Department, published by the United Provinces Government Press, Allahabad. He reported that an attempt had been made without success to introduce the system therein described by means of co-operative sugar societies affiliated to the Moradabad District Bank. He was hopeful that possibly next year something might be done to commence cooperative sugar manufacture in the Robilkhand Division.

#### (d) Societies for other purposes.

55. The Registrar of Madras reported that three most successful cooperative stores had been started in his Presidency. They combine a cash loan business with purchase and distribution of stores. All the necessaries of life are dealt in, being bought wholesale and sold to members retail for cash. He specially instanced the Triplicane Society, of which the capital consists of Rs. 5 shares. The society is managed by a Committee who employ a salaried staff, the Manager being paid Rs. 35 or Rs. 40 a month. Two clerks, a salesman and a peon, are also employed. The supervising agency is entirely unpaid. The monthly expenditure on the staff is about Rs. 70 per mensem. In the moneylending department all profits go to the reserve. In the stores one-quarter of the profits are credited to reserve fund, 6 per cent. are paid as dividend and the balance divided among purchasing members half-yearly, in accordance with the volume of their purchases. In the first half-year half an anna per rupee of purchase was paid. In the second half-year, owing to the fall in bazar prices due to competition with the stores, one pice per rupee of purchase was paid. There are almost 500 members and the society is very carefully supervised. The turnover is Rs. 5,000 or Rs. 9,000 per mensem. All cash is looked after by the Manager, whose cash book and cash balance are checked daily by one of the Directors.

In Mysore one similar society has been at work for 14 months and two have been recently started. The former does excellent work. Last half-year its sales amounted to Rs. 19,000 and the stock in hand on 1st July was valued at Rs. 2,509. No difficulty is found in the management. There is a paid manager on Rs. 30 per mensem and the Secretary receives as carriage allowance Rs. 12 per mensem. The Registrars of the remaining Provinces thought that though possibly such societies might succeed in the larger towns, management would present great difficulties.

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56. The note\* submitted by the Sub-Committee formed to consider the rules and by-laws framed in the various Provinces was laid before the Conference.

Paragraphs 1 to 4 of the note were unanimously accepted by the Conference.

The Registrar of Bombay considered that no rules should be framed under section 27 (2) (p) of the Act unless they include disputes as to the recovery of money, and that no rules should be made under clause (p) unless power of recovery be included. If that power be allowed, rules are absolutely necessary. Otherwise the mere fact of the existence of rules under clause (p) would be likely to encourage unnecessary references to the Registrar.

The Registrar of Bengal agreed with the Registrar of Bombay. The remainder of the Registrars considered that rules under clause (p) should be issued at once.

The Registrar of Bombay thought that rules under clause (q) are unneces-sary and that the necessary orders can be issued by notification. The Registrar of the Central Provinces agreed that rules under this clause are at present unnecessary. The other Registrars were of opinion that rules under this clause should be made at once.

The Registrar of the Punjab considered that rules should be made under clause (r) allowing appeals by societies (as opposed to individual members) in certain cases. The Registrar of Madras thought appeals desirable in certain cases and would leave their determination to local Governments. All other Registrars agreed in the opinion that no appeals should be allowed from any order of a Registrar, except in the cases for which statutory provision has been made.

All Registrars accepted paragraph 6 of the note.

57. It was unanimously agreed that provincial Co-operative Credit Manuals are advisable, for ready reference on co-operative matters, when sufficient experience has been gained to enable the Registrars to prepare them:

58. The question of amendmentst of the Act was next taken up. It was unanimously resolved that it is advisable that section 3 (2) of the Act should be amended to read as follows :----

"Societies shall be either rural or urban. The Registrar shall decide in each case whether a society shall be registered as a rural society or an urban society, subject to any rules which may be made by the Local Government in this behalf."

It was unanimously resolved that section 3 (1) of the Act should (in accordance with the recommendation of the Government of Bombay) be amended by the insertion of the words "or holding immoveable property" between the words "residing" and "in".

It was unanimously resolved that section 3 (3) (a) of the Act should be amended so as to allow a society to consist of a group of smaller societics, *i.e.*, to form a co-operative union.

The notes f submitted on a proposed amendment of section 8 (1) of the Act were read.

It was unanimously agreed that the proviso to section 10 (1) should be amended by the substitution of the word "another" for "rural".

It was unanimously resolved that section 19 (b) should be amended by the addition of the words "or articles manufactured from raw materials" after "manufactures".

## The paging of the Appendix having been changed in printing, the page references in the foot-notes on pages 31 and 22 are incorrect and should be read one number less, i.e., 40 instead of 41 and 50 on. In the twelith line of paragraph 38 for " section 3 (3) (4) " read " section 3 (3) ".

Vide infra Appendix pages 41-42. Vide also (1. Note on the United Provinces Rules as to summary recovery—infra Appendix pages 43-45. (2) Note dissenting from the proposals in the above note—infra Appendix pages 46-47. † Vide (1) Bombay Revenue Department Nos. 3758. dated 10th April 19.6 and 7554, dated 8th Asgust 1906— infra Appendix pages 48-50. (2) Note on the Nidkis of the Madras Presidency—infre Appendix page 51. (3) Note on some anomalous and difficult provisions of the Co-operative societies—infra Appendix pages 53-55. (5) Note of sub-committee sgainst amendment of section 8 (1)—infra Appendix pages 55-57. (6) Note of sub-committee sgainst amendment of section 8 (1)—infra Appendix page 58.

59. It was unanimously agreed that the law should provide that Companies registered under the Companies' Act, which were in existence at the time of passing the Co-operative Credit Societies Act, and which are by their constitution and in their objects practically co-operative credit societies, should be eligible for registration under the latter Act subject to such conditions as the Local Government may in each case think fit to impose.

60. The question of recovery\* of amounts decreed in proceedings under rules framed in accordance with section 27(2)(p) of the Act was next discussed.

The Registrar of the United Provinces was very strongly of opinion that some system of summary recovery is in these cases necessary. It is the expressed policy of the Government of India that societies registered under the Act should as far as possible be discouraged from resort to the Civil Court. In pursuance of that policy section 27 (2) (p) was framed. That clause admittedly empowers Local Governments to provide a method by which disputes between societies and their members can be decided without the necessity of filing Civil suits. He pointed out that in Civil suits the chief difficulties arise not before decree, but after the decree has been passed. It is admittedly uncertain whether a decision passed by a Registrar under rules framed in accordance with this clause would, without further argument or question, form the basis of a decree. Even were a reasonable assurance given upon this point, decree does not necessarily imply recovery. On the contrary, probably in the majority of instances, recovery does not result from decree. He considered it contrary to the policy of the Govern-ment of India before referred to, that societies should be put to the expense, trouble, delay and uncertainty which execution of a decree would imply. He quoted the English procedure on the subject, and finally stated that over 400 societies had been registered and financed under the United Provinces rules as they stand. He admitted that possibly recovery as an arrear of land revenue might be illegal and suggested as an alternative execution of a Registrar's decision as a decree for arrears of rent.

The Registrar of Madras made a statement which he embodied in a note presented to the Conference. He objected to summary recovery, through revenue agency, of the dues of Co-operative Credit Societies as needless, harmful in the long run and probably illegal. The Registrar of Mysore had not sufficient experience to warrant his offering an opinion. The Registrar of Bombay considered summary recovery both necessary and advisable. The Registrar of the Central Provinces was against summary processes for recovery. He feared that it would lead to mismanagement and the inclusion of undesirable members. He was doubtful whether the word " dispute " would legally include a claim for admitted arrears. The Registrar of Bengal agreed with the Registrars of Madras and the Central Provinces. He thought that summary recovery would tend to careless management. He considered that the societies should be run on ordinary business lines and that there is no necessity for the special powers proposed. The Registrar of the Punjab agreed with the Registrar of Bombay. He considers the proposed provisions analogous to a Government guarantee. Litigation would kill the societies. The Registrar of Eastern Bengal and Assam was opposed to summary recovery. He agreed with Mr. Gaskin that defaults are not included in disputes. He considered that recovery by summary process would prevent people joining societies, owing to the malpractices which prevail in executive recovery of all kinds. He would leave the societies to the ordinary Civil law.

61. The Registrar of Eastern Bengal and Assam proposed that societies should be granted the privilege of using service postage stamps for correspondence. All other Registrars thought the proposed privilege unnecessary.

62. All Registrars agreed that the Co-operative Credit year + should close on 30th June and reports be submitted to Local Governments on 1st October.

63. The notet of the Sub-Committee on annual statements was read. The conclusions reached and statements prepared were unanimously accepted.

Fide (1) Note on the United Provinces Rules as to summary recovery - infra Appendix pages 43-45.
 (a) Note dissenting from the propisals in the above note - infra Appendix pages 46-47.
 Fide note on the Con-perature Credit year - infra Appendix page 5 x
 Fide (1) Report of the Sub-Committee on the form of the annual report and statements-infra Appendix for the supervision of the annual report and statements-infra Appendix for the supervision of the super

<sup>(</sup>a) Note on annual reports on the working of Act No. X of 1904-infra Appendix pages 74-75.

### APPENDIX.

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Namber.	Head of programme.		Note.
3	I. General Progress	***	Department of Revenue and Agriculture note wind statements.
	II. A. Village Baoks	<b>bet</b>	Note on willage banks in the Gonda distri by H. R. C. Hailey, Deputy Comm sioner.
3	II, B. Urban Societies 🔐 🛶	••	Note on co-operative credit societies in re- ments of the Indian Army, by J. Ho Simpson.
4	II. C. (8) District Banks	<b>84</b> -	Note on the Moradabad District Bank, Limited, J. Hope Simpson.
5	II. E. How best to finance the movement	809 ·	Note on the financing of rural co-operative cre societies, by K. C. De.
6	Ditto ditto ditte	***	Papers on the financing of co-operat credit societies in India, by W. R. Gouriny.
7	III. Grain banks un	<b></b>	Memorandum on village grain stores in Myso State, by M. Shama Rao.
8	VI. (1) Rules ander the Act	•••	Report of the Sub-committee formed to consid- the rules and by-laws framed in the vario Provinces.
9	Ditto ditto		Note on the United Provinces rules as to summi secovery, by J. Hope Simpson.
10	Ditto ditto	••	Note dissenting from the proposals in the abo note, by P. R. Charriar.
11	Ditto ditto	•••	Bombay Revenue Department's No. 3798, dat 19th April 1906, proposing amendment section 3 (1) (=).
18	VI. (2) Amendment of the Act	•==	Bombay Revenue Department's No. 7554, dated i August 1906, proposing amendment of section 10 (1).
13	Ditso ditto	••	Note on the Nidkis of the Madras Presidency, P. R. Charriar.
14	Ditto ditto	1	Note on the productive and distributive co-operat societies, by P. R. Charriar.
15	Ditto ditto	•••	Note on some anomalous and difficult provisions the Co-operative Credit Sociaties Act, by Hope Simpson.
16	Ditto ditto *	-	Note by Sub-committee on amendment of sect S (1)-
17	Ditto ditto		Note by Sub-committee against amendment section 8 (1)-
18	VII. (1) Societies' year	<b></b>	Note on the co-operative credit year, by J. Ho Simpson.
19	VII. (2) Form of Annual Report and Sta ments.	1.	Report of Sub-committee on the form of the Ann Report and Statements.
50	Ditto ditto ditto	•••	Note on Annual Reports on the working of the A by J. Hope Simpson.

## Detail of notes considered by the Conference.

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### PROGRESS MADE.

## A note compiled from the information contained in the reports received.

N.E.- Reports from Ajmer and North-West Frontier Province not yet available. In the reports received some of the details are incomplete.

The reports relating to the year ending 31st March 1905 showed that fortyone societies, of which thirty-five were rural and six urban societies, had been registered by that date. The capital at their disposal amounted to Rs. 54,128, of which Government had contributed, by way of loan, Rs. 9,650.

From the reports now received we find that a year later the number of • Figures include some unregistered societies in the United Frovinces for which separate statistics are not given. + To the nearest rupes.

societies on the register\* was 482, of which 425 were rural, 35 urban and 22 central societies, and their members numbered 26,482. The capital raised by all these

societies amounted to Rs. 4,96,1777, to which loans from private persons, not being members of any society, contributed Rs. 1,40,439, share capital Rs. 1,31,205, and deposits by members Rs. 1,23,137, while the amount advanced by Government amounted to Rs. 70,152. The sum placed to reserve by all societies was Rs. 7,398.

The use of the funds at their disposal made by the societies may be summarised as follows :--

- (1) loans repaid to private persons, not being members of a society, Rs. 20,352;
- (2) loans issued to members, Rs. 3,40,043;
- (3) invested in raw material and stores, Rs. 1,01,313;

All provinces showed a profit on the year's working. The balance sheet shows a balance of over Rs. 26,000 in favour of the societies inclusive of the reserve fund.

It may be added that the above figures cannot, for the reasons given in the note at the head of this memorandum, be considered to be absolutely accurate, but they may be taken as indicating in a general way the progress made."

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## BALANCE SHEET AS ON 31ST MARCH 1906 FOR BEGISTERED SOCIETIES.

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### BALANCE SHEET AS ON 31ST MARCH 1906 FOR REGISTERED SOCIETIES-oonlinued.

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## RECEIPTS AND DISBURSEMENTS FOR THE YEAR 1905-06 FOR REGISTERED SOCIETIES.

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RECEIPTS AND DISBURSEMENTS FOR THE YEAR 1905-06 FOR REGISTERED SOCIETIES-(conid.).

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Profit and Loss Account for the year 1905-06 for Registered Societies.

No reliance can be placed on the figures in this statement owing to weat of a

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## BALANCE SHEET AS ON 31ST MARCH 1906 FOR UNREGISTERED SOCIETIES.

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BALANCE SHEET AS ON 31ST MARCH 1906 FOR UNREGISTERED SOCIETIES-continued.

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# Profit and Loss Account for the year 1905-06 for Unregistered Societies.

In this report I allude only to the five banks recently started, the three older banks running on borrowed capital. At the outset it should be stated that these were not started on any preconceived notions of my own, but the shape they have taken has been entirely determined by district and local conditions. My original idea was to institute a large central bank with a capital of about a lakh with affiliated local branches. On approaching however the principal taluqdars 1 found great reluctance on their part to have anything to do with the scheme and a still more invincible reluctance to invest money in it. The mahajans were equally unwilling, pointing to the fact that several banks had been started before and nearly all failed. The reluctance of the taluqdars to take part in a district concern is a factor which will probably always have to be reckoned with in Oudh: though they may not do much for their tenants, they are extremely jealous of outside interference, and would not improbably work against a central institution, whose operations it was proposed to extend to their estates. On the other hand, my experience is that they are, if solvent, willing to give moderate pecuniary assist-ance and countenance to an estate bank. The estate will probably have to be the unit in districts such as Gonda where properties are large and stand very much in a ring fence. The motives of the taluqdars too will not be to get a sound investment for their money but to gain some kudos for acting in a public spirited manner—naturally therefore they desire to appear before the public as benefactors of their own tenants. Having failed to start a central bank, I proposed an estate one on the Balrampur estate; the Maharaja offered me Rs. 500 for this pur-pose and indicated the villages which were in the opinion of his manager likely to serve as convenient centres. Two were ultimately chosen, vis.,-Gilauli and Jankinagar-mainly because they were centrally situated and had excellent materials for a panchayat.

The next step was to raise more money, since banks with a capital of Rs. 250 could hardly perform any useful purpose. The tahsildar of the estate in which the villages were situated, who took great interest in the experiment, assured me that many of the cultivators were well-to-do men, who if once convinced that the scheme was for their benefit would readily provide the balance required. He advised me to entrust them with the largest possible powers of management in order to win their confidence. A junior Deputy Collector S. Zainulabad was sent to the villages to learn their views and explain the purport of the bank. He found them suspicious at first, in spite of the assistance which the Maharaja was prepared to give them gratis. Some further explanations put the matter in a clearer light, but they expressed themselves very definitely on two points—firstly, that if they advanced the money they should receive the profits in the shape of interest, and, secondly, that the panchayat should have the entire management of the funds, and the money should not leave their hands. Though they ultimately consented to a deposit in the savings bank, they did so only on the understanding that they alone should be entitled to touch the money. Their suspicion on this point was so strong that they were allowed to keep the money in the first instance until it was advanced on loans.

It was not possible to accede at once to their requests since section 8 of the Act appears to contemplate purely credit associations in the most literal sense of the word—that is, societies working on borrowed capital: it would not appear to contemplate societies raising their own capital among themselves and working it on a profit basis. A familiar illustration would be the small co-operative stores or building societies to be found in almost every town of any size in the Midlands and north of England, founded by the superior class of workmen—the benefit to the sharers accruing not only in cheaper and better stores or houses, but also from the profits of the business. Though such societies may not merit legislative protection to the same extent as the continental model, yet there can be no doubt of their great value in affording means to the poorer classes of practising thrift. It may seriously be doubted too whether such a class of society is not more in accordance with the genius of this country, in which the trading spirit is strongly assertant, than the continental model. The difficulty was overcome by arranging that a fixed interest on the share capital should be paid annually, and the balance treated as profits within the meaning of section 8 and employed in the way indicated in that section. On this understanding offers of money poured in, and it was necessary to limit the shares and the amount each man might take while the bank was still in an experimental stage. The arrangement finally made was, that the operations of each bank should extend to villages of the estate within a five-mile radius : the capital should be subscribed only by agriculturists holding land and belonging to agricultural castes within that area: and that advances should only be made to residents of those villages. The intention of limiting the area was to facilitate the meetings of the panchayat and the working of the bank; if the members lived too far afield the bank might get into the hands of a clique, and it would be much more difficult to regulate and recover advances. The original capital fixed was only Rs. 500 for each bank, but it has gone up to nearly Rs. 2,000 in each case, and I am rather doubtful whether they have not gone too far. The subscribers are all well-to-do cultivators—mostly high castes or the better agricultural castes such as Kurmis.

The members thus fall into two classes—the first, who are styled shareholders, form the panchayat and elect the officers: these persons are entitled to the fixed interest on the shares. All other persons belonging to the estate resident within the circle of villages are entitled to borrow money from the bank, if vouched for by a shareholder. The rate of interest for borrowed money is two pies in the rupce: theoretically the non-shareholders pay a sum of four annas for membership, but this formality is not strictly observed. If they do, this goes to the reserve. In addition to getting their money cheaply, these persons have the nebulous rights to a bonus from the reserve prescribed by section 8 of the Act.

The management remains entirely with the panchayat and its elected officers. They have specified days for meeting and making advances. So far it has been arranged that S. Zainulabad should be present at their meetings to direct proceedings, or they have reported results by postcard. They keep up the registers suggested by the Registrar; though a bit awkward at first, I think they keep them fairly well; they certainly take pride in them. In course of time with a little occasional supervision, they should get along very well by themselves. The panchayat is thoroughly well acquainted with the character of all the borrowers and will take good care not to lend to likely defaulters. The panchayat keeps a close eye on its officials, and they have already asked for the removal of one treasurer on the ground that ill-health prevents him from looking after his duties. The estate officials will probably always support the banks because they facilitate rent collections.

The actual shareholders have not as a rule borrowed money from the bank; they are well-to-do men who in good seasons such as the present have no need to do so. To a certain extent therefore this form of bank is open to the objection that one class of cultivator is advancing money for his own profit to another class, under the support of the Act. But assuming a bank is to be founded, if the capital were not borrowed from them, it would be borrowed from outside capitalists, who would exact a fair rate of interest on their capital advanced. Again it is not fair to draw final conclusions from a year like the present, in which not only were the harvests good but the prices phenomenal; there must be money in abundance in these villages, judging from the amount offered us and the eagerness to take shares. When a bad season comes or an outbreak of cattle disease occurs, the shareholders will want advances themselves. It is an excellent insurance for them against bad times, an admirable way of disposing of their surplus in hand—the only pity seems to be that we cannot take more of the money good times have brought them, and use it profitably until they really want it. No one who knows the Oudh peasant would call him a spendthrift or improvident, but a balance in hand seems to create an overpowering desire for expensive pilgrimages or marriage festivities. That the people generally appreciate the benefit of these institutions may be judged from the fact that quite a number of applications have been received from other villages for banks.

The three other banks, the Gulzar, Mahadeia and Rehra were, so to speak, started by request. The Tahsildar of Retwaghara, a large village on the Balrampur estate, suggested that a bank should be started to enable the villagers to keep out of the hands of the moneylender and to facilitate rent collections and the Raja of Utraula and a big zemindar named Amjad Alı both offered Rs. 200 gratis to start banks on their estates. They both stated they believed they would get their rents in easier, and would eliminate the mahajan, if a prosperous bank were in working.

I consider that enough have been started for the present, and, as cultivators' money is mainly at stake, it would be well to see how they turn out before founding any more.

July 1906.

H. R. C. HAILEY,

Deputy Commissioner.

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### No. 3. Note on co-operative credit societies in regiments of the Indian Army.

1. The Co-operative Credit Societies Act (Act No. X of 1904) has been framed with the object of providing for the constitution and control of co-operative credit societies, whose aim is to encourage thrift, self-help and co-operation among agriculturists, artisans, and persons of limited means. Societies registered under this Act are entitled to certain special benefits, and are exempt from many special expenses, which ordinary companies and individual persons must undergo in the course of their business. They are corporate bodies with perpetual succession, entitled to hold property, to sue and be sued, and to enter into contracts. The main objects with which they are formed are, first, by pooling the credit of the members to increase the market value of that credit, and, second, to provide against loss by managing through a committee representative of the members, by a system of strict election which precludes the possibility of the inclusion of undesirables, and by building up a strong reserve fund as soon as possible.

2. The possibility of founding regimental co-operative banks has, on more than one occasion, been the subject of enquiry by Officers Commanding native regiments. Such institutions would be of enormous assistance to non-commissioned officers and men, by providing funds for leave necessitated by sickness or otherwise, for extrication from the burden of debt at high rates of interest, for the purchase of landed property in view of retirement, for marriage and funeral expenses, and for the thousand and one other necessary causes of extraordinary expenditure. They would, also provide an opportunity for regular savings deposits at higher rates of interest than can be elsewhere obtained.

3. The regiment is peculiarly efficient as a unit from the co-operative point of view. There are available the necessary intelligence and knowledge to ensure that accounts and registers would be kept with accuracy and care, and that the management of the society is satisfactory. *Esprit de corps* is strong, and public opinion would prevent malpractices, which, in ordinary societies, might cause loss or injury to the members. The members are all paid monthly, and consequently repayment of loans or payment of deposits would be regular and comparatively constant, admitting of a fairly accurate estimate of receipts. Then the men are known intimately to one another and to their native and European officers. Any tendency towards extravagance on the part of a member of the society would be a matter of common knowledge to his comrades. It could not remain concealed. Dishonesty would at once be recognized. Finally, the class is one for which it is impossible to do too much, and any assistance which will result in increased prosperity after retirement is certain to be eagerly welcomed.

4. The present time appears peculiarly propitious. I have heard of a large number of cases in which native soldiers have applied for grants of land in the newly opened canal colonies in the Punjab. I have also heard of cases in which such land has been acquired, but in which the increasing burden of debt due to the high rates of interest charged by the lender of the purchase money, has swamped the purchaser I hough there is (I believe) some prohibition against borrowing while employed with the regiment, it will probably be found that in many cases, especially those of enforced sick leave and of marriage expenses, debt has actually been incurred and probably, owing to the necessity for secrecy, at rates higher than those at which the money might have been otherwise obtained. The combined credit of a number of the sepoys of a native regiment, especially where there are men of outstanding good character, would be excellent. If some of the European officers, the native officers, and the non-commissioned officers were to join, it is highly probable that money could be easily raised at 6 or 7 per cent.

5. If such societies were formed they would command capital by borrowing in the open market, by the issue of debentures and by the receipt of deposits from the members. They would probably have to pay an average of 6 per cent. for the money so raised. This money they could advance at  $9\frac{3}{5}$  per cent. (1] pies per rupce per mensem) to such of the members as required loans, and so make a profit of over 3 per cent. on the working capital. This would enable a substantial reserve fund to be rapidly worked up and so provide against any possibility of failure. The rate suggested is very much lower than that ordinarily charged by money-lenders to men of the class with whom it is proposed to deal.

6. There are of course certain points of difficulty which, in the event of such societies being formed, would require careful consideration. Not the least of these would be the provision for cases in which members retired before a loan had been repaid in full,—for active service—for the transfer of the regiment from one registration area to another. But all of these could, I am convinced, be successfully overcome. If an assurance were given that the Government of India approve of the proposal I could work out detailed by-laws, and, in consultation with officers who are interested in the scheme, it should be possible to make conditions which would cover all difficult cases. In initial difficulties of procedure or account my department would be able to assist, and the periodical gratuitous audit required by the statute would give in opportunity of continued supervision and where necessary assistance.

7. I would not of course propose that societies should at once be formed in all regiments. If permission is given to form one or two societies in the first instance, their success will very soon lead in other regiments to the desire to follow suit.

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### J. HOPE SIMPSON,

Registrar, Co-operative Credit Societies, United Provinces.

### No. 4. Note on the Moradabad District Co-operative Bank Limited.

This institution was discussed at length in paragraph 17 of my report for 1905-06. I have recently visited it and audited the accounts. They were in excellent order. The most remarkable feature of the institution is the system of voluntary deposits which appears to be becoming established. The members evidently regard the bank as sound and as their own institution. The balance sheet from 1st April fo 31st August is as follows :--

Income.	Expenditure.			
	Rs. A.	P.		Rs. A. P.
Balance on 31st March 1906	253 10	D I	Loans issued	40,015 00
Deposits			Interest paid on deben- tures.	858 50
(i) By non-members 4,150 0 0 (ii) By members 3,731 1 0 Total	7,881	I O	Payments on account of liabilities of previous banks :	
Sale of shares	350~ 0		ers. (ii) Repaid to 1,925 0 0	
Sale of debenture bonds	40,600		creditors. (iii) Paid in 167 3 6 interest	
			 Total	3,492 3 6
Receipt on account of assets of previous banks:			Miscellaneous expendi- ture:—	
(i) Repayment of loans-			(i) Establish- 213 0 0 ment.	<i>.</i>
(a) Principal 2,915 0 0			(ii) Printing, 166 15 o stationery.	
(b) Interest 800 11 2			(iii) Furniture 225 15 6	
(ii) Deposits 22 5 6			(iv) Travelling 43 4 o allowance,	
(iii) Entrance fees 162 0 0			(v) Miscellan- 36 11 6 eous.	
Total	3,900	o 8	Total	685 14 0
Miscellaneous	28	2 0	Balance in hand on 31st August.	7,961 7 3
Total	53,012 1	39	Total	53,012 13 9

The statement of assets a	and liabilities is as follows :
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Assets.			Liabilities,				
Loans outstanding Interest due to date Cash in hand	•••		00 118			0 7 0 7	• 5 0 •
Total	•••	1,05,712	21	Total	1,05,71	2	2 1
CAMP UNAO; The 8th September 1		}	-	J. HOPE S gistrar, Co-operative Cre			

United Provinces 

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# No. 5. Note on the financing of Rural Co-operative Credit Societies.

In the Province of Eastern Bengal and Assam I have found no difficulty in establishing rural co-operative credit societies on the basis of unlimited liability. The only serious difficulty that I am experiencing is in financing these societies.

2. The capital of a rural co-operative credit society on the basis of the unlimited liability must be derived from some or all of the following sources :--

(i) Admission fees.

(ii) Deposits of members.

(111) Loan from Government.

(iv) Borrowings from non-members.

(v) Loan from other co-operative credit societies.

3. The societies in question are composed chiefly of needy people, who join for the purpose of borrowing and have not

(i) Admission lees. an abundance of ready money and cannot pay a large amount in admission fees. The admission fees in the existing societies are fixed at annas 8 a head, except in two very poor societies in the Jaintia Parganas of Sylhet district, where the rate is 4 annas per head. The amount derived from admission fees is, and must always be, very inconsiderable. Besides, I am following the principle adopted in Bengal, a principle which appears to me to be quite sound, that the whole of the admission fees must be placed in the Reserve Fund and not employed for the purpose of issue as loans.

So the sums derived from the admission fees must be left out of the question in the financing of these societies. 4. As I have said before, the members of rural societies are chiefly poor

(ii) Doposite of members. have no spare cash to deposit in the society. The better class of people have some money, but, not being used to banking and investments, look upon these societies with distrust and suspicion, and cannot be induced to place their savings into the society. The nine rural societies that worked last year had 417 members, and the sum deposited by them amounted to Rs. 1,544-8 only, or an average of Rs. 3-10-9 per head, supposing every member deposited something. The deposits of members ought to be the principal source of the capital of rural co-operative credit societies, which should be banks worked with the capital supplied by the members is much too inadequate, at least in the beginning, to finance the bank and supply the needs of the members.

5. It is true that the end and aim of these societies is to teach their members

Their went of confidence.

thrift, self-heip and business habits, and they must be taught to save money and

learn to be their own bankers. Every encouragement should be given to teach them these admirable virtues, and no effort should be spared to overcome their diffidence and suspicion in regard to the placing of their savings with the society. But the fact remains that there is either absolute want of means or a great deal of suspicion. The men of Eastern Bengal and Assam are not absolutely dense or dull, but are generally possessed of a certain amount of astute intelligence, which makes them regard with doubt any movement to which they are unaccustomed. This want of confidence will rapidly disappear when they find the object of their suspicion working satisfactorily and beneficially for a few years. About ten years ago, there were a number of bogus Insurance, Friendly and Provident Societies in Eastern Bengal, in which many poor people lost their money. They will not look at any beneficial society, however businesslike it may be, unless they are assured by actual experience that the society is not fraudulent. The

recent agitation against the partition of Bengal has made the educated people suspicious of the motives of Government in every movement, however patently honest they may be, and the rural classes are accustomed to consult and seek the advice of the *bhadraloks* before they venture on any unknown enterprise. The advice, when it is not absolutely adverse, is to trust the societies to the amount of borrowing money from them, but stop short of trusting them with money. Thus I find that, though many people are quite willing to form a society and borrow money, even on unlimited liability, they always find some excuse for not depositing any money into it for some time after it is formed.

6. The loan from Government is regulated by the principles laid down in (iii) Loan from Government. paragraph 26 of the Resolution of the Government of India, No. 1-63.3 (Land Revenue), dated Simla, the 29th April 1904. The most important condition to the grant of these loans is that the amount advanced by Government shall not "exceed the total amount of money subscribed or deposited or of the share capital paid up by the members." In rural societies the amount deposited by the members is inconsiderable, and even if doubled by Government will be quite insufficient to meet the needs of the members. We cannot hope for much help from this source under the present conditions.

7. The other source remaining is the deposit by, or borrowing from, a non-members.
(iv) Borrowing from non-members.
a good deal of credit, and theoretically thev ought to be able to command sufficient amount of financial accommodation from outside. The non member who is likely to lend money to a rural society is either (a) the local money-lender,
(b) the local zamindar, (c) a local gentleman of means and philanthropic inclinations, or (d) the public who desire a safe investment with a moderate return.

8. The local money-lender in this Province is either an up-country Kaya or (a) The money-lender. (b) The money-lender. (c) The money-lender is either an up-country Kaya or (c) The money-lender. (c) The money-lender is either an up-country Kaya or (c) The money-lender. (c) The money-lender is either an up-country Kaya or (c) The money-lender. (c) The money-lender is either an up-country Kaya or (c) The money-lender is extremely difficult to induce the professional money-lender to advance funds to a rural society at a moderate rate of interest, and so they may be dismissed from consideration.

9. The zamindar in Bengal has usually much money, and does indeed very (b) The samindar. (b) The samindar. (c) The samindar.

cultivators with funds for maintenance between harvests. It ought not to be very difficult to induce the zamindar to lend the money to the society instead of to the individual tenants, for, after all, the interest matters little to the zamindar and the security offered by the societies will be much greater than that by the individuals. But unfortunately most of the zamindars in this province are absentees and even in cases of societies financed with money supplied by them, we must anticipate the probability of their local underlings getting too great authority over the societies and undermining the co-operative principles on which they are based. Even in the case of Government estates or estates managed by the Court of Wards, we are not free from this danger. In two societies opened in Government estates in Bakarganj, the local tahsil staff obtained such control over the management that they became simply Government money-lending agencies where loans were given only at the pleasure of the Government officials. With regard to the Court of Wards, it is a question undecided yet, whether the provisions of the Court of Wards Act will allow the investment of the funds of the estate in co-operative credit societies.

10. I have found that it is not easy to discover a moneyed philanthropist (c) The philanthropists. (c) The philanthropists. (c) The philanthropists. (c) The philanthropists (

cases they have come forward and are financing to a good extent the rural cooperative credit societies that they have helped to found, but the number of such men is very small and the means at their disposal are insufficient. 11. Lastly, we can fall back on the hundreds and thousands of middle-class people who deposit their money in the Post

(d) The investing public.

Office Savings Bank or purchase Govern-

ment Promissory Notes. These people require a safe investment and are satisfied with moderate returns. If the security of the co-operative credit societies is thoroughly understood by them, and the example of these societies in European countries believed by them, they will come forward and place their savings in the rural societies which offer almost as good security as, and greater interest than, the Post Office Savings Bank or Government stock. But unless the societies can prove their security by actual work, these investors will not come forward. They will require to see the society working without loss and paying up their dues punctually for years before they will have confidence enough to trust them with their hard-earned savings. We have not yet been able to tap this source, and it will be many years before we can hope to do so.

12. We have in this province no Central or District Banks. We have (a) Loan from other epoperative credit societies. Seven Urban Societies, or Town Banks, of which only one has as yet been able to advance money to rural co-operative credit societies. The other six societies

advance money to rural co-operative credit societies. The other six societies have not sufficient funds at their disposal to meet their own demands and cannot help the rural societies. The rural societies themselves are all too poor to help others. Thus we cannot expect any assistance from this source.

13. Thus it will be seen that the sources of capital for rural banks are all insufficient to provide adequate capital for

Source of initial capital immtarcial. required only in the beginning, and the extraneous assistance may safely be withdrawn when the members and the public become familiar with this system of banking. The important matter at present is to teach the people business habits and to familiarise them with the practice and methods of banking. They want money for this purpose, money to experiment with. They have either no money of their own, or they have not confidence enough in the principles to lend their money for practice. Just as in model farms they want seeds, manure, and implements to try, so in these societies they want money with which to

practise banking, and in both cases, they require to be supplied with the means by external agencies. People require to be taught self-reliance in business, proper use of money, thrift and habits of punctuality in business matters, and the co-operative credit societies will teach them all these. But co-operative credit societies require money to work, and we cannot premise that the people possess these attributes, and will come forward with money to work these societies. If we take it for granted that the people are thrifty and know the use of their money and are willing to deposit them in the co-operative credit societies and then expect that these societies will work and teach them thrift and the use of money, we shall be arguing in an endless and profitless circle. It is necessary therefore to devise means to supply the societies with funds to work with, with money to experiment with, with means to prove the principles of co-operative credit. It does not matter in the least where this initial money comes from. It is only required that the funds should be available. There is no danger of the principles of co-operation being lost sight of by the societies working in the beginning with the extraneous capital. For we cannot hope that by mere preaching we can impart intelligence and foresight, but an actual experience of a profitable and smoothly worked banking concern will excite self-interest and teach people their own advantage in being thrifty. When they have worked a bank for some time with any funds and seen for themselves the safety of the venture and the quick returns, they will all desire the same profit for their own money and deposit their savings in the bank. The members of a bank will learn more surely and more conclusively the benefits of co-operation by watching the working of it than they can by any amount of talk or literature. Then when they have learnt their lesson, their own self-interest will prompt them to save what money they can and use it profitably and safely in the bank, and they will learn also the advantage of using the money on useful and productive purposes. And I am confident that the fact of the money with which the bank was worked having been provided by some one else will not in any way interfere with the teaching of the lesson.

Government aid necessary, safe and useful.

14. I submit that in this province the safest course will be for Government to come to the rescue. I cannot think of

any satisfactory solution of the difficulty except direct aid by Government. I have not tried the formation of any Organisation Society like those established in the United Provinces, for I am very doubtful if they will succeed. At any rate, it is useless to hope for active co-operation of the educated classes at the present juncture; and without their assistance, such societies will surely prove to be failures. A relaxation of the rules by which the advances by Government are limited to the amount deposited by the members is all that is required. The amount of the advance can be limited to Rs. 2,000 and the security offered by the societies may be subjected to very careful scrutiny. The Government advance is never likely to be lost, for the number of societies in the beginning will be few and their initial operation will naturally be under scrupulous supervision and control. The usual rate of interest is  $9\frac{s}{8}$  per cent. per annum, so we can expect that in little over 10 years the profits of the society will cover the amount of the advance, and the advance can then be withdrawn and the society left to work with its own capital; or if interest is charged at 4 per cent., the society's profits will equal the capital in about 18 years. But long before that deposits will pour in and immensely increase the working capital. A rule may be made and insisted on that if in five or six years the sum of the deposits and the profits of the society does not equal the Government advance, latter will be withdrawn and society disbanded. Any similar precautionary measure may be adopted, but in starting a society the funds should be provided by Government. There would be another great advantage in Government money being used in the first stages. The members of the society will remember the conditions of the loan and the provision of summary realisation of dues, and will be very careful in the management of the funds. In fact, they will learn the virtues we desire them to learn more rapidly and efficiently than by working with their own or the zamindar's moncy. When an estate is for some years managed by Court of Wards with the aid of the summary procedure for realisation of arrears of rent and then is made over to the management of the proprietors, I have heard the latter declare with great satisfaction that their tenants are much more punctual in the payment of rent and respect the zamindar's rights and understand their own much better than the tenants of their neighbours. I expect a similar improvement of the intelligence and habits of the members of a rural co-operative credit society financed with Government money.

15. I submit that the fact of the rural society being financed by Government will not in any way interfere with the independence of the management. For I do not propose to impose any condition on the grants which will at all fetter the discretion of the management in the employment of the money. But the very fact that the money belongs to Government will make the committee take every precaution that it is safely and usefully employed, and teach them to insist on regular and punctual repayments.

16. The views which I submit now, after an experience of over six months as Registrar in this province, were expressed in 1902 by Mr. P. C. Lyon, I.C.S. who was then the special officer employed in connection with the initiation of Agricultural Banks in Bengal. I venture to enclose an extract from his observa-tions on the Co-operative Credit Societies Bill in which these views are forcibly and clearly represented. The Honble Maharaja of Darbhanga in his speech on the Budget this year in the India Council also advocated a relaxation of the stringency of the rules for Government advances to co-operative credit societies, and an extract from his speech is appended herewith.

17. There is another way by which Government could finance the rural Taccivi Loans for these Societies. XIX of 1883) and the Agriculturists' Loans Act (Act XII of 1884). These two Acts provide for the issue of small loans at a low rate of interest to the agriculturists for certain specified purposes, namely, improvement of land, relief of distress, purchase of seed, manure and cattle, and for other agricultural operations. These Acts further provide for the grant of a lump sum to a number of persons who undertake joint and several liability in respect of the whole loan. Although co-operative credit societies were not in existence at the time when these laws were enacted, yet I venture to submit that there is nothing in these Acts to debar co-operative banks from obtaining loans from Government under these laws It is true that our rural societies lend money also for purposes other than those mentioned in these Acts. But it will be easy enough to stipulate that loans obtained under these Acts should be distributed only for the purposes mentioned therein, and to enforce this condition rigidly by a penal condition that if any portion of such loan is not so employed, the whole of the, loan should at once become repayable to Government.

18. I may mention here that a co-operative credit society will form an excellent agency for the distribution of these loans. The security offered by one. of our societies is much greater than that by an individual peasant or by a combination of a few peasants. The members of the committee of a society, knowing the needs and the means of every individual villager much better than any Government distributing officer can expect to know, are much more likely to grant the loans equitably and safely and to enforce the proper and useful employment of such loans. The recovery of the loans by Government will be punctual and easy and the chances of loss minimised. In fact, the cost of distribution, supervision over the spending and recovery of the Government money will be practically eliminated. Under these circumstances I beg to submit that the rate of interest charged by Government should be reduced when the loans are given to co-operative credit Associations. A rate of 4 or 4<sup>1</sup>/<sub>4</sub> per cent. Per annum will in my humble opinion be quite equitable, the ordinary rate for this province being 6<sup>1</sup>/<sub>4</sub> per cent. If this proposal is adopted and loans are granted to our rural societies under these Acts at low rates of interest, the societies will be able to achieve a very creditable amount of good in the agricultural villages.

K. C. DE,

The 22nd August 1906.

Registrar, Co-eperative Credit Societies, Eastern Bengal and Assam.

#### ENCLOSURE A.

No. 138, dated Calcutta, the 14th January 1902.

From-P.C. LYON, Esq., Special Officer in connection with the initiation of Agricultural Banks in Bengal,

To-The Secretary to the Board of Revenue, Lower Provinces.

6. In the matter of the financial aid to be given by Government to these institutions, I think that a sharp distinction should be drawn between the assistance to be afforded during what may be called the experimental stage and that which should be offered as a permanent addition to the funds of the societies. I am personally doubtful whether Government should hold out any hope that these societies when established elsewhere than in estates held by Government directly will be permanently aided from Government funds. Should the present scheme achieve any marked degree of success, it will develop so largely as to place it above the power of Government to aid it materially, and it is obvious that if funds cannot be raised for the work of these societies from private sources, the whole scheme must eventually fail. While, therefore, it may be necessary for Government to be prepared to assist the credit associations, whether established in towns or villages, in times of scarcity or distress, I doubt whether any general scheme for their assistance in ordinary times, by financial aid in any form, is required. These remarks do not, however, apply to the financing of such societies as are established in estates held direct by Government, which should receive such assistance from Government, on business terms, as they would have a right to expect from any enlightened landowner.

7. While I submit that the above are the general principles which should restrict the offer of financial aid by Government to established societies, I woud

suggest that a wholly different policy may well be followed during the experimental stage of our operations. I believe that the only means by which we can hope to spread a knowledge of the advantages of co-operative banking and gain the experience necessary to enable us to guide it, is to establish experimental credit societies in rural tracts in all parts of India, and to conduct them patiently under careful supervision. Until the people have much practical examples placed before them, little good will be done by the dissemination of tons of literature, and we must trust to their self-interest to spur their intelligence, rather than leave it to their intelligence to rouse their natural commercial instincts. Without such experiments nothing can be done, but with them I believe that we have every chance of success. And as I am of opinion that we should begin the work from the bottom and not from the top, that we should spread the knowledge of the advantages of the proposed scheme among the agriculturists themselves, and not only in the towns, we cannot afford to wait for outside help before we begin to establish village credit societies. In many places we can obtain funds for the purpose from enlightened zamindars and others, but when this cannot be secured, I think that the Government should not be backward in advancing the means to enable us to establish these educational institutions in every district. The money thus advanced will not be lost, as these experimental societies will be, ex hypothesi, carefully managed and supervised, and rules can be subsequently framed locally for its gradual recovery. I would urge, however, that the experiments should be given a fair and patient trial, that where they give promise of success every consideration should be shown to the borrowers, and no such hard-and-fast rule for recovery as that suggested in paragraph 9 of the Committee's report should, for the present, be adopted. submit that in assisting experiments, we are not in any way endangering the success of the scheme as a whole. It may be acknowledged that, if, in the end, we fail to secure as capital for our societies, much of the money now hoarded in cash or jewellery, or wasted in unprofitable extravagances, we shall not succeed, but our first effort should be to prove that such capital when obtained will be profitably used, and it does not much matter from what source we derive our means for the conduct of our experiments. The members of a village society, receiving the loans distributed by the managing committee, will not take much thought as to the source from which the money originally flowed, and the actual inner working of these experimental institutions should not be affected by the fact that they are utilising funds placed at their disposal by Government.

#### ENCLOSURE B.

#### IMPERIAL COUNCIL.

BUDGET DEBATE.

### 281h March 1906.

### THE HON'BLE THE MAHARAJA OF DARBHANGA'S SPEECH.

#### Extract—

What I have to suggest therefore is that Government should tackle the great question of agricultural finance in a much bolder spirit than they have hitherto done. In the Co-operative Credit Society's Act an excellent measure was passed a couple of years ago, but I do not think that Government are backing it up as they ought to do. I am aware that a fair number of societies have been started in various Provinces, but altogether the money, turned over by them, so far as I can learn, amounts to only a few thousand rupces, and at the present rate of progress I am afraid that the end will not be reached this side of the millennium. Cultivators themselves have not the capital required to develop their holdings, and moneyed men are naturally chary of new ventures. But while, as Mr. Moreland says, it might be difficult for Government itself to directly finance the cultivators, can it not do something to encourage the monied men of the districts to venture a little in the way of financing the villagers? I dare say gentlemen could be found who would be willing to risk their capital if they have some sort of Government guarantee behind them. With such help, small local banks might be formed which would finance the surrounding villages, or perhaps Government itself might deposit something experimentally in selected villages working under the Co-operative Act, without waiting for the people to first of all put down their money, or Government might deposit in the village society one rupce for every rupce deposited by non-members. I merely throw out these suggestions for what they are worth. All I want is to impress upon Government the absolute necessity of tackling fearlessly this great problem, which is in reality the pivot on which all other problems turn. If the Imperial Governments, to deal with as they may think best in developing a sound system of rural finance, it would be indeed surprising if great good to our Indian Empire did not result.

## Papers on the Financing of Co-operative Credit Societies in India

#### Β¥

### W. R. GOURLAY, I.C.S.

## Note on the proposal to establish a "Bengal Central Bank, Ltd."

1. The efforts made in Bengal to establish co-operative credit societies in the villages have met with success. The last report of the Registrar shows that 91 such societies have already been founded and the great majority are working satisfactorily. They are, however, at present labouring under great disadvantages. The capital of each society is very small and the area of its operations is restricted. Development is hindered by the difficulty which is experienced in investing any excess funds during the season when money is not required for agriculture; while at other times the funds are not sufficient to meet the reasonable demands of the members.

The village societies are thus prevented from accepting the deposits of members at the time when money is plentiful because there is no investment in the village for the extra funds, and the members naturally turn to some more convenient method of investing their savings; and when the society is again in want of funds, the deposits are not available. The rate of interest, too, which the societies are able to pay on deposits is limited to the small rate which can be obtained in the nearest Post Office Savings Bank.

The great demand for money comes between May and December and at present the societies are unable to cope with this demand. Consequently villagers who would otherwise be admitted to the societies, as members, are turned away with the information that the society has not sufficient funds to meet its needs, and the confidence of the outside public is in some measure lost. At the same time members who have reasonable demands are forced back upon the money-lender and the security of the society is in some measure diminished. So far, too, the societies have, through want of funds, been able to do little to free villagers from the debts of money-lenders contracted at exorbitant rates. Such debts cannot be paid off in one or two years and, through want of funds, the societies have only been able to meet the annual requirements of the members.

On the other hand, the experience gained has shown that the people are alive to the benefits obtained from such societies and are able to appreciate the principles upon which they are founded, and to manage their affairs themselves.

To make the co-operative credit movement a success, it is necessary that all reasonable demands should be met, and all savings employed. The time has come for the establishment of some central institution, in which all the societies will have an interest, and which will be in a position to meet their demands. This institution must, however, be organised in such a manner as will protect the interests of the societies and enable them to obtain money, when they require it, at the cheapest rate possible and afford the highest rate possible on any excess. An ordinary joint stock company, whose main aim is to obtain dividends for its shareholders, would not meet the circumstances of the case. In the following papers a scheme is set forth which, it is believed, will succeed both in attracting the necessary capital from outside and in preserving and developing the co-operative credit societies in India.

### The "Bengal Central Bank, Ltd."

It is proposed to form a joint stock company with limited liability of which the majority of the shareholders will be the co-operative credit societies themselves. The object of the Company is to carry on the business of banker and dealer in credit, with a view to balancing excess and want of funds in the cooperative credit societies affiliated to it. The members of the Company will be (1) the ten founders, (2) the members of the Board of Directors and the Committee of Management, and (3) co-operative credit societies with unlimited liability, registered under Act X of 1904. As special cases, some co-operative credit societies with limited liability may be admitted. The principles upon which these co-operative credit societies in the village are worked are the following :---

- 1. The liability of the members is joint and unlimited.
- 2. The purpose for which loans are granted is approved by the members of the village society.
- 3. The membership of a society is restricted to a small area, within which the members all know one another.
- 4. There are no shares and consequently no dividends : no individual gains from the profits of the society.
- 5. No remuneration is paid to any of the officers of the society, except to the keeper of the books.
- 6. All profits are paid into a Reserve Fund, which is the common property of all the members, but which is indivisible.

These Societies are all registered by Government under Act X of 1904.

The Share Capital of the Company will be small to begin with—one thousand shares of 100 Rs. each, and three thousand debentures of one hundred rupees each, bearing interest at 6 per cent., of which it is proposed that the Government should guarantee four per cent. In a very short time it will be possible to greatly increase the capital of the bank and this will be done with the permission of the Government, later on.

The affairs of the Company will be managed by three bodies: the General Mceting, the Board of Directors and the Committee of Management.

The General Meeting will consist of the shareholders—every share will carry one vote and the power to vote may be exercised by proxy. The Board of Directors will consist of eight members, including the president who, it is proposed, should be a high official in the Bank of Bengal. Four Directors will be elected by the shareholders and the other three may be appointed by the Government from the administration of the Bank of Bengal. The Committee of Management will consist of three persons appointed by the Directors and will ordinarily include the Calcutta and Mofussil Managers of the Bank.

The sources of the working capital of the bank will be :---

1. The paid up Share Capital.

- 2. The money raised on Bonds or Debentures.
- 3. Deposits received or loans raised for long terms.
- 4. Commissions charged and the margin of interest.

Such funds will be employed as follows :----

- 1. For advances in current account to the societies which are shareholders.
- 2. For, discounting bills and advancing money on security to the same societies.
- 3. For the acquisition of land and buildings for the use of the Central Bank.
- 4. For the purchase of Government paper or other recognised securities bearing a fixed rate of interest.
- 5. For management expenses.

The resulting profits will be dealt with as follows :---

1. Payment of 6 per cent. on the bonds or debentures.

- 2. Payment of twenty-five per cent. of the remaining profits to the Reserve Fund.
- 3. Payment of four per cent. to the ordinary sharcholders.
- 4. Repayment of any sums previously advanced by the Government as a subsidy.
- 5. Payment of a further six per cent. to the ordinary shareholders.

Any balance still remaining will be paid into the Reserve Fund.

Every affiliated co-operative credit society will be required to make a return to the Central Bank of the total value of the immoveable property possessed by its members: this statement will be revised each year by the Mofussil Manager or Assistant Manager of the Bank, and the amount of credit which the Bank grants to such society will not exceed 15 per cent. of the value of the total property. In special cases, with the approval of the Directors of the Company this may be increased to 20 per cent. Each society, however, will be required to take up one share in the Company for every 5,000 rupees of credit claimed. The Bank will thus deal with the affiliated village societies for the most part by means of current accounts and a statement of account will be furnished to each village society at the end of the year. The margin of interest will at first be high. It is proposed to charge  $g_3^2$  per cent. commission on the balance in the books of the Bank at the end of the year, whether it be on the debit side or the credit side.

At present the cost of sending money from one part of India to another, through the Post Office, is very costly and it is therefore proposed that the Government should grant the concession that all monies will be carried to and from the village societies at the cost of one anna per hundred rupees.

The whole of the work of the "Bengal Central Bank" will be connected with agriculture and as there are three to four months in every year when the demand for money for agricultural purposes, in India, is much less than it is during the remaining eight months, it is necessary to provide in some measure for the insufficiency of the resources of the Bank at one time and the plethora of funds at another. It is proposed, therefore, that the Government should grant facilities to the Company for dealing with the Bank of Bengal and that the Central Bank should be granted a credit to the extent of one-eighth of its issued share and debenture capital with the Bank of Bengal at current rates: and a further discounting credit of similar amount against which the Company will deposit with the Bank of Bengal the acceptances of the village societies. In this manner the Bengal Central Bank will be enabled, when its resources are insufficient, to discount the acceptances of the village societies with the Bank of Bengal and, later, when the money comes in from agriculture, to uplift these acceptances at current rates.

Proposed Concession.

Ι.

The ten persons named hereafter are authorised to form an agricultural Credit Company, Limited, on the following basis:----

1. The Company shall have a capital of Rs. 4,00,000, part of which shall be in shares and part in obligations. This capital shall not be increased except with the consent of the Government.

- The Company shall be managed by a Board of Directors to consist of the Secretary and Treasurer of the Bank of Bengal as president and seven members to be elected by the Company, three of whom may be members of the administration of the Bank of Bengal.
- 3. Its duration shall be unlimited.
- 4. Its sole object shall be to advance money to Co-operative Credit Societies registered under Act X of 1904, up to a limit of 20 per cent. of the value of the joint immoveable property possessed by the members of any Society, where the liability is unlimited and up to half the paid up share value where the liability is limited, and to carry on a banking business particularly with the object to balancing the temporary deficiency of money in one society and superfluity of money in another.
- 5. The rate of interest charged shall not exceed 10 per cent. per annum, and in all cases any conventional maximum fixed by the law.
- 6. The net profits shall be estimated as in other banking businesses. From the said net profits there shall be paid (a) the interest on the obligations: (b) twenty five per cent. of the remainder to the reserve fund: (the monies paid into the reserve fund shall be invested subject to the approval of the Government: the interest accruing on these investments shall be added to the reserve fund): (c) out of the balance of the profits there shall be paid in the first place the interest on the shares which in no case shall exceed to per cent. and the balance will be credited to the reserve fund.

### II.

If at any time during the first twenty-five years of the Company's existence the profits made during any one business year shall not constitute a sum sufficient to cover all the expenses of the year and to leave a net gain representing 4 per cent. on the obligations issued the additional sum necessary for the purposes above-mentioned shall be taken from the reserve fund and in case of said fund being insufficient the Government shall pay to the Company the balance of the sum required for the said purposes in the nature of a subsidy and not later than the 15th March in each year : provided no dividend exceeding 4 per cent. is paid to the ordinary shareholders of the Company while there is a balance of subsidy still due to the Government.

III.

Government further agrees —

- 1. To register the Society under section 29 of Act X of 1904.
- 2. To grant the use of all treasuries and sub-treasuries for the safe custody of the monies of the Company, provided that the Company pays any additional cost laid upon the Government thereby.
- 3. To grant facilities for transmitting money between the Central Bank and the affiliated Societies through the Post Office—the rate not to exceed one-sixteenth per cent.
- 4. To grant facilities to specified officers of the Company to examine records of the Government with a view to ascertaining the value of the property possessed by the members of any co-operative credit society and to take copies thereof without charge.
- 5. To allow the Company without further reference to officers of the Government to lend money to all registered societies at a rate not exceeding 10 per cent. per annum, and where the Company has already advanced money to a society not to grant similar facilities to any others without reference to the Company.

- 6. Where a society financed by the Company exists in a village to require the local Government officers to consult the Company's local officer before granting takavi or other Government loans in that village.
- 7. To permit all co-operative credit societies without further reference to the officers of the Government to deposit their reserve funds with the Company.
- 8. To grant the Company a credit with the Bank of Bengal amounting to  $\frac{1}{6}$  of the issued share and debenture capital of the Company at current banking rates.
- 9. To grant a further discount credit at current rates against which the Company will deposit with the Bank of Bengal the acceptances of the co-operative credit societies in the hands of the Company.

#### IV.

The Company agrees not to hold land except for business premises and where land shall have been acquired temporarily as the result of sale or forcclosure to get rid of said land within five years.

### Proposed preliminary Act of Association.

The undersigned ten persons, vis. :---

unite together to found a Society which shall be known as the "Bengal Central Bank, Ltd.," the object of which is to make advances to co-operative credit societies and to act as a central bank for such societies and to carry on the business of banker and dealer in credit more especially with a view to balancing excess and want of funds in the societies affiliated to it.

The Society will have a capital of 4,00,000 Rs. divided into 1,000 shares of 100 Rs. each and 3,00,000 Rs. in bonds of 100 Rs. each bearing interest at the rate of 6 per cent. per annum.

The Bank shall be directed by the following statutes agreed to by the undersigned.

The undersigned undertake to follow the authority required by law and to take all the necessary steps which the special character of the institution they propose to found requires.

The 1,000 shares have been subscribed for as follows :---

1.	*****
2.	*** ***
3.	*** ***
4-	•••••• ••• ••• ••• ••• ••• ••• ••• •••
5.	
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The remainder of the shares will be taken up by the village societies. No loan will be made to a society which is not a shareholder, and loans will not exceed ten times the share value held.

The first Board of Directors will be.....

A Co-operative Credit Society with limited Liability, registered under Act X of 1904.

#### I.

## Name-Head Office-Time of Duration-Object.

1. The Society formed under the terms of the orders of the Government of India dated.....and the present statutes shall be known as the Bengal Central Bank. It is governed by the provisions of the Co-operative Credit Societies Act (X of 1904).

2. The Head Office of the Bank is at Calcutta, but the Board of Directors can open agencies in any part of India as it thinks necessary in the interests of the Bank.

3. The duration of the Bank is unlimited.

4. The Bengal Central Bank has for its sole object the development of co-operative credit societies in India, and the carrying on of a banking business with such societies particularly with the object of balancing the temporary deficiency of money in one society and superfluity in another.

#### II.

### Funds-Shares and Bonds.

1. The Bank shall have a capital of Rs. 4,00,000, of which Rs. 1,00,000 is divided into 1,000 shares of 100 Rs. each and Rs. 3,00,000 into 3,000 Debentures of 100 Rs. each bearing interest at 6 per cent. per annum.

2. The raising of the capital of the Bank is within the power of the General Meeting of the shareholders, with the approval of the Government of India.

3. The amount of the bonds is payable at the Head Office at Calcutta or anywhere which may be determined by the Board of Directors and on the terms fixed by them.

4. The shares and bonds will be made out in the name of a definite person and will bear the signature of two members of the Board of Directors. To the bonds will be attached interest coupons and renewal coupons.

5. Unless a dividend is collected within five years of the date it falls due every claim arising out of share coupons is void. Forfeited dividends will be carried over to the Reserve Fund.

6. Only the following can be ordinary shareholders :---

- (a) The ten Founders.
- (b) Members of the Board of Directors and Committee of Management.
- (c) Co-operative credit societies registered under Act X of 1904, as societies with unlimited liability, which agree to be bound by the bye-laws drawn up by the "Bengal Central Bank" for the management of such societies, and which submit to an annual audit by the officers of the Central Bank.
- (d) Co-operative credit societies registered under Act X of 1904, with limited liability with the special permission of the Board of Directors.

7. The names, residences and occupations of the shareholders will be entered, together with the numbers of their shares, in the Share Register of the Company.

8. Transfer of ordinary shares can only be granted with the permission of the Board of Directors, and then simply by endorsement to persons and societies of the kind mentioned above. The transfer will be noted in the Share Register. 9. Shareholders are only liable for the face value of each share. The holding of a share is an acknowledgment of agreement with the statutes of the Bank and of the decisions of the Committee of Management.

10. No share or bond can be divided. The Bank only recognises one proprietor (the name appearing on the share or bond Register) for one share or for one bond.

11. On each share at the time of signing 10 per cent. must be paid in return for the interim receipt. Further payments will be fixed by the Board of Directors. Fifty per cent. of the payment due on bonds must be paid at the time of allocation, and the balance as called for by the Directors.

12. Shareholders and bondholders who do not fulfil the foregoing conditions at the proper time are liable to pay 6 per cent. on such deferred payments from the date when the payment falls due. If the payment due remains unpaid for more than one month, the Directors can declare the share or bond forfeited, together with all payments already made thereon. In the place of a forfeited share or bond a substitute will be issued in favour of the Bank or its nomince.

### Ш.

### Organisation and Management.

1. The Society is managed by a Board of Directors composed of the Secretary and Treasurer of the Bank of Bengal as President and of seven members of whom three may be chosen from the administration of the Bank of Bengal.

2. The President must see that the orders of the Board of Directors are duly executed, and he has charge of the management of all the affairs of the society, subject to the orders of the Board of Directors.

3. Four Directors must be nominated by the ordinary shareholders. These four Directors should be chosen so as to secure as wide a knowledge as possible of the circumstances of the whole area with which the operations of the Bank are concerned.

4. Each member of the Board of Directors must be proprietor of at least fifty shares of the society, and each member of the Committee of Management, 25 shares, deposited with the Bank. These shares cannot be removed or alienated during his term of office.

5. The duty of a member of the Board of Directors is personal and cannot be delegated.

6. The Board shall meet as often as it deems suitable. The Board Meetings shall be called by the President, or by one who fills the office of President. Three members personally present shall form a quorum. All questions arising at a Board Meeting shall be decided by a majority of votes. In case of equality, the President shall have a casting vote.

7. The writ of the members of the Board of Directors is for five years. Two members of the Board shall retire each year. They are, however, eligible for re-election. The first Board of Directors, however, is named in the preliminary Act of Association, and will remain in office for five years. Thereafter two members will retire annually. The order of retiral will be determined, in the first place, by lot. Thereafter by seniority.

8. An Auditor will be appointed annually by the Annual General Meeting.

9. The Board of Directors will appoint a Committee of Management, consisting of three members, to carry on the ordinary work of the Bank. None of the Directors shall be eligible to serve on the Committee of Management.

### IV.

#### General Meeting.

I. The shareholders will exercise in the General Meeting the rights which they possess in the affairs of the Company. All shareholders are entitled to take part in the General Meeting and every share carries with it one vote. The societies concerned shall exercise their power to vote through the president appointed according to their own rules. Members may vote personally or by proxy. Every proxy shall be in writing in the usual form and in favour of a member. All the rights of a shareholder appertain to a member representing a society and he is further authorised to represent any other society by proxy. Other persons who are not shareholders may not appear as representatives.

2. The ordinary General Meeting shall elect the members of the Board of Directors excepting the president. It will hear the reports of the Committee of Management and of the auditors. It will examine and approve the accounts or call for corrections. It will approve or decrease but may not increase the amount of the dividends recommended by the Committee. It will discuss all the interests of the society within the limits of the statutes.

3. An extraordinary General Meeting on the proposal of the Board of Directors can modify or add to the present statutes with the approval of the Government of India : it can especially decide the increase or reduction of the capital both shares and bonds the anticipated dissolution : the modification of the object and the denomination of the society.

4. The ordinary General Meetings will take place in the month of March in each year at Calcutta on a date fixed by the Board of Directors. Extraordinary General Meetings will take place at the Head Office of the Bank at any time the Board deems it necessary to call them.

5. The calling of a General Meeting will be made by a notice in the "Calcutta Gazette" and by a notice to each shareholder posted at least 14 days prior to the date of meeting. The certificate of posting will be regarded a sufficient proof of the receipt of the notice by the shareholder. When an extraordinary meeting is called the notice will indicate briefly the object of the meeting. The quorum at an ordinary General Meeting shall be onehifth of the share capital then issued present either in person or by proxy. At an extraordinary General Meeting the quorum shall be one-fourth. If a quorum be not present at an ordinary meeting no business shall be transacted except the approval of the accounts and declaration of a dividend. If within a quarter of an hour a quorum is not present a second extraordinary meeting must be called at an interval of not less than 15 days.

6. The resolutions of the General Meetings are decided by an absolute majority of votes, and are binding on all shareholders whether present or absent.

7. The minutes of the General Meetings shall be arranged in order and shall be inscribed in a special register signed by the president.

V,

### Annual Statement-Balance Sheet-Dividends-Reserve Fund.

1. The working year begins on the 1st January and ends on 31st December.

2. At the end of each year a general statement of assets and liabilities shall be prepared. This statement, the Balance Sheet and the Profit and Loss Account will be placed at the disposal of the Government of India, the auditors and the shareholders at the Head Office ten days before the date fixed for the General Meeting.

3. The net profits of the society will be divided in the following order :--

- (a) The interest on the bonds.
- (b) Twenty-five per cent. of the remainder to the reserve fund.
- (c) Four per cent. interest on paid-up capital to the ordinary shareholders.

- (d) The repayment of any sum advanced to the society by Government as a subsidy.
- (e) An additional payment not exceeding six per cent. on the paid up share capital to the ordinary shareholders.
- (/) Any balance still remaining will be paid to the reserve fund.

Should the profits in any one year be insufficient to pay 4 per cent. on the bonds, the reserve fund will be used for this purpose and any deficit still remaining will be paid by the Government.

### VI.

### Dissolution—Liquidation—Disputes.

I. In case of anticipated dissolution of the society an extraordinary General Meeting on the proposal of the Directors shall arrange the mode of liquidation, name the liquidators and name their powers. The assets after deducting all debts and charges will be employed in the following order :--

- (a) To liquidate the paid up capital on the shares.
  - (b) The balance will be divided amongst the shareholders.

The reserve fund will be similarly divided amongst the shareholders.

2. The nomination of liquidators puts an end to the powers of the Directors. The General Meeting retains its powers and will approve the Balance Sheet after liquidation.

3. Any disputes or questions touching on the general and collective interests of the society can only be directed against the administrative board or one of its members in the name of the shareholders and in view of a resolution of a General Meeting. Any shareholder wishing to make a protest must advise the Board of Directors at least a month before the next General Meeting at which the proposition is to be put to the vote.

### VII.

### The operations of the Society.

1. The object of the Society is to meet a public need and not purely to make profits for the shareholders. For this reason the dividends are limited to 10 per cent. on the share capital. Through the payment of dividends and a possible division of the Reserve Fund of the Society, only those who are shareholders will profit and the majority of the shareholders will be co-operative credit societies with unlimited liability, which are prevented by their rules from dividing their profits amongst their members.

2. The working capital of the Society will consist of :---

- (a) The paid up share capital.
- (b) The money raised on bonds or debentures.
- (c) Deposits received or loans raised for long terms.
- (d) Commissions charged and the margin of interest.

The working capital will be employed in the following manner :---

- (a) For advances in current account to the societies which are shareholders.
- (b) For discounting bills and advancing money on security to the societies which are shareholders.
  - Each co-operative credit society will be required to take up at least one share for every 5,000 Rs. of credit granted. The credit-value of the Society will be determined by a return made by the officers of the village Society to the Bank and checked by the Bank's officers.

- (c) For purchasing immoveable property for the offices of the Central Bank.
- (d) For the purchase of Government paper or other recognised securities bearing a fixed rate of interest.

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- (e) For the expenses of management.
- (/) For the building up of a Reserve Fund.
- (g) For the payment of a dividend to the shareholders which shall not exceed the rate at which the Bank lends to societies.

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I have always understood that the main object of Act X of 1904 of the Government of India is to develop an organization which is to serve as a ready resort to the agriculturists for procuring the credit that they need for the better cultivation of their holdings and for the better utilization to their own profit of the products of their labour. Lord Curzon in his farewell speech at the Byculla Club apparently had also this feature of the enactment before his mind's eye when he said,-" It is the Indian poor, the Indian peasant, the patient, humble, silent millions, the 80 per cent. who subsist by agriculture, who know very little of politics but who profit or suffer by their results, and whom men's eyes, even the eyes of their own countrymen, too often forget-to whom I refer. He has been in the back ground of every policy for which I have been responsible, of every surplus of which I have assisted in the disposition. We see him not in the splendour and opulence nor even in the squalor of great cities. He reads no news. papers, for as a rule he cannot read at all ; he has no politics. But he is the bone and sinew of the country; by the sweat of his brow the soil is tilled; from his labour comes one-fourth of the national income; he should be the first and final object of every Viceroy". The first interest of Government, as the ultimate landlord in India, may be said therefore to be centered in developing a system of banking whereby the rural folk may readily obtain the accommodation they need for agricultural and other purposes without having to pay exorbitant rates of interest and with a clear understanding of the transactions whenever they take fresh loans or discharge old ones.

2. The question then is, how are we to proceed in setting up an organization which will be useful to the rural inhabitants of India, whether we are to start from the village as a unit and elaborate a scheme which would ultimately reach Taluk and District centres, or whether we are to work our way from the last two centres and reach the villages. I have found that people at Taluk and District centres are not unwilling to have co-operative institutions in their midst, but their ideas, at any rate in the beginning, do not travel beyond their own immediate profits, and they feel it difficult to conceive that there can be any identity of interests between themselves and the rural people. Even where such identity is perceived, there is more or less reluctance to include as members people belonging to the smaller agricultural classes of villages. For the present purpose, it is unnecessary to inquire into the causes of this reluctance; I think it is enough to recognise the existence of such feeling and till time and better knowledge are able to work a cure, to adopt other ways of helping the village folk.

3. Fortunately, the villagers themselves are not without resources. In raiyatwari tracts such as may be said to universally exist in Madras, Bombay, Berar and Central India, almost every person in a village owns in his own name some extent of land or has some interest in land. Even where there is a cosharing body holding the landlord right over the whole village as in Punjab and the United Provinces, I believe—I speak subject to correction—that many of the co-sharers themselves cultivate the land and do not differ in status from the raiyatwari holders as among themselves. Whatever may be the case, there is always security for the loan advanced to the raiyat and the Sowkars or professional money-lenders have not been slow to benefit by such security. Their capital, however, being inadequate to meet all the wants of the villagers, and as they are not able to keep it in constant circulation, ready accommodation, even when sufficient security is forthcoming, is not possible, and among others the present unsatisfactory cultivation of the villagers in the cultivation season. The primary object should therefore be to supplement the Sowkar's capital wherever available with other funds also.

4. In seeking the sources for such funds, I have found that in Mysore the most efficacious source is the village land-holder himself, who is at present an isolated unit, but who can be to a large extent constituted in the course of some years his own banker. To the raiyat, it is always an insuperable obstacle to be asked to furnish capital in cash, if he wishes to join an agricultural bank or a co-operative society. From my observation of village life, I have found that he will readily consent to furnish a quantity of grain, especially if the demand is made in the harvest season, and combination of villagers in this direction will, it is likely, have far-reaching effects on village economy.

5. The shades of the old *barabaluti* system (or the Village Twelve), although at present regarded as a mere name, still linger in the village. The Shanbog (Patwari or Karnam) and the Patel (Lambardar or Manigar) do not now look to the villagers for their remuneration in the shape of a share of the grain harvested annually. The *Toti* (watchman) and the *Talari* (beadle) still eke out a meagre existence on the old system with some show of being able to enforce their right for a share of the grain. There are others however who have not lost their existence in the village autonomy and to whom year after year grain contributions are voluntarily continued. These are the barber, the potmaker, the carpenter, blacksmith, the washerman, and in some places the Panchanga Brahmin or astrologer. These receive annually a fixed share of the grain, generally from one to ten seers per Khandaga of the yield of grain per house. A grain contribution therefore is not foreign to the minds of the villagers, and I think, an association of villagers pledged to pay a quantity of grain annually as their capital has far better chances of success than if the share-capital is to come in any other shape.

6. To begin with, I think it desirable to select in each taluk two or three villages having each a population of about a thousand or more, and preferably villages where the existing elementary schools have given a smattering of education to the inhabitants. Whatever the shortcomings of these schools or their masters may be at present, my contact with village life especially during the past six months, when I have visited the villages with an eye to a special purpose, has shown me that education however elementary and however defective, has still some influence in opening the minds of the villagers to new ideas. For instance, some time ago, I visited two villages Bommasandra and Mayasandra both in the Anekal Taluk of the Bangalore District. While in the latter place, where there is a school I found the inhabitants evincing intelligent interest in the scheme I explained to them, in the former I felt that my words fell on minds which were as impervious to them, as the stones of the mantap in which we were gathered. V.

7. Having selected a few villages of the right sort, the next business is to ascertain who the present money or grain lenders are. If they happen to be, according to local ideas, comparatively large capitalists, it is best to discuss the scheme with them and bring home its advantage to them. My experience of these people is that they are shrewd enough to perceive the advantages of a co-operative scheme, but that they oppose it if they are not taken into confidence and consulted. It may also be necessary to allow some share to them in the management when an association is started. It may be remarked, however, that there are several villages where there are no Sowkars constituting the customary money-lenders of the place, and where the villagers manage to obtain accommodations from any person who has trust in them. There is therefore wide scope for choice, and I have no fear of the scheme collapsing from any opposition on the part of the existing money-lenders, as their influence is not all-pervading.

8. In the villages selected for operation, the next business is to get together as large a gathering of the inhabitants as possible and address them with some previous knowledge of the economic life of the village derived from the village registers and from books of the Registration Department. A proposal for a grain contribution towards capital—which, it should be explained, will belong to each member according to his share and which could be withdrawn when he disconnects himself from the association—generally receives a ready response from the majority of the assembled raiyats, although there will be prolonged discussion and exchange of whispers as regards the exact quantity that each is to contribute per Khandaga or Palla (too seers) of grain. In assessing the grain contribution it is best to avoid assessing either on the rupee basis of Kandayam (Government rent) or on the basis of the number of ploughs maintained. In both these cases, the contribution becomes fixed in quantity, but the raiyat, I find, prefers an elastic basis, a basis varying according to the quantity of grain grown by him. This varying contribution will also be in keeping with the existing customary contributions given to the carpenter and others mentioned above.

9. Having ascertained the names of those willing to join the village society, —the fewer the better in the beginning, provided the number is not below the legal limit of ten,—the next object should be to appoint a panchayat generally consisting of from five to nine members, so as to include as many of the intelligent and influential men of the place as possible. In the villages of Mysore, I have found that people of several castes come forward freely to co-operate in institutions where no questions pertaining to caste arise. The nomination of a panchayat should, however, be done in the presence of the assembled members, so that the names may commend themselves to them. The gathering may then be dissolved.

10. The panchayat may then proceed to collect the subscribed grain-capital and store them in a selected grain-pit or other suitable receptacle which can be easily found in a village. They may also frame a few rules of management, which, after being placed before the general body of members, should receive the sanction of the Registrar. Once or twice a week, whenever there are any applications for loans of grain, the quantity required may be lent out according to the rules of the society. Whenever grain is to be put into the store or taken out of it, it should be so done in the presence of at least two members of the panchayat. A month or two before the next harvest, when the prices are generally high, half the quantity of the total grain collected for the whole year or any other quantity which may be fixed with due regard to the keeping of the grain, etc., may be sold for cash, provided the harvest is assured. Money capital will also thus become more and more available for loans to members, for payment of assessment, for needs of cultivation, or for family purposes. These operations may be repeated year after year, and the store of grain may go on increasing till the quantity kept in stock is fairly sufficient for the maintenance of the members and their families for, say, half the year. This store will be a provision constantly kept up against the failure or deficiency of any harvest. In other words, while serving as a reserve to raise money capital when necessary, the store will also serve as an insurance against seasonal uncertainties.

11. The accounts to be maintained are a Day-book (Khiradi), a ledger (Khate) and a file-book of documents which, under the concession granted as to stamp duty, will all be on plain paper. In the beginning of every month a return should be compiled showing the quantity of grain in store, or amount of money in hand, the quantities or amounts lent in the previous month, and the names of the individuals to whom they were lent. The return may be prepared in duplicate, one copy being filed in the Taluk cutcherry and another copy sent to the Registrar. The Amildar (Tahsildar or Mamlatdar) may in his tours in the taluk satisfy himself by occasional inspections of the correctness of the entries in the account Under section 21 of the Co-operative Act, each society is entitled to a books. free audit of the accounts once a year at the hands of the Registrar. The same section also gives power to the Deputy Commissioner or Collector or any person authorized by him in this behalf, to inspect at any time the books, accounts, papers, etc., of a society. To help the panchayat in fixing the amount of loan to be granted to a member, extracts from the Village Khate (Ledger) may usefully be maintained for reference, and the encumbrances on the lands as known from the Registration Department books may also be noted from time to time. The book containing this information will serve as a sort of castelletto in fixing the credit of a member. Other books to be maintained are a register of members and a minute-book.

12. The cost of maintenance will, unless the number of members very largely increases and the transactions become numerous, not be much. The account forms being on the basis of village forms will be easily understood and a literate person may be employed to write up these accounts for a small annual remuneration or honorarium calculated on the profits of the business. The members of the panchayat need be given no remuneration, at any rate in the beginning, as the work to be done is of a simple nature and will occupy but a very small part of their time. No large establishment for guarding the store is necessary also, as on account of the confined air in the grain pits when covered, these pits have to be kept open for a number of hours before a person can enter them and take out any grain. The members may be asked to keep an eye on the store by turns and the village watchman may be given a small remuneration for guarding it specially. In fact, each member of the association being himself interested in the store, and considering that on account of its narrow limits every small event becomes known in a village, it will be rare, that any unauthorized ineddling with the store will occur.

13. Each village store may generally begin as an independent one; but as the number of such stores increases, they will require to be federated to a central association at the Taluk Head Quarters on some such lines as those of the Village Union and the Taluk Boards. While the grain store may remain in the village, the cash realised may be transferred to the custody of the association at the Taluk Head Quarters, to be dealt with according to the rules which may be framed when the need arises. Ultimately other central organizations federating the taluk associations may also be needed. From what I have seen of village life, I believe that a scheme of the kind I have sketched is more likely to commend itself to the villagers than a more ambitious one from the top radiating to the villages, although attempts in this direction should also be vigorously made. The merit of a village store is its publicity and its simplicity. It is quite within the comprehension of any ordinary villager and every transaction will be the talk of the place possibly even before it may actually take place. The store will be under the immediate eye of every member or other person who may happen to pass by it, and accustomed as the villagers are to preserve grain in pits or other receptacles, a store of the kind I have mentioned, will appear to be the safest form in which it can be maintained, as much on account of the rase with which it can be kept up, as on account of the confidence which it is sure to create in the minds of the villagers that the store is not a fraud but that it is started solely for their benefit.

14. The annual general meeting may be held on the Hindu New Year's day (Ugadi), or some other day of rejoicing. In course of time, the village associations may, if properly developed, furnish funds for the primary education of its members and others, look to the general sanitation of the village, and in other ways be helpful to the fulfilment of the communal needs. However these are only dreams now, and I think, we may for the present limit ourselves to the work of starting village stores on the lines indicated by me in a few selected places to serve as experiments, and on the strength of the experience thereby gained, guide our future ways. The motto of *festina lente* should be the motto of every village store to be started experimentally, for the chief recommendation of the motto, it is apparent, is the cautious wisdom of its advice.

15. Two stores of the kind described by me have been lately started in two villages in the Mysore State, one at a place called Kotta in the Sira Taluk and the other at a village called Mayasandra in the Anekal Taluk. I append the rules which guide these stores at present. These rules, I may add, explain a few points which could not find mention in the body of the above Memorandum.

BANGALORE : M. SHAMA RAO, Sectember 1906. Registrar, Co-operative Societies in Mysore.

## Rules of the Grain-Bank established at Kotta in the Sira Taluk.

### NAME.

This Bank shall be known as the Kotta Grain-Bank. It will be situated in the Kotta village of the Sirsa Taluk.

### OBJECTS.

2. The objects of the Bank shall be to collect grain and money capital, lend to the members and in other ways help them in the cultivation of their lands or in the pursuit of other materially useful occupations to be approved by the general body of members from time to time.

### MEMBERSHIP.

3. Those that wish to become members of this Bank should either be owners of lands belonging to the Kotta village or have some material interest in them.

4. Persons desiring to become members should apply in writing to the President of the Panchayat of the Bank. The Panchayat shall, after such inquiry as may be necessary, either admit or reject the application by a majority of votes.

5. Every person whose application for admission is rejected may appeal against the decision of the Panchayat to the general body of members at a meeting assembled.

6. Persons whose applications for membership are accepted should sign their names or affix their marks to a Register of Members, such signature or mark being attested by a member. The Register shall contain the name, father's name, address and occupation of each member.

7. Every person whose application for membership has been accepted shall pay an entrance donation of four annas.

8. The liability of a past member for the debts of the Bank as they existed at the time when he ceases to be a member shall continue for a period of one year, from the date of ceasing to be a member. Similarly, the estate of a deceased member shall be liable for a period of one year from the time of his decease.

9. A member can resign his membership at any time. In such a case, he will have the right to receive before the next Sivaratri festival the quantity of grain or money standing at his credit, deducting, however, any quantity of grain or sum of money due to the Bank.

10. In case of the death of a member, his legal heir may, with the consent of the Panchayat, become a member. In case he does not wish to become a member, or if he is not admitted as a member by the Panchayat, he has a right to receive before the next Sivaratri all grain and money, standing at the credit of the deceased *minus* whatever is due to the Bank.

11. Nothing contained in Rules 10 and 11 shall be deemed to prevent the Panchayat from making payment earlier than Sivaratri, if sufficient grain or money is on hand and payment can be made without inconvenience to the general interests of the Bank.

### CAPITAL.

12. Every member is required to contribute annually, before the Sivaratri, to the capital of the Bank not less than one kolaga (10 secrs) of Paddy or Ragi for each Kandy of 200 seers harvested by him.

13. The Panchayat, with the previous sanction of the general body of members, at a meeting assembled, may'raise a loan of grain or money either from members or from outsiders for any authorised purpose at such rates of interest as may be fixed by the Panchayat.

14. The Panchayat may also receive deposits of grain or money from members and others, to such extent and at such rates of interest as may be authorised by the general body of members from time to time.

### LOANS.

15. The maximum amount of credit to be allowed to a member shall from time to time be prescribed by the general body.

16. Within this limit, every member shall be entitled, according to priority of application, the resources of the Bank permitting, to obtain loan at any time under such conditions as the Panchayat may impose.

17. If a member repays within six months of taking a grain-loan, the rate of interest shall be six ballas per kandy per annum. If the period of payment exceeds six months, the rate will be two kolagas per kandy per annum. The whole of the loan, whenever taken, is repayable before the next Sivaratri. In case of money loan, the rate of interest shall be two pies per rupee per month.

18. Applicants for loans must not be in default in respect of any previous loans.

19. No loans shall be given before a duly executed instrument is obtained from the member, with or without sureties, as may be settled by the Panchayat.

20. Absolute punctuality of repayment shall be enforced on pain of such penalty as may from time to time be prescribed by the general body of members.

21. Loans found irrecoverable shall be written off by charging them to the Reserve Fund.

### GENERAL MEETING.

22. Either on the Hindu New Year's day (Ugadi) or on some other day which may be convenient before the 15th Sudha of Chaitra, a General Meeting of the Members will be held, at which the Panchayat shall present a report of the transactions of the previous year.

### **Reserve Fund.**

23. Of the net profits, *i.e.*, profits remaining after working expenses are deducted, not less than one-fourth as may be determined at the Annual General Meeting, shall be carried to the Reserve Fund. Out of the remainder, dividends may be distributed among the members in such manner as the Panchayat, under the direction of the general body of members, may settle from time to time.

24. No portion of the Reserve Fund shall be utilized for any purpose without the sanction of the Registrar,

25. The year of the Bank shall be the Hindu Samvatsara commencing on the 1st of Chaitra Suddha.

### THE PANCHAYAT,

26. The Panchayat shall consist of five members, one of whom will be the President, to be elected annually at the general meeting. Casual vacancies shall be filled up by the remaining members of the Panchayat till the next election of the Panchayat.

27. The Panchayat shall be vested with the management of the affairs of the Bank.

28. Extraordinary General Meetings may be called whenever the Panchayat fields, or when there is a requisition in writing signed by any ten or more members of the Bank. Whenever a General Meeting is proposed to be called, the purpose for which it is called shall be specified.

29. Notices of General Meetings shall be given to all members at least seven days before the dates of holding such meetings.

30. The quorum for a meeting of the Panchayat shall be three.

31. All questions before a General Meeting or a meeting of the Panchayat shall be decided by a majority of votes, and when votes are equal, the President shall have a casting vote.

32. The Panchayat shall arrange to preserve the grain received either in a grain-pit or in such other manner as may be settled by them.

33. Whenever grain is to be put into the store or taken out of it, it shall be so done in the presence of at least two members of the Panchayat.

34. The Panchayat may also arrange to sell any surplus grain remaining in the store after making loans, when prices are high. They may also arrange to purchase out of the money so realized any quantity of grain considered necessary, at the next harvest when prices are cheap.

35. No member of the Panchayat shall vote on any application for a loan in which he himself is interested as borrower or surety. The cash funds of the Bank shall remain in the custody of the President and when they exceed a sum of Rs. 10 shall be deposited either in the Post Office or Government Savings Bank.

### ACCOUNTS AND REGISTERS.

36. Besides the Register of Members, the following account and other books shall be maintained by the Bank :--

1. The Day Book or Khirdi.

- 2. The Khate or Ledger.
- 3. The Stock Book.
- 4. The Minute Book embodying the proceedings of the general body of members and of the Panchayat.

37. In matters not expressly provided for by these rules and in disputed cases the orders of the Registrar shall be obtained.

### Report of the Sub-Committee formed to consider the rules and by-laws framed in the various Provinces.

1. The Sub-Committee considers it practically impossible to lay down any rules or by-laws which could be applied to all societies in the various Provinces, and proposes merely to discuss on what points rules or by-laws are necessary, and, where the Act offers the choice, to give an opinion as to what should be dealt with by rules and what by by-laws.

2. The Sub-Committee considers that there should be as few rules as possible, that rules should be framed only when this is necessary under the Act, and with reference to those matters in regard to which uniformity in societies in general, or in any particular class of societies, is either a foregone conclusion or is desirable.

3. Rules are prescribed by law in the following cases :---

Section 6 (3). Registration of a society's address.

Section 12. Limit on capital held by a member.

Section 16 (first part). Transfer of interest on death of a member.

Section 22. Mode of proof of entries in societies' books.

Section 24 (3). Rules of procedure in regard to the powers of a liquidator.

Section 24 (4). Rules as to appeal against the order of a liquidator.

Rules should in our opinion be made at once in three cases, viz., sections 6 (3), 16 (first part) and 22. The Sub-Committee is of opinion that in the other cases the framing of rules might well be postponed, being not only unnecessary but inadvisable at the present time.

4. Under the Act the following matters may be regulated either by rules or by by-laws :---

Section 4 Proviso. Payment to be made or interest to be acquired as a condition of exercising the right of membership.

Section 7. Liability to be limited or unlimited.

Section 8 (1). Proviso. The disposal of profits.

Section 9. Restriction on borrowing.

Section 14 (2). Restrictions on transfer of share or interest.

Section 16 (2nd part). Procedure to be followed in ascertaining the value of a deceased member's share or interest.

The Sub-Committee is unanimously of opinion that all these matters should be regulated by by-laws.

5. Turning to section 27 (2) rules appear to be imperative in the following cases :-

27 (2) (a). Forms and procedure in applying for registration.

- (b) (1st part). Conditions to be complied with by persons applying for registration.
- (d) (2nd part). Nomination of a person to receive the interest of a deccased member.
- (k) Matters in respect of which by-laws must be made, procedure, and sanction in making, altering or abrogating by-laws.

(1) (last portion). Periodical publication of a balance sheet.

(m) Provision for the person by whom and the form in which copies of entries in books of societies may be certified.

(n) Provision for register of members and shares.

- (p) Referring disputes to the Registrar or to arbitration and the procedure to be followed in proceedings before the Registrar or arbitrators and the enforcement of their decisions.
- (q) Procedure in applying for financial assistance from Government.
- (r) Right of appeal from the orders of Registrar and the procedure in such appeals.

The Sub-Com ittee is of opinion that rules in these cases should be made at once. The Sub-Committee is further of opinion that the matters referred to in the other clauses of 27 (2) are best regulated by by-laws and that the societies should be empowered under 27 (2) (k) to deal with them.

6. Mr. De proposed that rules on the model of those framed by Sir F. Nicholson should be made under section 27 (1) to enable the Registrar to impose penalties for certain neglects, wilful omissions or falsification of returns or accounts on the part of societies or their officers. Mr. De considers that the conditions in Eastern Bengal and Assam make some rules of this kind necessary. The other members while admitting that action on these lines in United Provinces. Eastern Bengal and Assam may be necessary, consider that in the Provinces with Provinces, which these members represent, such action is both unnecessary and impolitic.

J. P. THOMPSON.

L. E. P. GASKEN.

K. C. DE.

J. HOPE SIMPSON.

### Notes on the United Provinces rules as to summary recovery under Section 27 (2) (p) of the Act.

1. The constitution of a co-operative credit society has been devised in such a manner as to prevent as far as possible the likelihood of serious default in payment by its members of their loans as they fall due. As a matter of experience it may be stated that repayments, except in cases of crop failure or other adverse circumstances, are wonderfully regular. Provision has however to be made for the possibility of such failure in the case of individual recusants, as it is clearly impossible that, with a rapidly increasing number of societies and members, the total exclusion of undesirables can be expected.

2. The provisions of Section 27 (2) (p) of the Act differ "materially from the corresponding provisions of the Bill. The reasons for the changes made by the select committee in this clause were not referred to by the member in charge in moving that the Bill be passed and it is consequently impossible to venture more than a surmise as to those reasons. I had, however, the benefit of an interview with Mr. Greeven, C.S.; who was, I believe, employed in connection with the select committee, and was by him informed that the "disputes" to which the clause refers include, and intentionally include, failure to pay a demand when it falls due, and that the Local Government is empowered by Section 27 to make special rules for recovery. Whether his opinion that the Local Government legally has the power to order recovery as an arrear of land revenue, of amounts decreed by the Registrar, is a correct opinion or not, is a matter for the trained lawyer.

3. In his letter No. 830-30-3, dated 29th May 1906, to the address of the Revenue Secretary of the Government of the Punjab, the Secretary to the Government of India in the Revenue Department quotes from Sir Denzil Ibbetson's speech when introducing the Bill and from Lord Curzon's speech at the passing of the Act, and shows that the rules are inconsistent with the intention of the Government of India. He then explains that ".....these decisions and awards shall be conclusive as between the parties and that application for enforcement may be made to any court having the requisite jurisdiction, but [the Act] does not in the opinion of the Government of India go beyond this and make it possible for societies to have recourse to any process for enforcement other than the processes provided by the ordinary Civil Procedure.

"It follows that before they can be enforced, the aid of a court must be invoked....., but the position will not be the same as if the dispute had not been determined under the Act, since the amount found due will not apparently be open to further question in court."

4. With due respect to the drafters of the Bill I submit that the provisions of Section 27 (2) (p) are not capable of the above restricted application. That section empowers the Local Government to make rules providing that the trial of a dispute, which, but for the rule would be a matter for the Civil Court, shall be removed from the jurisdiction of that court. It also provides that the Local Government may make rules for the enforcement of such extraordinary decisions. It seems to me that it would be necessary to strain the language of clause (p) very considerably in order to extract from it the meaning set forth in the above quotations. Had the intention of the clause been to limit enforcement to the action of the Civil Court, nothing could have been simpler than to state that fact. Whatever the intention of the legislature may have been, the power given to Local Governments under clause (p) of Section 27 (2) appears practically unlimited.

5. It was admittedly the intention that the trial of such disputes should be removed from Civil Court jurisdiction. It is interesting to consider what the effect will be, assuming that the rules are amended so as to render the Registrars' or arbitrators' finding an "award" as understood in sections 525 and 526 of the Civil Procedure Code. Presumably the Civil Court will proceed to pass a decree in accordance with the terms of the award. The aggrieved party will then have an opportunity of bringing the matter before an appellate court, and the execution of the decree must be postponed till that court has decided the appeal. The *Panchayat* of the Society will perforce employ a representative in the court of first instance, and in the appellate court. The appeal having been dismissed, application must be made for execution of decree, and then the real difficulty will begin. In the daily papers I read recently an article on the administration of Civil Justice in the Punjab, and gathered that His Honour the Licutenant-Governor had animadverted on the fact that of amounts decreed, 24 per cent. only had been recovered in execution during the year. I am not in a position to verify the truth of the statement made in the *Pioneer*, but it is a notorious fact that, difficult though it may be to obtain a decree, the difficulty is small compared with that of obtaining the amount of the decree in execution.

6. We are then face to face with three very serious difficulties. First, the expense of obtaining and executing a decree in the Civil Court-second, the trouble to which the Panchayat must of necessity be put in attending the Civil Court,-and, third, the direct incentive to the naturally recusant to attempt escape from his lawful dues. As to the first, none of the smaller societies could afford to employ a pleader. The only source from which their out-of-pocket expenses can be drawn is the reserve fund. In a society with a capital of Rs. 500 that fund may increase at the rate of Rs. 12 to Rs. 15 a year. One civil suit, even a suit of the minor type adumbrated in the letter quoted in paragraph 3, would at once wipe out that reserve fund, and litigation is in any case not a legitimate charge on the fund. With regard to the second, nothing could more surely extinguish infant enthusiasm for co-operation than the necessity to attend the court in order to recover the sums justly due. No one, whom I know, would agree to serve on a Panchayat if the possibility were fairly set before him. As to the third difficulty, the agriculturist of these Provinces is a very decent specimen of his class, but litigation is tempting as a holiday pastime, and when there is a prospect of successful evasion, the temptation to refuse payment of just dues is strong. It is a temptation to which it is unfair to expose the indivi-The money-lender meets that temptation in ways which are not open to dual. the society. He charges high rates of interest on current account and in his bond enters still higher, so that a decree may mean to the debtor the payment of twice what he would have paid had he not been recusant. In cur societies the interest charged allows no margin for luxuries such as Civil Court litigation, In our societies the and the pronote represents the actual state of affairs as between society and member. The member has nothing to lose and may have everything to gain by a resort to the courts.

7. In the case of these Provinces there is a still more serious difficulty. Some 600 societies were registered before the receipt of the Government of India's letter referred to above. Their capital may amount to about 4 lakhs of rupees. That capital was subscribed on the assurance that recourse to the Civil Court would under no circumstances be possible, and I have no doubt whatever but that the subscribers were in the large majority of instances induced to make their subscription owing to the security which they realized was ensured by the rules. How is it possible now to go back upon promises then made on the authority of the local Government? Whatever may be decided with regard to the future, a breach of faith such as would result from amending the rules under which those societies applied for registration, can surely not be seriously urged or indeed seriously complicated. I can imagine nothing short of confiscation of the funds of the societies, which would be likely to do more harm to the nascent interest in and enthusiasm for the movement.

8. Between October 1905 when the rules were passed and the present time I have had only two reports asking for enquiry into and decision of disputes. These were both from an outlying Bank in the Rae Bareli district. In both I called upon the parties to nominate arbitrators. Directly the defaulters received the notice, they made arrangements to satisfy the claims, one himself paying up, while the sureties paid up for the second. The members were then expelled by the society. This happened in May last. With this solitary exception it has never been necessary to take any action. In two other cases I have heard that the threat of a report under the rules has resulted in instant payment. From these facts it seems obvious that the existence of the rules prevents any necessity for their enforcement.

CAMP BUDAUN ; The and September 1906. J. HOPE SIMPSON, Registrar, Co-operative Credit Societies, United Provinces.

### NOTE.

I am against the proposal to recover the dues of credit socicties through the agency of the revenue staff. It appears to me that, if a member defaults in paying money due by him but does not dispute the claim, it will be straining the wording of section 27(2)(p), to call it neverthelesss a dispute for the purpose of taking the matter out of the jurisdiction of the Civil Court and getting the money collected through executive action.

2. But independently of the legal question, I am against the proposal for several reasons. Firstly, no case has been made out for according exceptional treatment to our societies in this matter. We are all agreed that our members are, on the whole, satisfactory and punctual and that they give no trouble. That should, I think, be a reason for leaving them alone. I deprecate the provision of a special remedy of doubtful legality to meet a difficulty which has not arisen.

3. Secondly, as pointed out in the Bengal annual report, the proposal, if allowed, will encourage carelessness. I have had numerous instances myself confirming this view. In the case of almost every society I start, one of the first things I am asked by the organisers is, what is to be done if a member defaults, and when I say that they must go to the Civil Court, the invariable reply is that, *in that case*, they must be very careful in taking in members and issuing loans. In the case of one rural society, where there was a complaint by some people who appeared to me to be well-to-do that they could not get admission, the managing body told me, when asked, that they could not take the men in, as, though well-to-do, they had a reputation for being litigious, but that if I could promise to get the monies they (the complainants) might borrow, collected through the Tahsildar, they (the managing body) had no objection to take them in.

4. Thirdly, we are all agreed that, at present, there is no friction—worth mentioning—between credit societies and other lending organisations or individuals. If, however, the dues of credit societies begin to be collected through the Government executive agency, other lending institutions may feel a sense of injury and may combine and begin to oppose the movement. We shall probably be creating an opposition which does not now exist.

5. Fourthly, I do not think that the administration of Civil Justice is so inefficacious and dilatory that a special procedure must be provided for the protection of credit societies. I am speaking of course 'solely of Madras. If the administration of Civil Justice is defective anywhere, the proper course is, I submit, to mend it in the interests of all people including credit societies, not to provide a short-cut to one class of lenders.

6. And even to the societies themselves, will it do any good in the long run to familiarise them with the idea that, when they get into trouble, the Registrar will step in and collect their dues for them? A stimulus like that will, I admit, enable us to start a large number of societies, but I fear that it will eventually poison the whole movement, and it will certainly not conduce to the fostering of that self-help which it is the object of the Act to encourage.

7. The co-operative movement—to be teally successful—must be non-official. Notwithstanding all our efforts to the contrary, the movement is, I fear, getting officialised. What with Government supervision, free audit, provision for dissolution by executive action, exemption from stamp duties and registration fees, exemption from income tax, and Government loans—carrying either no interest or interest at far below market rates—it is sometimes found difficult to bring home to managing bodies and to members of societies that the banks are theirs, not ours, and that if they shipwreck, the loss will fall on them and not on Govemment. If we add to the favours already conferred, the privilege of getting the monies due by defaulters collected through the agency of the revenue department, I fear that the task of making our societies realise their responsibilities will become a very difficult one.

8. I believe that the idea in starting the first batch of societies is to start institutions which are to serve as models for people to copy. If this be so,

it is obviously necessary that the types held out for imitation should be genuinely co-operative and self-reliant. How can institutions which are largely subsidised by Government and whose dues Government officers undertake to collect be people's banks?

9. As already stated by me elsewhere, we have had in Madras till now one civil suit. It was filed by a rural bank against a defaulting member for, I believe, Rs. 50. A decree was obtained without any trouble and application had been made for execution when I was last in the village. We have now over 35 societies in Madras, of which not less than 25 are rural cash societies. Most of the villages where the rural societies are working are far away from the Munsiff's Courts, but it has not been suggested by a single society that it should be exempted from having to go to the Civil Court to collect the monies due to it. Nor has there been a single case in which my help was asked in the matter of collection.

### P. RAJAGOPALA, CHARRIAR,

The 28th September 1906.

SIMLA ;

Registrar, Co-operative Credit Societies, Madras.

### No. 3798, dated Bombay Castle, the 19th April 1906.

### From-R. P. BARROW, Esq, I.C.S., Secretary to the Government of Bombay, Revenue Department,

To-The Secretary to the Government of India, Department of Revenue and Agriculture.

I am directed to draw attention to the inconvenience which may occasionally arise from the wording of Section 3 (1) (a) of Act X of 1904 which requires that the members of a village Co-operative Society should be residents of the same village, or group of villages. A case in point has lately arisen. The honorary organizer in the Khandesh District being desirous of forming a society in the village of Velda proposed to become one of the members of the Society, and to contribute the greater part of the capital required, but found that he was ineligible for membership since, although owning landed property in the village, he did not reside in it.

2. In this particular instance Government exercised their powers under Section 29(1) of the Act, and issued special orders enabling persons owning landed property in the village and occasionally visiting the village in connection with the management of their property to become members of the Society. The difficulty could not have been got over by the exercise of the discretion vested in the Registrar by the Act; for however wide his discretion may be, it clearly could not authorise him to declare a person who did not reside in the village to be a resident in it.

3. It would be possible to deal with other cases presenting the same difficulty by special action under Section 29 (1) of the Act, but it is unreasonable that a land-owner should be hindered by law from helping to start and maintain a Co-operative Society in what may be his native village, mercly because he happens to reside usually in another village; the assistance of men who have means and the will to assist is, indeed, much wanted in the formation of village Societies. I am, accordingly, to suggest for the consideration of the Government of India the modification of the wording of Section 3 (1) (a) at the carliest opportunity by the insertion of the words "or holding immoveable property" between the words "residing" and "in".

No. 712, dated Simla, the 11th May 1906.

From-L. ROBERTSON, Esq., I.C.S., Under Secretary to the Government of India, Department of Revenue and Agriculture,

To-The Secretary to the Government of Bombay, Revenue Department.

I am directed to acknowledge the receipt of your letter No. 3798, dated the 19th ultimo; in which it is suggested that Section 3 (1) of the Co-operative Credit Societies Act, 1904 (X of 1904) should be so amended as to allow the admission into a society of a person possessing landed property but not actually residing in the village, or group of villages, in which the society is formed.

2. In reply I am to say that the matter will be taken into consideration by the Government of India when the Act comes under amendment. No. 12.

### No. 7554, dated Bombay Castle, the 8th August 1906.

From-R. P. BARROW, Esq., I.C.S., Secretary to the Government of Bombay, Revenue Department,

### To-The Secretary to the Government of India, Department of Revenue and Agriculture.

I am directed to submit, for the consideration of the Government of India, a copy of a letter from the Registrar, Co-operative Credit Societies, No. 457, dated 23rd May 1906, regarding the proposed amendment of section 10 (1) of the Co-operative Credit Societies Act (X of 1904) so as to empower an urban society to lend money to another urban society with the consent of the Registrar. In framing Section 10 (1) of the Act the principle of permitting rural societies to borrow from societies which have obtained from the Registrar permission to lend to others has been admitted, and the Governor in Council is unable to see any reason why the same principle should not be extended to urban societies. He accordingly supports the suggestion of the Registrar that Section 10 (1) of the Act should be amended by the substitution of the word "another" for "a rural". Urban societies which have been constituted partly to provide cheap credit to some of the members and partly to afford facilities for the investment of other members' savings will cheerfully lend money to small societies, whether urban or rural, if they are satisfied that they are properly managed. It will be observed that the small urban societies find their operations restricted by inability to borrow from an urban society ready to lend to them on moderate interest and duly approved by the Registrar. The Governor in Council accordingly suggests that the requisite legislation may be undertaken as early as convenient.

No. 457, dated Camp Belgaum, the 23rd May 1906.

From-J. MCNEILL, Esq., I.C.S., Registrar, Co-operative Credit Societies, Bombay Presidency,

To-The Under Secretary to the Government of Bombay, Revenue Department.

I have the honour to request you to kindly move Government to consider the desirability of addressing the Government of India regarding the amendment of Section 10(1) of the Co-operative Credit Societies Act (X of 1904).

2. This sub-section authorizes societies to lend money (a) to members, and (b) with the Registrar's consent to *rural* societies. I think that societies should be empowered to lend money to either rural or urban societies.

An urban society as defined by section 3 (2) of the Act may have fewer members than many rural societies and its commercial credit may be low in the eyes of the general public. The majority of the members may be poor artisans, and the more members of this kind it can attract and retain the more beneficial will be its operations. Small urban societies especially if organised on the basis of limited liability cannot readily borrow from outside sources the capital which they require. Larger urban co-operative societies which are as much concerned with finding suitable investments for subscribed share capital, deposits, etc., as with lending money to members, may lend money to urban societies as profitably as to rural societies.

One of the great obstacles to the organization and later to the working of small societies is the difficulty of obtaining capital. A society which raises Rs. 2,000 by receiving deposits from or issuing shares to members and by borrowing from Government usually finds that the ordinary requirements of the members necessitate the employment of a capital of Rs. 4,000 to Rs. 5,000. Until that sum can be raised some of the needy members cannot receive loans, or supplementary loans must be obtained from money-lenders. Many years must elapse before the additional capital can be accumulated out of profits and before the investing public regard loans to such societies as attractive investments. But urban societies which have been constituted partly to provide cheap

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credit to some of the members and partly to afford facilities for the investment of other members' savings will cheerfully lend money to small societies, whether rural or urban, if satisfied that the latter are properly managed. You are aware that a society has been formed in Bombay solely with the object of supplying capital to small societies. Though the motive in this case is philanthropic and not commercial, it seems undesirable that this or any other co operative society which wishes to advance capital to small societies, should be debarred from doing so by an artificial restriction. Both large and small urban societies suffer, while the advantage of retaining the restriction or the disadvantages resulting from its removal are, it is suggested, equally unreal.

As instances of the injuriousness of the restriction I will cite the cases of two urban societies, Gadag in the Dharwar District and Kankavali Math in Ratnagiri. Both are primarily intended to benefit artisans, especially weavers. The former wishes to borrow from the Bombay Urban Society Limited but has been informed that this is impossible. The other society has only recently been organised in a poor locality and will find want of a capital its principal difficulty. If the Act were amended by the substitution of the word "another" for "a rural" in the proviso to section 10 (1) the difficulty would cease.

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Act X of 1904 does not provide, at any rate explicitly, for the registration of co-operative credit societies which have been already registered under the Indian Companies' Act. Long before Indian Act X of 1904 was enacted, co-operative credit institutions called "Nidhis" had sprung up in the Madras Presidency; and notwithstanding many failures, they have done good work. That is the opinion of all competent authorities. A "Nidhi" is essentially a co-operative credit society. It does not lend except to members. Its organisation is in some respects narrow and unsuitable to agriculturists, as it enforces a share capital, which has to be paid up in monthly instalments over a period of 45 or 84 months. But the organisation has been found by experience to be suitable for artisans and men of small means in towns, men who get some monthly income.

The great advantage of the Nidhi organisation is that it enforces thrift, as no person can join a 'Nidhi' unless he is prepared to take up one or more shares and to contribute to the share capital month after month; and the amount a member can borrow is proportionate to the shares he takes up. That the 'Nidhi' model is particularly suitable to the people in towns is evident from the fact that, notwithstanding many failures, we have still a large number of 'Nidhis'—several of them doing very good work—and the people are so partial to this form of co-operation that more than one co-operative credit society (registered by me under India Act X of 1904) follows the Nidhi model.

2. After the enactment of India Act X of 1904, several 'Nidhis' applied for registration under it. They wanted administrative supervision and free government audit and nothing more. They did not want any Government money, nor did they ask for any adventitious advantage such as getting their dues recovered without going to the Civil Courts. The question went up before the Madras Government—informally—and they thought that for the time being the 'Nidhis' had better be left alone. I have reason to believe that legal difficulties were in the way and it was not considered expedient to raise difficult legal questions at the very outset of operations.

3. The question if any 'Nidhi' should be registered under the Act and if so under what conditions is of course purely a Madras question, as I believe that no such institutions exist elsewhere. But I think that the Act should be amended so as to give power to the Local Government to register—if they think fit—any organisation which may appear to them to be substantially a co-operative credit society, even though such an organisation has been already registered under the Indian Companies' Act. Even though Section 29 of India Act X of 1904 gives wide powers to the Local Government to register any association of not less than 10 persons, etc., I hardly think that the legislature could have contemplated the incorporation for a second time of an association already incorporated under the Indian Companies' Act.

"30. It shall be competent to the Local Government to register, by special order in any case, any association already registered under the Indian Companies' Act, provided that the application for such registration is made by not less than 75 per cent. of the members of such association. An association originally registered under the Indian Companies' Act and subsequently registered under the Indian Companies' Act and subsequently registered under this section, shall cease to be governed by the provisions of the former enactment and shall be governed by the provisions of this Act with effect from the date of such second registration ".

> P. RAJAGOPALA CHARRIAR, Registrar, Co-operative Credit Societies, Madras.

No. 14.

Note on productive and distributive co-operative societies.

Act X of 1904 does not appear to contemplate the registration of any co-operative societies except credit societies. It is, however, found difficult to veto all but purely credit societies. We have in Madras a co-operative productive society of weavers and three distributive societies. Three of the above four societies were registered by me under section 6 of the Act and the remaining one by the Local Government under section 29 of the Act. The Local Government have approved of all the four societies. Would it not be well to amend Act X of 1904 so as to cover forms of co-operation besides that pertaining to pure credit?

> P. RAJAGOPALA CHARRIAR, Registrar, Co-operative Credit Societies, Madras.

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Head V (J).

### Note on some anomalous and difficult provisions of the Co-operative Credit Societies Act, 1904 (No. X of 1904).

1. In considering the Act in its application to and influence on the movement, it is well to bear in mind that the expressed intention of the Government of India was to prevent, in as far as possible, any hampering of the natural growth of the co-operative movement owing to unnecessarily strict legislation. The Act was purposely framed on as broad a basis as might be, and the maximum latitude given to Local Governments to legislate by rule;--and to the Registrars.

2. The first point which seems to demand consideration is the provision contained in section 3 (2). This clearly rules out any mixed society in which more than 1.5th and less than 4.5ths of the members belong to one of the two classes. One of the best results of the co-operative movement will prove to be the function performed by societies as channels through which the surplus capital of the towns will ultimately flow towards the agriculturist. For this purpose the best of all types of institution is the Luzzatti Bank. It combines all that is best in co-operation—encouragement of thrift, provision of capital for the necessitous, identity of interest of borrower and lender, and, through its system of "loans on honour," the most effective form of charity.

Under the Act as at present in force such a bank can only exist within the limits of a town. It would naturally expand first to the cultivating classes resident in the town and then to those in its immediate vicinity. Such expansion is entirely prevented by the section under consideration. As soon as the agriculturist members increased in numbers beyond one-fifth of the total number on the roll, the society as a registered co-operative credit society would cease to exist. It is a matter for regret that the Act should in any way interfere with natural expansion of the movement, and the necessity for the distinction between rural and urban societies, and for the difference in their treatment (e.g., sections 7, 8, 10) is not convincing.

It is true that the provisions of section 3 (2) can be rendered nugatory by an order under section 29 of the Act. Section 29, however, appears to be a provision to which recourse should only be had under very exceptional circumstances, and it would be a mistake to ask for such orders except on rare and unavoidable occasions.

I consider that it would be in the best interests of co-operation that the distinction drawn in section 3 (2) should be dispensed with.

3. The next point of great importance is to be found in section 8. That section lays down that no profits shall be divided among the members of a rural society except under certain conditions specified in the provisions to clause (1). The word "profits" is nowhere defined in the Act, but, interpreting the word in its usual significance, the clause undoubtedly prevents the declara-tion of a dividend by a rural society. That fact at once prevents the likelihood, (save in peculiar cases of extreme rarity) of the formation of rural societies on a share capital basis. I am aware of the argument from German experience, but India is not Germany, and it is little short of a calamity that rural societies should be utterly dependent for their funds on temporary loans and deposits. It may be taken as certain that the whole of the deposits, and as much of the loan capital as happened to fall in, would be removed from the society in a year of scarcity—the year of all others in which it is desirable to increase the capital to its utmost extent. The chief asset of every co-operative society is, admittedly, and of course, the honesty and credit of its members. In a year of scarcity the latter would be enormously contracted and the financier would be more likely to look with a favourable eye on the security afforded by the existence of share capital, than upon the honesty of a number of needy cultivators, whose endeavours would be almost entirely confined to the struggle to keep life in themselves and their household. The argument against share capital in rural banks does not appear to have been sufficiently formidable to prevent the Simla committee of 1901 from recording their mature opinion that there exists no reason why a society originally founded on a loaned capital basis should not eventually be converted into one whose basis is share capital.

The chief advantage attaching to rural banks on a share capital basis is the stability given to the institution and the extra incitement to careful management. An attempt has been made, in these Provinces, to create pseudo-share capital by means of fixed periodical deposits. These are calculated either on the number of ploughs held, or on the rent paid by the member, and are a compulsory condition of membership. The deposits are fixed in the first instance for a term of five years, and carry interest at 61 per cent. It would be infinitely preferable that they should be—not deposits—but instalments paid towards the ultimate purchase of a share.

I would amend section 8 (1) by removing it from the Act altogether, and amend clause (2) of the section so as to read "a society" in place of "an urban society." I would also include a definition of the word "profits" in section 2.

4. The proviso to section 12 includes the words "nominal value." In my notes to the Act I have included a quotation from Lindley on the law of companies and have argued that where a capital of guarantee is created by a contract that not more than a certain sum shall be called up except in the case of liquidation, that sum represents the "nominal value" of a share for purposes of the proviso. I believe that interpretation to be legally correct. It is certainly in accordance with common sense. The matter should however be made perfectly clear by the inclusion in section 2 of a definition of the words "nominal value."

A similar difficulty exists owing to the absence from the act of any definition of the word "capital." The point is considered in my note to section 15 in which the argument points to the conclusion that capital includes shares (whether preference, cumulative or other) and debentures, but not deposits. It would of course give considerable stimulus to deposits if they could be considered a portion of the capital, and so exempted under section 15 from attachment. An erroneous statement of mine on the point led to considerable deposits on the part of a contractor of somewhat questionable reputation in one of the carlier banks. There is much to be said in favour of inclusion of deposits in "capital" for the purposes of section 15, but this is clearly not contemplated by the Act, and if it were, might lead to extensive and fraudulent deposits with the object of defeating legitimate creditors. It would be well if the word "capital" were to be defined in section 2.

The provision of section 12 that no members' interest in the capital of the society shall exceed one-fifth of the total capital is an excellent one, and in the case of the Moradabad District Bank certainly prevented the management falling into the hands of a wealthy money lending clique.

5. Cases have arisen in which the procedure proposed in my notes to section 16 has been unpopular. Many, especially among Musalmans, object to recording the name of their heirs, owing to the probability of antemortal litigation. In such cases matters have been compromised by entering the word "waris" (heir) in the appropriate column, and in case of the member's death an enquiry (as proposed in note I) will prove necessary.

6. Section 19, clause (b), is in certain cases anomalous in its results. For instance, a society makes an advance from which a *julaha* member purchases cotton thread in order to weave cloth. The *julaha* at once weaves the thread, and the society is then powerless to recover its loan by seizure of the manufactured article. It seems very doubtful whether this position can have been contemplated when the Act was originally drafted, and amendment appears necessary, in order to make manufactured articles in such cases, liable for the advance made for the purchase of the raw material from which they were prepared.

The society has presumably no power of distraint. It would L think be a good thing if this power were to be granted. It is unlikely that the power would be abused, as all members would be liable to suffer equally were distraints commonly effected. The concluding sentence of my note 2 to this section is wrong. No rule made under the Act can override the express provision of section 19 as to the prior lien on a crop for the rent of the land on which it is grown. The rules under section 27 (2) (p) will thus in any case need amendment to provide that recovery shall be made subject to the prior lien on account of rent.

7. It is improbable that the provisions of section 24 will in the near future give rise to difficulty, but it is well to provide against the possibility. An authoritative judicial ruling as to the meaning of this section would be a serious item in the liquidation expenses of a society. The question is whether the fact that a liquidator's investigation under clause (2) (e) has been made, *ipso facto* prevents the civil court from adjudicating on that claim. Does the liquidator's finding amount to an "award" for the purposes of sections 525 and 526 of the Civil Procedure Code? If the Act is amended this point might be made clear.

LUCKNOW: The 7th September 1906. J. HOPE SIMPSON, Registrar, Co-operative Credit Societies, United Provinces.

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No. 16.

#### Note on the amendment of section 8 (1) of Act X of 1904.

1. In paragraph 10 of Resolution No. 1-63-3, dated 29th April 1904, the two cardinal objects kept in view in framing the Act were declared to be simplicity and elasticity. The aim was to lay down general outlines and to leave the details to be filled in gradually on lines which experience gained by experiment might indicate. It seems to us that section 8 (1) is in conflict with this aim inasmuch as this section renders the formation of rural societies on a share basis extremely difficult if not impossible, owing to the fact that no dividend can be paid for a considerable period and people are not likely to consent to lock up their capital for indefinite periods without return. We admit that unlimited liability should be the almost invariable rule in rural societies, but we do not consider that this condition is incompatible with the constitution of these societies on a share basis, as is shown by the fact that in Madras there are several societies registered on the basis of unlimited liability with share capital. We do not consider that there is anything in this class of society which offends against the principles of co-operation; and we would therefore urge that it should have a fair trial.

2. Some advantages of the share capital system are :---

- (i) It provides a field for permanent investment for the small cultivator and thus conduces to thrift.
- (2) The share capital is a tangible asset, and, in our opinion, is more likely to attract outside capital than the security offered by the condition of unlimited liability alone—a security the value of which can only be ascertained by inquiry, and which cannot be casily or speedily realised, and from the point of view of the investor a society with share capital and unlimited liability, must be a safer institution to which to lend than one without share capital. When the members of a society have paid up a sum as share capital the capitalist will have less hesitation in advancing loans than he would have if no money had been paid in.
- (3) In years of scarcity the share capital remains as an asset, while deposits will be withdrawn and the security offered by unlimited liability alone would decrease in value owing to the depreciation in the value of the member's property especially of that part of it which could be most easily realised, *i.e.*, moveable property.
- (4) In the case of societies having paid-up share capital any loss will fall in the first instance on that capital, but where there is no such share capital a part of the property secured by the condition of unlimited liability must be realised to make good the loss. It would be a most difficult business to carry this out in practice, and owing to the difficulties involved in calling up funds to meet it a small initial loss, too small to really affect the stability of the society, might yet discourage the members and wreck the society.
- (5) Share capital is really a reserve in itself whether any portion of it be formally credited to a reserve fund or not.
- (6) Share capital is, under section 15, not liable to attachment or sale under any decree or order of a Court of Justice. Deposits do not share in this exemption. A society with share capital can thus reckon on greater stability as its funds are not liable to calls from outside.

3. Having regard to these advantages and seeing that interest is allowed on deposits by members we see no reason why a dividend on share capital should not be allowed. We would guard against any tendency towards mere profit making by allowing such a dividend only when the Registrar is satisfied that the reserve fund is being built up at a satisfactory rate and subject to the following provisions which should be laid down either by by-laws or by rules made under the Act :--

- (1) That dividends be only paid out of profits.
- (2) That a proportion of the annual profits, to be fixed by the Registrar and which shall in no case be less than 25 per cent., be transferred to the reserve fund before a dividend is declared.
- (3) That a certain proportion of the paid up capital, say 15 per cent., be paid into the reserve fund at the start.

We believe that these provisions will be sufficient to guard against any tendency on the part of the society towards mere profit making as opposed to the principles of co-operation.

4. We are aware that it is possible to interpret the law so as to render the provisions of section  $\mathcal{S}(\mathbf{r})$  practically inoperative, but it seems to us that this section was framed in accordance with a distinct policy that profit sharing should not be allowed or at any rate encouraged. And it is this policy which we should like to see modified under proper restrictions. Until this is done we do not think it would be proper to take advantage of a possible interpretation of the section to allow conditions to arise which were certainly not contemplated when the Act was framed.

5. When profit sharing is allowed in urban societies we do not see why it should not be allowed in rural societies, though not necessarily to the same extent, when those societies are constituted on the same basis, and seeing that the conditions of financial stability are the same in both cases.

6. We are fully in accord with the principle that simplicity and elasticity are the two main objects to be kept in view, and we therefore urge that no form of society should be neglected, as long as it offers some prospects of success and does not offend against the cardinal principles of co-operation.

7. The law would appear to exclude the formation of societies on the Luzzatti model and we submit that this model is at least worthy of a trial.

While we are ready to avail ourselves of the valuable experience gained by the working of societies on the Raffeisen system, we are not prepared to admit that that system is necessarily the best for India, or necessarily to adopt any system or part of a system however successful elsewhere.

8. The amendment we would propose is :---

- Section 8 (1). Omit the words "dividend or "; add a second proviso as follows :----
  - "Provided also that dividends may be paid to members of rural societies with share capital to such extent and under such conditions as may be provided by the by-laws or rules made under this Act."

P. RAJAGOPALA CHARRIAR.

#### M. SHAMA RAO.

#### L. E. P. GASKIN.

#### J. P. THOMPSON.

#### J. HOPE SIMPSON.

#### Minute of dissent.

1. I would amend the above proposals by substituting  $\frac{1}{3}$  for 25 per centin paragraph 3 (2) and by omitting paragraph 3 (3).

2. I would substitute the words "as it now stands makes difficult" for words "would appear to exclude " in paragraph 7.

P. RAJAGOPALA CHARRIAR.

#### No. 17.

#### Report giving reasons against the proposed amendment of section 8 (1) of Cooperative Credit Societies Act.

We consider the amendment unnecessary as the proviso to the section appears to permit a society to distribute profits. In our opinion, if the circumstances of any province or locality render it desirable to encourage the formation of rural societies on a share basis, the proviso to the section meets the need, and we would so interpret it rather than amend the section, and so encourage the adoption of a policy which is opposed to the declared policy of the Government of India.

While we consider that the object in view may be attained without amending the Act, we are at the same time of opinion that the organisation of rural societies on a share basis should not be encouraged in our provinces. The arguments adduced in Mr. Hope Simpson's note in favour of the dividend-paying rural society on the share basis are :-- (1) the additional credit due to the existence of share capital, and (2) the stability given to the society and the incitement to more careful management. As regards the first point, the amount of share capital subscribed in a rural society must necessarily be very small in proportion to the total credit of the members and to the aggregate amount of their borrowings. The existence of such share capital would not afford to a capitalist more valuable security than the existence of funds subscribed as long term deposits. Though the payment of a dividend on shares appears to be practically identical with the payment of interest at a fixed rate on deposits, there is, in our opinion, a wide difference. The payment of a dividend on share capital is inimical to the reasonably speedy growth of the reserve fund and to the gradual reduction of the rate of interest on loans to members. Depositors, who obtain the lowest reasonable rate of interest on funds subscribed, are not likely to agitate for an increase in that rate, while shareholders will endeavour to restrict to the legal minimum the amount transferred to the reserve fund. We regard the reserve fund as the best tangible asset to attract capitalists and lay the greatest stress on the necessity of its speedy development. If dividends are paid out of profits the difficulty of forecasting the value of the reserve fund at a future period is greatly enhanced and a larger element of uncertainty regarding the future progress of the society is introduced. For the reasons above stated we claim that the assurance of the rapid and regular growth of a strong reserve fund, together with the existence of capital received as long term deposits, is a more valuable asset than the existence of share capital backed by the uncertain growth of an attenuated reserve fund. If disastrous seasons are experienced in a society's infancy, its position is the same whether it is organised on a share or a non-share basis.

We deny that a society organised on a share basis has any special element of stability or that the management will be more careful. If, however, the management is more careful the cause will be the development in the minds of the managers of an objectionable spirit of profit making.

J. MCNEILL.

L. COBDEN-RAMSAY.

K. C. DE.

No. 18.

#### Note on the Co-operative Credit year.

Under the orders of the Government of India the annual report on the working of the Co-operative Credit Societies Act has to be submitted to the various Local Governments by their Registrars, by the 1st of June for the annual period ending on the previous 31st March. The latter date is inappropriate for the closing of accounts of societies in these Provinces, as repayments are largely made after the reaping of the *rabi* harvest in May. On 31st March in the better managed societies practically the whole of the capital is outstanding, and interest on loans which fall due in May or June has to be calculated up to 31st March and shown as outstanding. Were the date altered to 31st May, the societies would be able to make a satisfactory return of their year's working. Loans then outstanding would either be actual arrears, or loans which were being repaid by instalments. Interest shown as outstanding would actually be interest unpaid when it fell due, and it would be possible to judge with fair accuracy which individual societies are slack in repayment of capital and in payment of interest. The task of the accountant would be reduced to a minimum, as there would be no necessity to calculate interest, except in the few exceptional cases in which it had not been paid up to date. If the annual accounts of co-operative societies were made up on 31st May, the Registrar would be able to submit his report to the Local Government on the 1st August and it would then reach the Government of India by the 1st October. If the annual meeting of the Registrars were fixed for September, it should be possible for each Registrar to circulate advance copies of his report in August. The information in the hands of the conference would then be for the last complete year. My report, under the present arrangement is for an entirely arbitrary term, commencing on 1st April, when the loans for the *rabi* are outstanding and ending on 31st March when they are again outstanding. I can see no valid reason against the proposed change in the date. There is no reason why the co-operative credit year should coincide with the financial, revenue, or other years.

#### J. HOPE SIMPSON,

Registrar, Co-operative Credit Societies,

United Provinces.

20th August 1906.

No. 19.

Report of the Sub-Committee on the Form of Annual Report and Statements.

- i.—The Sub-Committee unanimously recommends the adoption of the appended forms of statement for submission by the Government of India to the Secretary of State.
- ii.—Statements in the same form will be appended to the Provincial Reports, the statistics being compiled for divisions, districts, or individual societies as may seem most suitable in each case.
- iii.—The third point suggested for our consideration is answered in (ii) above.
- iv.—We submit a conspectus giving the main headings under which information might be suitably supplied.

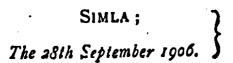
v.—We think it inadvisable to suggest uniform forms of statement to be submitted by societies to Registrars.

J. MCNEILL.

L. ROBERTSON.

L. COBDEN-RAMSAY.

P. RAJAGOPALA CHARRIAR.



#### 1,-Administrative and Tours. 11 -- Societies-(a) Central Increase, (b) Urban Decrease. (c) Rural III .- Working of Societies-(a) Central 1. Special types, e.g., tribal, caste, etc. 2. Capital raised. (b) Urban. 3. Deposits by members. (c) Rural 4. Loans.-1. Number. 2. Amount. 3. Period. 4. Purposes. 5. Security. 6. Rate of interest. 7. Repayment of loans. 8. Action taken against defaulters. 5. Class of business done by each type of society, e.g., store, seed, etc. 6. Working methods. For productive and distributive societies. 7. Volume of business dene. 8. Grain banks. 9. Custody of funds. IV .- Reserve Fund. V.-Audit and Inspection. V.-Audit and Inspection. VI.-Resources :-Government loans, other sources of capital, access to general money market, etc. VII.-Work done by Supervisors, Committee, Officers and Members. VIII.-Disputes, litigation. IX -Acts, Rules, and By-laws. X .- Attitude of the public, assistance received, official and non-official.

#### Main Headings of Report on Co-operative Credit Societies.

#### STATEMENT I-A.

### GENERAL PROGRESS.

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#### Central Societies (lending to other Societies only).

		NUMBER OF	Societies.	NUMBER OF	MEMBERS,	
Province.	Kind of Society.	At the beginning of the year.	At the end of the year.	At the beginning of the year.	At the end of the year.	REMARKS.
	Cash {Limited liability Unlimited liability Productive {Limited liability Unlimited liability Distributive {Limited liability Unlimited liability					

### STATEMENT I-B.

### GENERAL PROGRESS.

#### Urban Societies.

			NUMBER OF	Societies.	NUMBER OF	MEMBERS.	·
Province.		Kind of Society.	At the beginning of the year.	At the end of the year.	At the beginning of the year.	• At the end of the year.	Remarks.
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#### STATEMENT'I-C.

#### GENERAL PROGRESS.

#### Rural Societies.

		•	•	NUMBER OF	Societies.	NUMBER OF	MEMBERS,	
Fravince.		Kind of Society.		At the beginning of the year.	At the end of the year.	At the beginning of the year.	At the end of the year.	Remarks.
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	Kind of Society.	Opening balance,	Share payments.	Entrance fces.	Deposits by members.	LOAXS	FROM OTHER SO Other societies.	OURCES. Non-members	Loans repaid by members,	Loans repaid by other societies.	Interest received'.	Sale proceeds of stock.	Other income.		l			LOANS R	Other societies.	Non-merbers.	Loans to members.	Loans to other societies.	Interest paid on loans and de- posits.	Dividend and bonus paid.	Stock bought.	Establishment and contingencies.	Other items.	Carried to reserve.	• Total expenditure.	Closing balance.	Remar	
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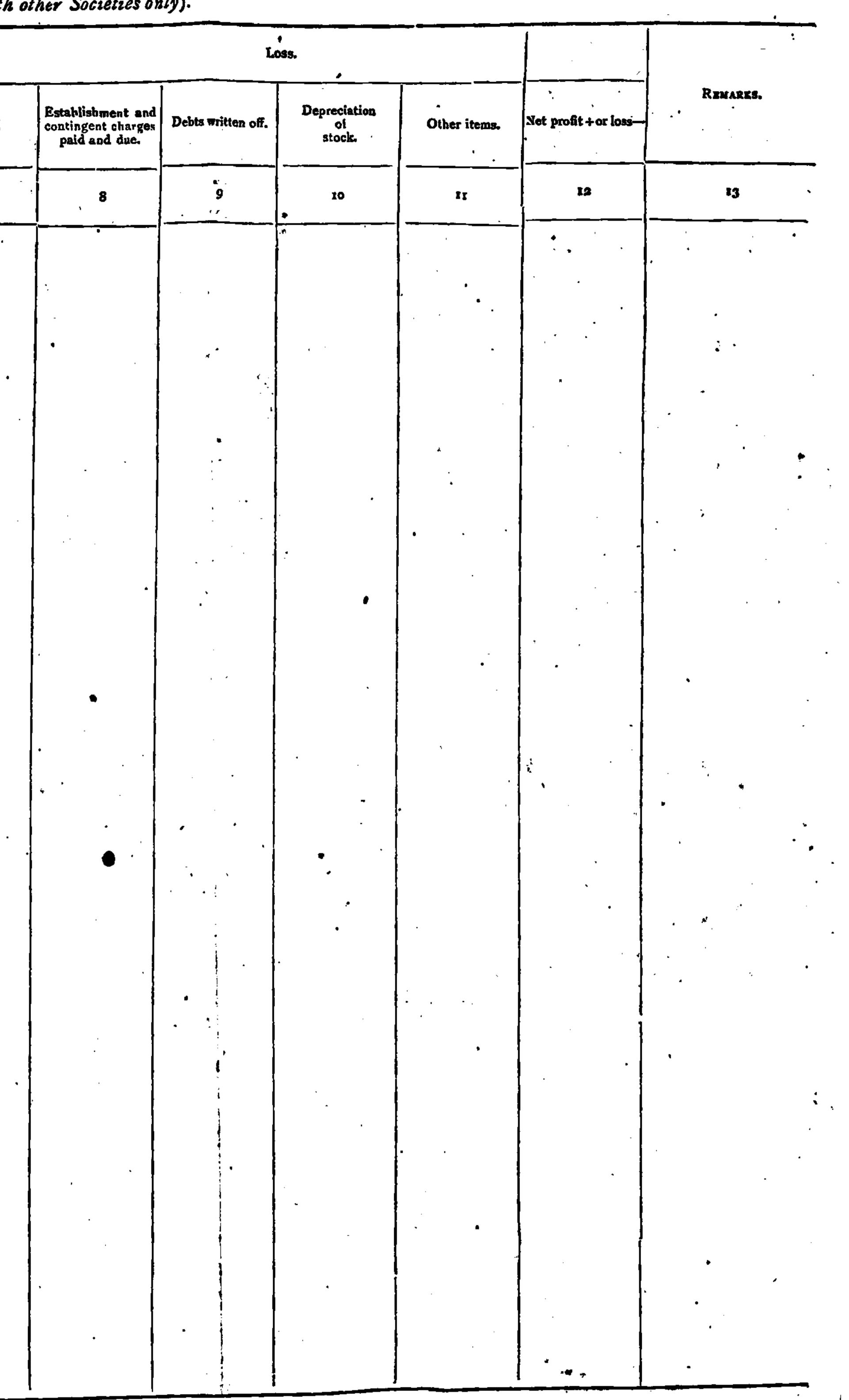
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# STATEMENT III-A.

## PROFIT AND LOSS ACCOUNT.

Central Societies (lending to or dealing with other Societies only).

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			PRO	OPIT.			•	Loss.		•	
Provinces	Kind of Society.	Interest earned.	Gross prefit on sales of stock.	Other items.	Total.	Interest paid and due.	Establishment and contingent charges paid and due.	Debts written off.	Depreciation of stock.	Other items.	Net profit + o
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# STATEMENT III-B.

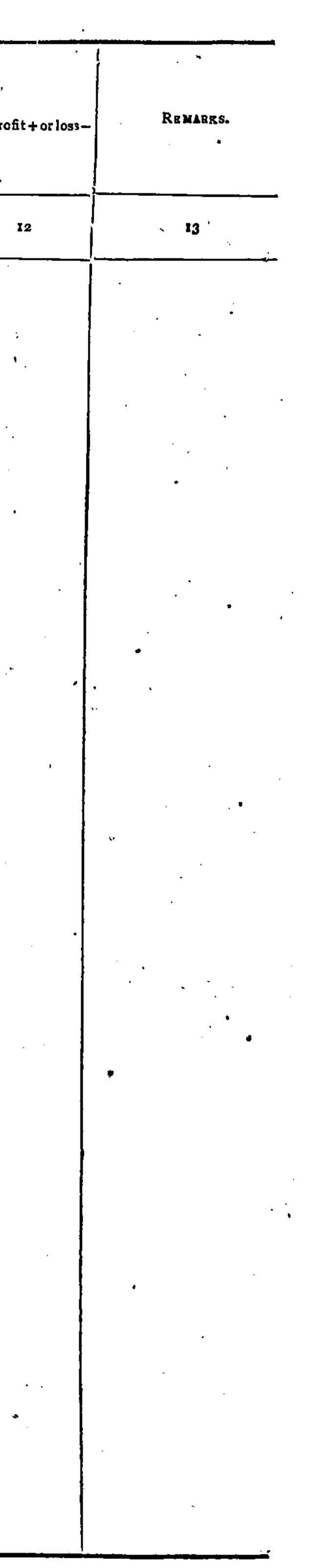
### PROFIT AND LOSS ACCOUNT

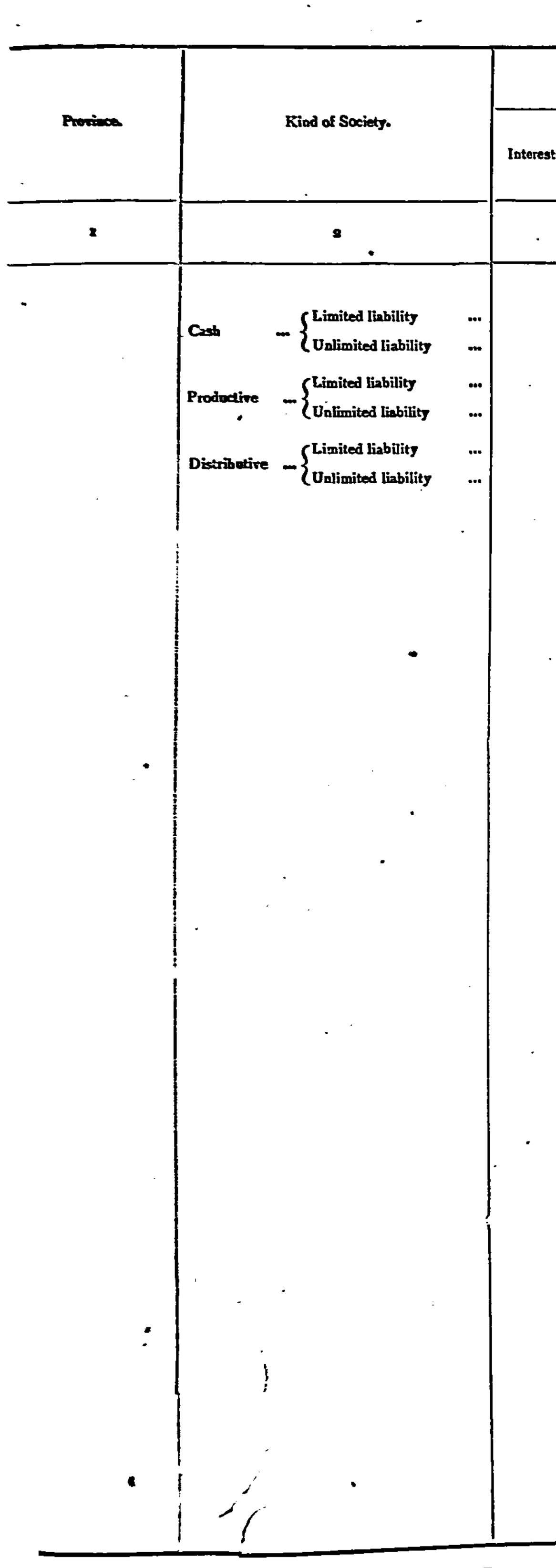
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Urban Societies.

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# STATEMENT III-C.

## PROFIT AND LOSS ACCOUNT.

Rural Societies.

	, Pro	FIT.	•			Loss.			
est earned.	Gross profit on sales of stock.	Other items.	Total.	Interest paid and due.	Establishment and contingent charges paid and due.	Debts written off.	Depreciation of stock.	Other items.	N
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Net profit + or loss---**Remarks.** • 13 12 • • ~ • . • -. • . + -• • • • .

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Provinces	Kind of Society.	Cash in hand and bank.	Loans due by members.	Loans due by other socie- ties.	Interest due on columns 4 and 5.	Value of stock in hand.	Other items.	Total assets.	Loans from non-members.	Loans from other socie- ties.	Interest due on loans in columns to and 11.	Loans from Government.	Interest due to Govern- ment.	Total of columns 10 to 14.	Share capital.	Deposits by members.	Interest due on members' deposits.	Dividends due to mem- bers.	Total due to members (columns 16 to 19).	Establishment and con- tingent charges.	Other items.	Total liabilities.	Profit + and loss	Reserve fund.	Remarks.
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STATEMENT IV-A.

# BALANCE SHEET AS AT\_\_\_\_.

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Central Societies (lending to or dealing with other Societies only).

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<b>Provinces</b>	Kind of Society.	Cash in hand and bank,
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	Cash Limited liability Unlimited liability Productive Limited liability Unlimited liability Distributive Limited liability	
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STATEMENT IV-B. BALANCE SHEET AS AT\_\_\_\_\_

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Urban Societies.

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.7	Value of stock in hand.	· · ·
	Other items.	
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9	Total assets.	
10	Loans from non-members.	
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Establishment and con- tingent charges.	Other items.	Total liabilities.	Proût + and loss	Reserve fund.	Remarks.
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STATEMENT IV-C.

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BALANCE SHEET AS AT\_\_\_\_\_. Rural Societies.

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#### No. 20.

#### Note on Annual Reports on the working of Act No. X of 1904.

1. A comparison of the annual reports of the various Provinces for the year 1905-06 discloses a somewhat wide range of opinion as to the details which it is requisite to record in those documents. In every Province except my own there is an attempt to give at least some statistical particulars of each of the societies at work. The number of statements appended to the report varies from one in Burma to nine in the United Provinces\* and the particulars included in those statements are by no means uniform. Burma is content with the irreducible minimum of statistical information. Eastern Bengal records the progress of each society since formation, the details of the objects and terms for which amounts were lent in 1905-06. The Punjab supplies balance sheets but no statements of assets and liabilities, Bengal has statement of assets and liabilities but no balance sheet for the year. Bombay supplies both statements, and very rightly completes its annual accounts with a profit and loss account. It also proceeds to supply detailed information as to the amount, period and object of loans. I instance the above not in any spirit of carping criticism, but simply to demonstrate the complete absence of uniformity in the various Provinces. It appears desirable that, while a certain amount of latitude is allowed to Registrars to record interesting information of any nature, some minimum standard should be laid down, so that results for the whole of India may on certain specified points prove capable of abstraction and compilation.

2. In fixing a minimum standard of information it must be borne in mind that the compilation of the simplest annual accounts is to many of the village accountants a matter of the greatest concern and difficulty. In my own Provinces it would be an impossibility to obtain from the societies' accountants particulars such as those recorded (e.g.) in the Bombay Report. Statements such as those therein contained could only be compiled either in my office, from account books sent in by the societies (which appears to me objectionable on principle), or by Inspectors detailed to visit the societies concerned and to compile the annual accounts for those societies. The latter course would be impossible, as in the month or five weeks between the close of the year and the date on which it is necessary to send the report to the press for printing, they would be entirely unable to visit all the societies in their circles. My personal sympathies lie with Mr. Hall's bold attempt to reduce statistics to an absolute minimum. I fear however that the Government of India may desire a trifle more statistical information than the Burma report affords.

3. There appear to be at least three statements necessary as appendices to the letter press of the annual report. These are :---

- 1. The annual balance sheet or statement of receipts and expenditure during the year.
- II. The statement of assets and liabilities as at the close of the year.
- III. The statement of profit and loss.

The first point for decision is the unit for which these statements should be submitted. It may have been noticed that in the case of village societies and seed societies I have taken the district as the unit, and in the case of Central and District Banks and of the solitary manufacturing society, the individual society's figures have been separately recorded. For Central Banks without share capital the returns, though separate for each institution, have been collected into a Provincial statement.

4. I would urge that separate record of the figures for each village society is unnecessary and inadvisable. It is unlikely in the extreme that in the case of individual small societies any comparison of the figures for one year will be made with the corresponding figures of the previous year, by any one except the Registrar of the Province. That comparison he will naturally make by taking out of his record room the statements of the previous year, at the time of receipt of the

<sup>\*</sup> At the time of writing this note I had not received the Madras Report.

current year's statements. The Local Government, the Government of India, and the few interested members of the public, are concerned more with the progress of the movement as a whole than with the progress, however remarkable, of any individual society, and it is for this audience of three that the report is prepared. The adoption of the district as a unit is admissible, as it enables the most casual examiner to form a conclusion as to the portion of the Province where expansion is rapid and consequently conditions pre-disposing to ultimate success most pronounced. Apart from this the figures for individual societies being of purely parochial interest, it is a waste of energy and of paper to record them at length in a provincial report. If expansion proceeds with the rapidity which is at present apparent, and the system of recording the accounts of individual societies is adopted, the reports will soon grow to inordinate length, swollen by a mass of statistical appendices which, as I have attempted to argue, will be of the very slightest permanent value.

5. The case of District and Central Banks is different. They are institutions of more than limited local importance. Their working capital in the case of the former runs into five figures in each case, of the latter into four. The report for the year now in progress will show that their working capital, and their consequent importance, is increasing with somewhat remarkable rapidity, and they are in every case institutions the progress of which it will ultimately prove incumbent upon Government to watch with some care.

6. Some decision should also be recorded as to what the three proposed statements should contain. The essential contents of the first statement are obvious. The income of banks includes deposits, amounts raised by issue of shares or debentures, or by loan from Government or elsewhere, loans repaid by members together with the interest on the same and miscellaneous small items of income received elsewhere, *e.g.*, entrance fees paid by members, interest on post office or other deposits and on investments, etc. The expenditure mainly consists of loans repaid by the bank or issued to its members, interest paid on loans, deposits repaid and the interest paid upon them, amounts paid to reserve fund and other miscellaneous items of expense.

The points in which the main differences are to be found on the income side are the record of the source from which loans are obtained, *i.e.*, whether from Government, from an organization society or from other sources,—similar details on the expenditure side with regard to repayments,—and the differentiation of the payment of interest on loans and deposits. It would seem sufficient in the former case to record loans taken from Government separately from those obtained elsewhere. In the latter case (this has not been hitherto the practice in my report) interest on deposits should be shown separately from that on loans. No separate information seems necessary as to the class of loans on which interest was paid.

One more point with reference to this statement demands consideration. Deposits are received from members and from others. Should these be shown separately? In order that this may be done, either serious separate calculation may prove necessary, or an extra column provided in the cash book. The information, though interesting, does not appear so important as to warrant either of these courses.

7. With regard to the second statement the question arises whether it should contain items of unrecovered interest due upon loans to and from the society or not. The calculation of the items is under present conditions (when the report is submitted for the term ending 31st March) a long and tedious process in these Provinces. If, as I suggest in another note, the date for closing the accounts is altered to 31st May, those calculations might well be dispensed with. The result will be that the societies will appear to a slight disadvantage. The under-calculation of assets will however be such a small matter as to be of slight importance.

The statements must discriminate between reserve fund and other profits. Reserve fund should appear among the liabilities, and the deposits made or securities purchased with the amount at its credit be shewn as assets.

8. The third statement, which is universal in the practice of European joint stock banks, will prove to the village accountants the most difficult to prepare

and it would be well if it could be dispensed with. It might be sufficient to calculate the profits, as is at present done in the United Provinces, by deduction of liabilities from assets. All that is required is a figure to show the "worth" of the institutions and the deduction proposed will show that "worth" with sufficient accuracy for all practical purposes.

9. Any information in excess of the minimum proposed above means very considerable expenditure of labour and of time by the village accountants and the result scarcely seems to justify the trouble. It is interesting but by no means essential to know the detail of number, terms, objects and amounts of loans, whether they were or were not repaid in due course, and other information of this description. It must be remembered that every item of information demanded, means hours, perhaps days of laborious calculation and classification,—and also argues a higher standard of account keeping than can be expected from the class of accountant whose services are reluctantly volunteered in the United Provinces, if not elsewhere. The virtue of simplicity is one which is perhaps infrequently sufficiently appreciated in our administrative methods in this country. In cooperative effort in the villages it is the highest of virtues, and the simplest form of accounts consistent with accuracy should be all that we demand. If we demand little in the way of accounts, it is impossible to demand a large amount of information in the annual statements. The accounts are kept, not for the compilation of annual statements of a European type, but for the benefit of the members of the society.

CAMP UNAO ; The 7th September 1906. J. HOPE SIMPSON,

Registrar, Co-operative Credit Societies,

United Provinces.

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