



Proceedings of the Thirteenth Conference of Registrars of Co-operative Societies held at New Delhi on Monday, Tuesday and Wednesday, the 11th, 12th and 13th December, 1939

XMp2,N
D6-
021756

PUBLISHED BY THE MANAGER OF PUBLICATIONS, DELHI.
PRINTED BY THE MANAGER, GOVERNMENT OF INDIA PRESS, NEW DELHI.
1940.

Price Rs. 4 As. 4 or 6s. 9d.

List of Agents in India from whom Government of India Publications are available.

(a) PROVINCIAL GOVERNMENT BOOK DEPOTS.

- ASSAM** :—Superintendent, Assam Secretariat Press, Shillong.
- BIHAR** :—Superintendent, Government Printing, P. O. Gulzarbagh, Patna.
- BOMBAY** :—Superintendent, Government Printing and Stationery, Queen's Road, Bombay.
- CENTRAL PROVINCES** :—Superintendent, Government Printing, Central Provinces, Nagpur.
- MADRAS** :—Superintendent, Government Press, Mount Road, Madras.
- NORTH-WEST FRONTIER PROVINCE** :—Manager, Government Printing and Stationery, Peshawar.
- ORISSA** :—Press Officer, Secretariat, Cuttack.
- PUNJAB** :—Superintendent, Government Printing, Punjab, Lahore.
- SIND** :—Manager, Sind Government Book Depot and Record Office, Karachi (Sadar).
- UNITED PROVINCES** :—Superintendent, Printing and Stationery, U. P., Allahabad.

(b) PRIVATE BOOK-SELLERS.

- Advani & Co., The Mall, Cawnpore.
- Aero Stores, Karachi.
- Army Musketry Stores, Moga (Punjab).*
- Banbhaya & Co., Ltd., Station Road, Aimer.
- Bagal Flying Club, Dum Dum Cant.†
- Bhawanani & Sons, New Delhi.
- Bombay Book Depot, Charni Road, Girgaon, Bombay.
- Book Company, Calcutta.
- Booklover's Resort, Taikad, Trivandrum, South India.
- British Book Depot, Lucknow.
- British Book Depot, Raisenpore.
- British Stationery Mart, Booksellers, Peshawar Cantt.
- Buckingham & Co., Booksellers and Stationers, Greenwood Street, Sialkot City.
- Burma Book Club, Ltd., Rangoon.
- Cambridge Book Co., Booksellers, New Dak Bungalow Road, Patna.
- Chandrakant Chimanlal Vora, Ahmedabad.
- Chatterjee & Co., 3, Bacharam Chatterjee Lane, Calcutta.
- Chiney & Sons, Booksellers, etc., Dhantoli, Nagpur, C. P.
- Chukerverty, Chatterjee & Co., Ltd., 13, College Square, Calcutta.
- Das Gupta & Co., 54/3, College Street, Calcutta.
- Dastane Brothers, Home Service, 456, Raviwar Peth, Poona 2.
- Delhi and U. P. Flying Club, Ltd., Delhi.†
- Deshmukh Book Depot, Station Road, Sholapur.
- English Book Depot, Ferozepore.
- English Bookstall, Karachi.
- English Book Depot, Taj Road, Agra.
- English Book Store, Abbottabad, N.-W. F. P.
- Faqir Chand Marwah, Peshawar Cantonment.
- Higginbothams, Madras.
- Hindu Library, 137-F, Balam De Street, Calcutta.
- H. L. College of Commerce, Co-operative Stores, Ltd., Ahmedabad.
- Hyderabad Book Depot, Chaderghat, Hyderabad (Deccan).
- Ideal Book Depot, Rajpur Road, Dehra Dun and Bombay Bazar, Meerut.
- Imperial Book Depot and Press, near Jama Masjid (Machhiwalan), Delhi.
- Imperial Publishing Coy., Lahore.
- Indian Army Book Depot, Dayalbagh, Agra.
- Indian Army Book Depot, Daryaganj, Delhi.
- Indian School Supply Depot, Central Avenue, South, P. O. Dharamtala, Calcutta.
- International Book Service, Poona 4.
- Jain & Bros., Sarafa Gate, Gwalior, Messrs. M. B.
- Jalwa & Bros., Mori Gate, Delhi, and Connaught Place, New Delhi, Messrs. J. M.
- Joshi, News Agent, Devgad Baria, via Diplod, Bombay, Mr. V. G.
- Karnala Book Depot, 15, College Square, Calcutta.
- Kausli & Co., 9, Commercial Buildings, The Mall, Lahore, Messrs. N. C.
- Karwataka Sahitya Mandir, Publishers and Direct Importers, Dharwar, (S. Sind).
- Koale & Co., 65, Britto Road, Karachi (Sadar).
- Krististan, 17-A, City Road, Allahabad.
- Krishnaswami & Co., Teppakulam P. O., Trichinopoly Fort, Messrs. S.
- Lahri & Co., Ltd., Calcutta, Messrs. S. K.
- London Book Co. (India), Arbab Road, Peshawar, Murree, Nowshera, Rawalpindi.
- Lyal Book Depot, Lyalpore.
- Mahotra & Co., Post Box No. 94, Lahore, Messrs. U. P.
- Mathur & Co., Messrs. B. S., Chatur-Vilas, Pacha Civil Lines, Jodhpur (Rajputana).
- Minerva Book Shop, Anarkali Street, Lahore.
- Modern Book Depot, Bazar Road, Sialkot Cantt.
- Mohanlal Dossabhai Shah, Rajkot.
- Mohan News Agency, Booksellers, etc., Kotah (Rajputana).
- National Welfare Publicity Ltd., Mangalore.
- New Book Co., "Kitab Mahal," 188-90, Hornby Road, Bombay.
- Newman & Co., Ltd., Calcutta, Messrs. W.
- Oxford Book and Stationery Company, Delhi, Lahore, Simla, Meerut and Calcutta.
- Parikh & Co., Baroda, Messrs. B.
- Pioneer Book Supply Co., 20, Shri Narayan Das Lane Calcutta and 219, Cloth Market, Delhi.
- Popular Book Depot, Grant Road, Bombay.
- Punjab Religious Book Society, Lahore.
- Punjab Sanskrit Book Depot, Lahore.
- Rakunath Prasad & Sons, Patna City.
- Rama Krishna & Sons, Booksellers, Anarkali, Lahore.
- Ram Krishna Bros., Opposite Bishrambag, Poona City.
- Ramesh Book Depot and Stationery Mart, Kaanhera Gate, Delhi.
- Ray & Sons, 43, K. & L. Edwardes Road, Rawalpindi, Murree and Peshawar, Messrs. J.
- Reliance Stores, Booksellers, Princess Street, Karachi.
- Roy Chowdhury & Co., 72, Harrison Road, Calcutta, Messrs. N. M.
- Saraswati Book Depot, 15, Lady Hardinge Road, New Delhi.
- Sarcar & Sons, 15, College Square, Calcutta, Messrs. M.
- Sharada Mandir, Ltd., Nai Sarak, Delhi.
- Standard Book Depot, Cawnpore.
- Standard Book Depot, Lahore, Delhi and Simla.
- Standard Bookstall, Karachi.
- Standard Bookstall, Quetta.
- Standard Law Book Society, 70/1, Harrison Road, Calcutta.
- Subhan, Bookseller and Publisher, Bilaspur, C. P., Mr. M. A.
- Swamitathas Sivam & Co., Puddukotah, Messrs. P. N.
- Tanawada & Sons, Booksellers, Saugli.
- Tara & Sons, Razmak (India), Messrs. B. S.
- Taraporevala Sons & Co., Bombay, Messrs. D. B.
- Thacker & Co., Ltd., Bombay.
- Thacker, Spink & Co. (1933), Ltd., Calcutta.
- Tripathi & Co., Booksellers, Princes Street, Kalyan Road, Bombay, Messrs. N. M.
- Universal Books Depot, Booksellers, News Agents, Kaku.
- University Book Agency, Kachari Road, Lahore.
- Upper India Publishing House, Ltd., Literature Park, Ammuddaia Park, Lucknow.
- Varadachary & Co., Madras, Messrs. P.
- Venkatasubban, A., Law Bookseller, Vellore.
- Wheeler & Co., Allahabad, Calcutta and Ho Messrs. A. H.
- Young Man & Co. (Regd.), Egerton Road, Delhi.

* Agent for Army Publications only.

† Agents for publications on Aviation only.

TABLE OF CONTENTS.

	Pages.
Preface	iii
List of Delegates present	v—vii
Provisional agenda suggested by the Provincial Governments and the Reserve Bank of India.	ix—xiii
Abstract Proceedings of the Preliminary Committee held on Sunday, the 10th December, 1939	xv
Draft Resolutions framed by the Preliminary Committee	xv—xvii
Opening speech by the Honourable Kunwar Sir Jagdish Prasad, K. C. S. I., C. I. E., O. B. E., Member of the Governor General's Executive Council in charge of the Department of Education, Health and Lands on the 11th December, 1939	1—6
Proceedings of the Conference	6—109
Appendices—	
I. Resolutions passed at the Conference	111—113
II. Rehabilitation and Reconstruction Schemes of different Provinces and States—	
Bengal	114—137
Bihar	138—176
Central Provinces and Berar	176—190
Orissa	190—202
Ajmer Merwara	202—208
Baroda	209—211
Madras	211—221
III. Proceedings of the Multi-Unit Societies Sub-Committee held at New Delhi on the 23rd and 24th March 1940	222—225

PREFACE.

The thirteenth Conference of Registrars of Co-operative Societies met in the Conference Room of the Imperial Secretariat, New Delhi, from the 11th to the 13th December, 1939; the previous twelve conferences having been held as under :—

No.	Place.	Month and year.
I	Simla	September 1906.
II	Calcutta	November 1907.
III	Simla	October, 1908.
IV	Simla	October 1909.
V	Allahabad	January 1911.
VI	Simla	October 1912.
VII	Simla	October 1913.
VIII	Simla	August 1918.
IX	Bombay	January 1926.
X	Simla	September-October 1928.
XI	New Delhi	January-February 1934.
XII	New Delhi	December 1936.

2. The procedure adopted at this conference, with the concurrence of Provincial Governments, was as follows. The subjects suggested for inclusion in the agenda by the various Provincial Governments were communicated to the Reserve Bank of India who were good enough to include their own suggestions and to arrange them by specific headings. This formed the Preliminary Agenda which was discussed by the Preliminary Committee which met on the 10th December, 1939, under the chairmanship of Sir Malcolm Darling and drafted resolutions to be considered by the conference.

3. Our thanks are due to the Reserve Bank of India for the exhaustive notes prepared by them on the various subjects included in the Agenda. These notes were circulated to the delegates along with the notes prepared by Provincial Governments. Certain other notes were received after the printed notes had been circulated. All these notes together with the statement showing the action taken on the resolutions passed at the 12th Conference have been incorporated in a separate Volume which is being issued "for official use only".

M. R. BHIDE,

Secretary.

LIST OF DELEGATES.

(PRESENT AT THE CONFERENCE).

Central Government.

- The Hon'ble Kunwar Sir JAGDISH PRASAD, K.C.S.I., C.I.E., O.B.E.,
Member of the Governor General's Executive Council in
charge of the Department of Education, Health and Lands—
(Chairman).
- Mr. J. D. TYSON, C.B.E., I.C.S., Joint Secretary to the Government
of India, Department of Education, Health and Lands.
- Mr. P. M. KHAREGAT, C.I.E., I.C.S., Vice-Chairman, Imperial Council
of Agricultural Research.
- Mr. A. M. LIVINGSTONE, M.C., Agricultural Marketing Adviser to the
Government of India.
- Sir MALCOLM DARLING, K.C.I.E., I.C.S., President, Aliens Interro-
gation Committee, "A" Internment Camp, Ahmednagar.

Madras.

- Mr. S. A. VENKATARAMAN, I.C.S., Registrar of Co-operative Societies,
Madras.

Bombay and Gwalior.

- Prof. V. G. KALE, M.A., Organiser, Co-operative Movement, Gwalior.

Bombay.

- Dewan Bahadur C. M. GANDHI, B.A., LL.B., President, Bombay
Co-operative Insurance Society Ltd., Surat.
- Mr. S. M. IKRAM, I.C.S., Registrar of Co-operative Societies, Bombay.

Bengal.

- The Hon'ble Mr. M. B. MULLICK, Minister in charge of Co-operative
Credit and Rural Indebtedness Department, Bengal.
- Khan Bahadur A. M. ARSHAD ALI, Registrar of Co-operative Societies,
Bengal.
- Mr. S. K. CHATTERJEE, Director, Bengal Provincial Co-operative
Bank, Calcutta.
- Mr. WAHEADUZZAMAN, Honorary Secretary, Bengal Co-operative
Alliance, Ltd., Calcutta.

United Provinces.

- Rai Bahadur Pt. RADHELAL CHATURVEDI, Registrar of Co-operative
Societies.
- Mr. SIDDIQUE HASAN, I.C.S., Officer on Special Duty, Co-operative
Department.
- Dr. DORILAL DUBEY, Professor, Meerut College, Meerut.

Punjab and N.-W. F. P.

Mr. F. B. WACE, I.C.S., Registrar of Co-operative Societies.

Punjab.

Sardar Bahadur BEANT SINGH, Deputy Registrar of Co-operative Societies, Punjab, Jullundur.

K. B. MALIK NUR MOHD., M.A., LL.B., Advocate, Sargodha.

Bihar.

Rai Bahadur SHYAM NANDAN SAHAY, Managing Director, B. & O. Provl. Co-operative Bank, Ltd., Patna.

Mr. N. BAKSI, I.C.S., Registrar of Co-operative Societies.

Central Provinces and Berar.

Rao Bahadur Sir MADHORAO DESHPANDE, K.B.E., Nagpur.

Mr. W. B. LAKHE, B.A., Raipur.

Orissa.

Mr. E. C. ANSORGE, C.I.E., I.C.S., Adviser to Governor.

Rai Sahib S. C. ROY, Deputy Registrar of Co-operative Societies.

Rao Bahadur T. VENKATA KRISHNAYYA, B.A., B.L., Chatrapur (Ganjam).

Ajmer-Merwara

Mr. BHANWAR LAL, Registrar of Co-operative Societies, Ajmer.

Coorg.

Mr. P. I. BELLIPPA, M.L.C., President, Coorg Co-operative Central Bank, Mercara.

Reserve Bank of India.

Mr. K. G. AMBEGAONKAR, I.C.S., Officer-in-Charge, Agricultural Credit Department.

Hyderabad.

Mr. FAZALULLA, Registrar of Co-operative Societies.

Mr. RAZIUDDIN, Deputy Registrar of Co-operative Societies.

Travancore.

Mr. M. RAMACHANDRA RAO, Land Revenue and Income-Tax Commissioner, and Registrar of Co-operative Societies.

Mysore.

Rajamantrapravina Mr. K. V. ANANTARAMAN, B.A., Second Member of the Mysore Executive Council.

Mr. M. ABDUL HUKH, B.A., Registrar of Co-operative Societies in Mysore.

Baroda.

Mr. T. M. DESAI, B.A., Registrar of Co-operative Societies.
Mr. BAPUBHAI GHELABHAI DESAI, B.A., LL.B., Member, Baroda
Legislative Council; Director, the Navsari Co-operative Land
Mortgage Bank, Ltd., and the Vyara Agricultural Bank,
Ltd., and President, the Vyara Co-operative Thrift Society,
Vyara (T. V. Rly.).

Kashmir.

Mr. PRITAM CHANDRA RAO, Registrar, of Co-operative Societies,
Jammu and Kashmir.

Gwalior.

Mr. P. S. MEHTA, B.A., LL.B., Registrar of Co-operative Societies.

Indian Provincial Co-operative Banks' Association.

The Hon'ble Mr. V. RAMADAS PANTULU, President Indian Provincial
Co-operative Banks' Association and All-India Co-operative
Institutes' Association, "Farhatbagh" Mylapore, Madras.

All-India Co-operative Institutes' Association, Lahore.

Khan Mohammad BASHIR AHMED KHAN, M.A., LL.B., M.R.A.S.,
Secretary, Punjab Co-operative Union and Honorary Secre-
tary, All-India Co-operative Institutes' Association, Lahore.

Mr. SATYA NARAYANA, Secretary, Madras Co-operative Union, Madras.

Secretary.

Mr. M. R. BHIDE, I.C.S., Deputy Registrar of Co-operative Societies,
Punjab, Lahore.

Provisional Agenda for the Co-operative Conference, December, 1939.

Suggested by.

I.—FINANCE.

(i) (1) How far is it practicable and desirable for provincial and central co-operative banks to follow the banking principles indicated in Circular No. A. C. D. 528/77-39, dated the 12th June 1939, of the Agricultural Credit Department of the Reserve Bank of India, particularly in regard to—

Reserve Bank.

- (a) Distribution of assets.
- (b) Period of loans.
- (c) Classification of loans.
- (d) Treatment of overdue interest.
- (e) Maintenance of Reserve Funds.
- (f) Regulation of interest on deposits.

(2) What are the other commercial banking practices which co-operative banks may follow with advantage ?

U. P.

(ii) Organisation of banking unions of the type recommended by the Agricultural Credit Department, Reserve Bank of India, in Bulletin No. 1 and combination of supervision and finance.

Reserve Bank.

(iii) Advances of loans in the form of seed, fertilisers and implements.

U. P.

(iv) Guidance, supervision and control over the financial policy of Central Banks by Provincial Banks.

Reserve Bank.

(v) Standards for the classification of financing institutions.

U. P.

(vi) Whether any safeguards are necessary to secure that the urban co-operative banks do not become competitors of the joint stock banks ?

Sind.

(vii) Amendment of the Reserve Bank of India Act to permit business with provincial banks against co-operative paper of urban banks.

Bombay.

(viii) The part that the Reserve Bank should play in the agricultural credit of the country.

Sind.

II.—REHABILITATION OF BANKS AND SOCIETIES WHICH HAVE GOT INTO DIFFICULTIES.

Reserve Bank.

(a) Have large scale coercive measures and liquidation of societies with heavy overdues led to substantial and permanent improvement of the situation ? Are they desirable ?

Sind.

(b) Have reductions in interest, grant of rebates and recovery of dues in such sum as members are able to repay, been effective in improving the position ?

(c) Should debts of members be scaled down to their repaying capacity ?

Suggested by.

(d) Should surrenders of land be taken from members and instalments on hire purchase system fixed where there are heavy overdues ?

(e) Should lands acquired by societies and banks be disposed of to original owners or other cultivators under the above system ? In what other ways can lands and other immovable property so acquired be disposed of ?

Madras.

(f) What should be the maximum number of instalments and the rate of interest ?

Madras.

(g) How should long term finance be raised for the purpose ?

Madras.

(h) If there is a short fall owing to the settlement of debts of members or other reasons, how should it be met ? If it is to be borne by depositors of banks, should there be a provision whereby when a majority of creditors agree to a reduction in their claim the rest can be compelled to agree ? What effect will such reduction have on the ability of co-operative banks to attract deposits ?

Madras.

(i) How should fresh crop finance be provided for ?

(j) Should the instalments be made repayable in kind ?

III.—PRIMARY SOCIETIES.

(i) Organisation of new societies as multipurpose societies and reconstruction of the old ones, on the lines recommended by the Reserve Bank of India, to undertake, in addition to credit, marketing, supply of seed, implements and manure, better farming and better living activities.

Reserve Bank.

(ii) Area of operation of such societies.

Reserve Bank.

(iii) Liability of such societies—

(a) How far is unlimited liability sound in practice for the success of co-operative credit, rural or multipurpose societies and development of local leadership ? Is it desirable to have limited liability in village societies and, if so, whether the limit should be determined by shares or by guarantee ?

Bombay, Madras.

(b) Should not multipurpose societies be based on limited liability so far as marketing and better living societies are concerned and on unlimited liability with regard to advances of loans in cash or kind to members ?

U. P.

(iv) Purposes and duration of loans—

(a) Whether an absolute ban on unproductive loans is unsound in view of the fact that such a ban leads to borrowing from money-lenders ?

Sind.

- Suggested by.
- (b) Whether stricter rules for financing members are necessary to ensure that loans are given with reference to the repaying capacity as measured in terms of the land revenue. Sind.
- (c) Whether societies should advance loans in emergencies like crop failures and if not how such finance should be provided ? Reserve Bank.
- (v) What is the remedy for the mis-application of loans by members of co-operative societies ? Can the evil be checked by making the offence punishable with a fine prescribed for the purpose ? Madras.
- (vi) Is it desirable to prohibit persons from holding the office of the President, Secretary or Director of a Society for a period exceeding a certain number of years ? Madras.
- (vii) Compulsory extension of membership—
- (a) With a view to extend the benefit of co-operative credit and sale to a very much larger number of agriculturists than is the case at present, how far is it desirable to relax the principle of voluntary and select membership in the case of agricultural credit and multi-purpose societies ? Bombay.
- (b) Compulsory membership of co-operative societies as part of the scheme for liquidation of indebtedness of agriculturists. U. P.
- (viii) (a) Development of secondary industries on co-operative lines. Bombay.
- (b) To what extent and in what form can co-operative societies help the member in diversification of farming ? U. P.
- (ix) There are some cases where societies registered under the All-India Act of 1904 or 1912 and now deemed to be registered under Provincial Acts, have jurisdiction beyond the Province to which the Provincial Act applies. It has been suggested that this position is irregular and that if it is to be allowed to continue Central Legislation by the Government of India is necessary. How far is this necessary and in what manner can legislation be made ? (E., H. and L. Department circular No. F.-44-13/39-A., dated the 24th August, 1939). Madras.
- (x) Under section 43 of the Madras Co-operative Societies Act, if the Committee of any registered society is not functioning properly, the Registrar may dissolve the Committee and appoint a suitable person or persons to manage the affairs of the society for a specific period. In cases where the bad condition of the societies is due to one or more individuals in the Committee, is it not desirable to provide for their removal instead of superseding the entire committee ? Madras.

IV.—LAND MORTGAGE BANKS.

- Suggested by.
- (i) What should be the area of operations of a Primary Land Mortgage Bank ?
Bombay.
- (ii) Are Primary Land Mortgage Banks necessary ?
Reserve Bank.
- (iii) Scope for loans for improvement of land and agriculture and how to extend it.
Reserve Bank.
- (iv) Co-ordination between primary societies and land mortgage banks.
Reserve Bank.
- (v) Co-ordination between land mortgage banks and debt conciliation boards.
Madras.
- (vi) Powers to be given to land mortgage banks to call creditors and inspect their accounts.
Reserve Bank.
- (vii) How to make debentures of land mortgage banks marketable and popular security—
- (a) Stipulations regarding redemption.
Reserve Bank.
- (b) Formation of a Sinking Fund.
Bombay.
- (c) What assistance can Reserve Bank give in this matter by—
Madras.
- (i) Purchasing debentures,
(ii) floating debentures on their behalf,
and
(iii) any other method.
- (viii) Is it necessary for land mortgage banks to grant loans to members repayable in 30 or more instalments ?
Madras.
- (ix) Are any other modifications required in the working of land mortgage banks ?
Sind.

V.—DEBT LEGISLATION AND THE CO-OPERATIVE MOVEMENT.

- (i) How far is the co-operative movement affected by the debt and tenancy legislation in different provinces, and should co-operative societies enjoy special privileges ?
Sind.
- (ii) Is it necessary and desirable to provide in any scheme of reduction of agricultural debts that the debtor should not be deprived of such minimum extent of agricultural holdings as may be considered necessary for the maintenance of himself and his family ?
Madras
- (iii) Has the working of the employees' societies suffered in any way by the recent amendment to section 60 of the Code of Civil Procedure raising the non-attachable limit to Rs. 100 ? Is it necessary to safeguard the interest of the societies by any special legislation ?
Madras.

Suggested by-

VI.—CO-OPERATIVE EDUCATION.

- (i) The Bank's staff to take up the examination of Institute of Bankers. Reserve Bank.
- (ii) Steps to be taken for the education of the members of the co-operative societies and the public in general in regard to the principles and practices of co-operation and the future possibilities of the movement. Reserve Bank.
- (iii) Extension of primary education in villages to bring about substantial progress in co-operation. Sind.

VII.—GENERAL.

- (i) Strengthening the staff of Co-operative Departments. Reserve Bank.
- (ii) Scope for the formation of cattle and crop insurance societies. Madras.
- (iii) Possibility of organising health co-operative societies. Reserve Bank.
- (iv) What is the best arrangement under which title of lands can be conveyed to members of consolidation of holdings' societies after the scattered holdings have been redistributed without involving much cost to members? Madras.
- (v) Should the law of limitation be made applicable to co-operative societies? Sind.
- (vi) Steps to be taken to foster the co-operative stores, where possible, by employing educated men who have received proper training in salesmanship. Bombay, Madras and Sapru Report.
- (vii) Consideration of the report of the Agricultural Credit Department of the Reserve Bank of India on the working of English Agricultural Credit Act in regard to agricultural charges as desired by the last conference. Government of India.
- (viii) Special measures which co-operative societies may have to take in view of the war. Reserve Bank.

PROCEEDINGS OF THE PRELIMINARY COMMITTEE OF THE THIRTEENTH CONFERENCE OF REGISTRARS OF CO-OPERATIVE SOCIETIES WHICH MET IN ROOM No. 191 OF THE SOUTH BLOCK OF THE IMPERIAL SECRETARIAT, NEW DELHI, ON SUNDAY, THE 10TH DECEMBER, 1939, AT 11 A.M.

PRESENT:

Sir Malcolm Darling, K.C.I.E., I.C.S. (*in the chair*).

Mr. P. M. Kharegat, C.I.E., I.C.S.

Mr. K. G. Ambegaonkar, I.C.S.

Mr. S. A. Venkataraman, I.C.S.

The Honourable Mr. V. Ramadas Pantulu.

Dewan Bahadur C. M. Gandhi, B.A., LL.B.

Mr. M. R. Bhide, I.C.S. (*Secretary*).

At the outset the Chairman explained that his first reaction to the agenda was that it was too long. If the conference was to last for only two days and if that was the general view the Committee had to consider what should be left out and for that purpose perhaps the best way would be to start first by deciding what should be put in. He suggested running through the agenda marking the subjects on which resolutions should be drafted anyhow.

2. The Committee then took up the different items on the agenda and discussed what should be retained and what should be left out.

3. 28 resolutions were drafted by the committee which also decided upon the gentlemen who should sponsor each resolution before the conference.

Draft Resolutions.

(As approved by the Preliminary Committee on the 10th December, 1939.)

This Conference recommends that—

(1) The scale of fluid resources fixed for each province should be reviewed in the light of the distribution of assets suggested by the Reserve Bank and the results put up before the next conference. In any case the prescribed scale should be strictly adhered to.

(2) Primary societies should only give short and intermediate term loans repayable in a fixed period ordinarily not exceeding three years and with due regard to the purposes of the loans.

(3) Provincial and Central banks should, in their Balance Sheets, show the amounts advanced for more than one year and the amounts held for more than one year. Bad and doubtful debts should be carefully estimated and shown in the Balance Sheets.

(4) In the Balance Sheet all unrealised interest should be shown under the following heads:—

(i) Interest recoverable from D class societies (and also E class societies where this class exists).

(ii) Interest recoverable from societies under liquidation.

(iii) Interest recoverable on other bad and doubtful debts.

(iv) Other interest recoverable—

(a) Interest earned on accounts on which no interest is overdue.

(b) Interest on accounts on which interest is already overdue.

(5) The Reserve Fund should be constituted out of realised net profits and should be invested outside the movement in unencumbered trustee securities, approved by the Registrar, other than mortgages of immovable property.

(6) Banks should not ordinarily borrow for long periods when rates of interest are high and should obtain their money as cheaply as possible.

(7) That loans should be advanced in the form of seed, fertilisers and implements where practicable after a survey of requirements.

(8) As regards the guidance, supervision and control by the Provincial Banks over the financial policy of Central Banks—

(i) All co-operative banks should send a monthly statement of their financial position to the provincial bank.

(ii) The provincial bank may act as an investment agency for the affiliated central banks. Those central banks which want to invest their funds in securities direct should consult the provincial banks or the Financial Adviser, if any, before doing so.

(iii) The rate of interest in co-operative banks on deposits should not exceed the lending rates of provincial banks on loans given for similar periods.

(iv) The Provincial Bank should have a right to inspect central banks and to bring to the notice of the Registrar any serious defects in their working.

(9) Advantage should be taken of the present rise in prices to induce defaulters to pay up their dues and such repayments may be encouraged by granting rebates. The debts should be adjusted to the repaying capacity of the debtors and instalments fixed normally for a period from 5 to 15 years and in any case not exceeding 20 years. The rate of interest charged should ordinarily be not more than 1 per cent. above the Provincial Bank rate or where there is no Provincial Bank of the Central Bank borrowing rate for fixed deposits for one year.

(10) In economically backward areas the possibility of encouraging and extending repayment in kind should be explored.

(11) Provinces should experiment with multiple purposes societies to ascertain more clearly the conditions under which they are likely to thrive and the form which they should take with special reference to their area of operation, liability and purposes.

(12) Agricultural credit societies, other than multipurpose societies which are the subject of a separate resolution, should ordinarily continue to have unlimited liability but scope may be given for experiments with such societies with limited liability.

(13) Persons should not be compelled to join a co-operative society nor should the decision of such society be binding on non-members.

(14) A small sub-committee consisting of Messrs. Pantulu and Gandhi and the Registrars of the Punjab, United Provinces and Bengal be appointed to examine the question of multi-unit Societies and suggest suitable measures.

(15) The area of operation of land mortgage banks should not be larger than a district and may preferably be smaller.

(16) Land Mortgage banks should encourage and help schemes for the consolidation of holdings especially where land is badly fragmented.

(17) Loans for land improvement should be advanced at a lower rate than loans for other purposes and should ordinarily be given after consultation with the agricultural and other departments concerned.

(18) If a person is a member of both a primary credit society and a land mortgage bank, the former should have the first charge on the crops (and not the land mortgage bank).

(19) Debentures should be made irredeemable for a period of ten years.

(20) The Reserve Bank should purchase a limited amount of the debentures of approved Central Land Mortgage Banks and should advance money against such debentures.

(21) Loan should not be given for more than 20 years, and the margin between the maximum period of the loan and the period of the debenture should not exceed 5 years.

(22) In any agrarian legislation undertaken in future nothing should be done to prejudice the co-operative movement.

(23) The attention of Government be invited to the fact that co-operative societies are likely to incur heavy losses due to the amendment of section 60 of the Civil Procedure Code and that the Code should be amended and the limit for attachment of salaries be reduced from Rs. 100 to Rs. 50 in respect of debts incurred before the amendment came into force.

(24) Provincial and Central banks should give a bonus to such members of their staff as pass the examinations of the Institute of Bankers.

(25) Classes should be held and continued steps taken for the education of members of co-operative societies in the principles and practice of co-operation.

(26) Further experiments should be made with cattle insurance societies. In any area where it is proposed to make such experiments, a preliminary survey should be made of the incidence of diseases and mortality among cattle.

(27) The improvement of health conditions in villages may form part of the normal activities of co-operative societies and in areas where medical facilities are not easily available special health co-operative societies should be organised.

(28) (i) Advantage should be taken of the prevailing high prices to encourage co-operators to discharge their existing liabilities to societies.

(ii) Systematic efforts should be made to encourage saving particularly on the money-box system and among children.

(iii) Every effort should be made to restore the economic position of the cultivators in so far as it has been impaired by the fall in prices and to organise co-operative marketing to secure to them the full effect of the rise in prices.

**PROCEEDINGS OF THE THIRTEENTH CONFERENCE OF REGIS-
TRARS OF CO-OPERATIVE SOCIETIES, 1939.**

The Conference assembled in the Conference Room of the South Block, Imperial Secretariat, at eleven of the clock on Monday, the 11th December, 1939.

The Honourable Kunwar Sir Jagadish Prasad, in opening the proceedings said:

Gentlemen,

It is a great pleasure to me to welcome you again to this Conference. When I last had the opportunity of presiding over your deliberations I referred to the unfortunate fact that these meetings had not been sufficiently frequent, and I expressed the hope that in future the intervals would not be so great. You will all realise, I am sure, that on this occasion I had to consider seriously whether, having regard to the unsettled state of affairs, I should not ask you to postpone this Conference. But it is obvious that the war will have a profound effect on the economic life of the people of this country. It is, therefore, of the first importance that those interested in the Co-operative Movement should meet at the earliest opportunity to discuss the effects of the war on the Movement. Apart from the economic aspect, it seems to me that there are other compelling reasons why increased attention should be paid to the Co-operative Movement at this critical juncture in our history. We are all anxious that men of different religious creeds should learn to work together for common ends, to help each other, and in the very process of helping, discard some of the aloofness, much of the selfishness, and what is more, a good deal of the sectarian fanaticism which is the bane of our daily life. The Co-operative Movement can, in my view, play a vital part in making the intercourse between various communities living in the same locality friendly and humane, because it is based on mutual trust and mutual service, and not on mutual suspicion and distrust. In forming societies whether for credit or for purchase or for sale, or for any other recognised economic object, let us not forget, whether that be our avowed purpose or not, that we are promoting in a marked degree in this country an aptitude for meeting and working together in a spirit of mutual service and of mutual trust. Co-operative Societies can well become powerful centres from which to radiate the spirit of tolerance and service so essential for a stable political system. And the need for such tolerance was never greater than at the present moment.

2. I do not propose to weary you with trite remarks about matters on which you are experts. There are, however, one or two points to which I wish to call your special attention. At the outset let me say how glad I am—and I am sure you will all feel the same—to welcome again such trusted veterans in the Co-operative field as Sir Malcolm Darling and the Honourable Mr. Ramadas Pantulu. It has been no small exertion and sacrifice of time for them to attend and I should like to say how heartily we shall welcome their experience and invaluable advice. I should like also to make special mention of the Reserve Bank. I had hoped that Mr. Nanavati would be able to attend. Unfortunately, that is impossible, but we have with us Mr. Ambegaonkar, who needs no introduction to any of you. There is no need for me to remind you of the illuminating bulletins which have been issued at various times by the Agricultural Credit Department of the Reserve Bank. We are all grateful for their assistance, of which many of you may not be aware, in compiling and arranging the agenda for this Conference.

3. There has recently been a good deal of debt legislation which has scaled down old debts. This process may have, in some instances, restricted the ordinary sources of credit. On the other hand, there has also been far-reaching tenancy legislation, which, by giving increased security of tenure to the cultivator, may improve their credit. This combined legislation places greater responsibility upon Co-operative Societies and those who watch their administration to see that useful, perhaps I should say productive, credit is available as freely as possible; otherwise it may well happen that the tenantry will have a new burden of debt accumulated under more onerous conditions than previously.

4. It has not been possible so far, for a variety of reasons, to make much headway with Co-operation among women. But the importance of the subject is self-evident. When it is remembered that nearly every one in India, even the humblest, must marry, that children come into the world as nature pleases and that every birth, marriage or death is the occasion for an expensive ceremony, the women as the guardian of ancient tradition and customs becomes, I have no doubt in many cases the unwilling, instrument of extravagance instead of being the staunch apostle of thrift. And thrift may on occasion look like a vain enterprise when a life's saving may disappear on the marriage of a son or daughter. Women must become the instructors of men in the virtues of moderation whether the occasion be a festive gathering or a village dispute. I hope a time will come when there will be many women's co-operative societies whose purpose will be not only to reduce unnecessary expenditure but to limit the numbers of those

for whom the expenditure is incurred. I am perhaps straying into somewhat dangerous fields, but I trust that there will be general agreement that the time has come to make a determined effort to advance co-operation among women. Women's societies need not confine themselves to the inculcation of thrift but may add useful variety to this somewhat drab theme by including within their scope such objects as cooking, sewing, domestic hygiene, and even music.

5. I should also like to draw special attention to the subject of the consolidation of holdings. This has been one of the most conspicuous achievements of Co-operation in India. The Punjab has given the lead in this matter and in that province alone over a million acres have been re-allotted. I trust that this important subject will continue to receive increased attention in all provinces and States.

6. At the last Conference I gave you some consolidated figures showing the progress made by the Co-operative Movement in the whole of India. Though the figures I can give you now are not entirely up to date they do, I think, show that the progress has been satisfactorily maintained. The working capital has increased from Rs. 97 crores to Rs. 101½ crores. The number of societies in India is now 111,000 of which 96,000 are classed as agricultural. The number of members has risen to 4,718,000 of whom 3,155,000 belonging to agricultural societies. I drew attention 3 years ago to the fact that these figures do not of themselves furnish any certain guide to the progress of the movement. We have, therefore, to form our judgment upon such other evidence as we can collect. This will be available from the reports of the recent enquiries into the growth and general condition of the Movement which have been set on foot in different Provinces and States. In a country with such varying conditions as India it is inevitable that practice should also vary and the very fact that different methods find their champions in different parts of India is a sign not only that you, the organisers of the Movement, are alive to the requirements of the country but also that your experience is gained from a living movement.

7. The present seems to be a particularly favourable moment for an all-India drive towards the better utilisation of the advantages which agricultural credit societies can afford. In the last month or two the prices of almost all agricultural commodities have shown noticeable and in some cases, remarkable, increase. I am well aware that in some cases these increases have taken place after the bulk of the crop had passed to the hands of the middleman. At the same time, if the higher range of prices continues for some time yet, a substantially increased volume of wealth will find its way to the pockets of the cultivator. This, it seems to me, is just the time

when the necessity for inculcating thrift is most insistent. Not only is it the duty of all of us who work and wish for an improvement in the lot of the agriculturist, to do all in our power to see that that wealth is either saved or wisely spent, this also is the occasion when those societies which in the past have been unwise or overgenerous in the credit they have allowed can set themselves upon their feet again. Here is our great opportunity; let us grasp it with a determination that the lessons so bitterly learnt in the past shall now be put to good use. Borrowing will be more costly, the prices of essential articles of consumption may rise. Nevertheless I am convinced that the cultivator has a chance now to rehabilitate himself and I can think of no better medium through which he should be assisted to do so than that of the Co-operative Movement under wise and farseeing guidance. The supply of agricultural credit must for this purpose be linked up with the adoption of better farming practice, the introduction of better ways of marketing the crop and the improvement of the land itself by the provision of facilities for irrigation, drainage, bunding, manuring, and so forth.

8. It is encouraging to find that almost throughout India there has been an increase in non-credit societies, whether for improvement of livestock, consolidation of holdings, supply of fencing or similar objects. There are now something like 12,000 societies in India for these various purposes. Present conditions offer special opportunities for one of the non-credit type of societies. Those of you who have practical experience of famine will know that one of the surest signs of real scarcity is the large-scale movement and subsequent dearth of cattle. In many parts of Central India now conditions are such that the cultivator can with difficulty only support a pair of plough cattle. The weak and useless cattle have died in large numbers. Much as we regret the cause, here is a chance for the livestock improvement societies to see that in building up the cattle population again only the best stock is used, and rightly used, and in a few years the whole standard of cattle in the areas affected may be noticeably raised.

9. Whatever the type of society formed, the training of the members thereof in Co-operative principles is of the highest importance. We all know that the true function of Government in this sphere of activity is to supply the initial stimulus and thereafter advice and direction. The Co-operative Movement must be administered in its every day details by the people themselves. For this purpose it is the duty of Government to educate those who take on the administrative responsibilities of societies, unions, banks or whatever it may be. This duty has been fully recognised throughout India and the Central Government themselves lent their support with a provision of Rs. 15 lakhs. That money has now been spent and

it is hoped that Provincial and State Governments will continue the educational activities which were started with that assistance. I only wish to impress upon you again the great importance which, now more than ever, must be attached to this question, if we are to take the fullest advantage of the opportunity now open to us.

10. I should refer again, I think, to the part which the Central Government can play in the development of the Co-operative Movement. All practical steps have to be taken by the various Provincial and State Governments. There are, however, fundamental principles of Co-operation which apply the world over. If, therefore, the Central Government can supply the facilities and the arena for a full discussion of the application of these principles and the difficulties arising from special conditions, they are assisting not only in a clarification of the principles themselves but also, I hope, in paving the way to a solution of some at least of the difficulties. It is for you, when you go back, to put into practical effect whatever you may find of value emerging from these deliberations. It is for us to ask you to let us know what it is you have found and how you have made use of it. We have had replies from most Governments regarding the action they have found possible on the resolutions passed at the last Conference and we have now been able to circulate a tabular statement summarising these results. I hope you have all received copies. After this Conference also we propose, with your continued assistance, to prepare a statement of the action taken in various parts of India. Needless to say, the compilation of such a statement takes time. You yourselves, when you go back, have to consider again the full implications of the resolutions which have been passed and it is only when you have worked out your own modifications in practice that you can tell us what action you have in mind. To tell us the result of the action taken needs more time still. Nevertheless, the statements have their own value and if they do nothing else, they do at least form a practical link between one Conference and the next.

11. Gentlemen, Indian Co-operation has to contend against forces that find no exact parallel in Europe—the uncertainty and vagary of the seasons, in a country chiefly dependent on agriculture; the wide fluctuations in prices of agricultural commodities due to world causes, the fragmentation of holdings and the poverty, illiteracy, ill-health and heavy indebtedness of a vast and rapidly increasing population wedded to crippling social customs, and the comparative dearth of competent voluntary workers. In spite, however, of these grave handicaps, there has been a tremendous awakening in recent years among educated Indian men and women as to their responsibilities towards their less fortunate countrymen. A great effort is now being put forth to make life in town and country a little less dreary and

sorrowful for the worker and the peasant, and in this great task of sweetening the lives of our people Co-operation should take a decisive and glorious part.

And now, Gentlemen, I shall ask you to begin your deliberations. (Applause).

The Honourable the Chairman: With your permission, what I propose to do this morning is this. You must have noticed that we have drafted provisional Resolutions on each item in the agenda. After a Resolution has been moved, it would be open for discussion. I propose also, with your permission, that in the afternoon of today the conference should be presided over by Sir Malcolm Darling. He will also preside, with your approval, over the deliberations of tomorrow morning. I shall preside tomorrow afternoon when we hope to finish our proceedings. I now call upon Mr. Kharegat to move his first Resolution.

DRAFT RESOLUTION NO. 1.

Mr. P. M. Kharegat: Sir, it has fallen to me to move this first Resolution of this conference not because I am particularly interested in the subject matter thereof, but because I was partly responsible for the form in which it has been put up before you here. First of all I should like to explain that we met in sub-committee yesterday and tried to sort out the various items of the agenda which should be put up before this main conference and the form in which those items should be put up. I can assure you that it was a very difficult task selecting from the 51 specific subjects which had been suggested from different provinces and, on behalf of the Committee, I would like to apologise to those who feel disappointed that the subjects which they had wanted to discuss could not be put up before the Conference. But it is to be realised that we have not got the time to discuss all the subjects and therefore we had to make a selection.

Secondly, there was a question of putting up the subjects for discussion in the form of draft resolutions. I may explain that the object is not that these draft resolutions should be accepted as they stand. They are of two kinds. Some of them are merely intended to open the subject for discussion and to obtain the views of all the members and then they can be suitably revised or re-drafted or altered. There are, however, a certain number of resolutions which are of a non-controversial nature and it is hoped that these will be passed without much discussion, so that we may have ample time to discuss the other subjects which will require a lot of examination. The present resolution seems to me to be of the latter kind, that is, of a non-controversial nature. It reads as follows:

"This Conference recommends that the scale of fluid resources fixed for each province should be reviewed in the light of the distribution of assets suggested by the Reserve Bank and the results put up before the next Conference. In any case the prescribed scale should be strictly adhered to."

Now, it will be seen from the wording that a certain suggestion had been put up by the Reserve Bank. There is a good deal to be said in favour of that suggestion, but it was felt that the system of fluid resources which has been prevailing in the provinces so far has proved reasonably

satisfactory and, before any change could be made in that system, it was necessary to examine the whole subject from the point of view of the conditions prevailing in the provinces. So, what this Resolution recommends is that the whole subject should be studied and the new system suggested by the Reserve Bank should be further examined and then we can discuss the matter at the next Conference after we have obtained full data on the subject. A discussion on the merits of the system at the present stage would be premature.

The second part of the resolution requires no explanation. Obviously, if it is prescribed it must be adhered to. But the reason why we felt it advisable to put it in was that it was brought to our notice that in certain cases the principles laid down for fluid resources have not been strictly adhered to. I, therefore, trust that, after Mr. Ambegaonkar has explained the new system which he suggests should be introduced, this Resolution will be generally accepted.

Mr. K. G. Ambegaonkar: Sir, the system which the Reserve Bank has recommended has already been explained in detail in the Circular which was issued a few months ago to all the Provincial Co-operative Banks and Central Banks and sent to all the Registrars. What the Reserve Bank has suggested is the viewing of the problem of the safety of deposits in the Central Banks from a slightly different angle and from an angle from which the commercial banks usually consider it. So far, we have had standards of fluid resources laid down in each province. Even in this respect, there are considerable differences and they are not the same everywhere. But what we feel is that by merely laying down standards for fluid resources, we are not really considering the question of the safety of the money which we have got on deposits adequately. You might be surprised that I should say so because after all the fluid resource is there and if it is adequately and properly maintained and is invested outside the movement then you would think that it should be enough to provide for the safety of the bank. The trouble, however, is that if you only confine your attention to the question of the fluid resource and do not consider the distribution of your other assets and the manner in which they should be invested, then you find that it does become difficult after a little while even to maintain the standard of fluid resources laid down. That has been actually the experience in those provinces where the Central Banks have come into difficulty. I myself feel that it is not that these Central Banks have without any reason given up the fluid resources which were prescribed but it is simply because they did not realise properly the necessity of studying the distribution of their assets. What happens is that, first of all, you start by maintaining an adequate fluid resource. As soon as you get your deposits, you see that the percentage laid down by the Registrars in the provinces is kept separate. Then, as you go on, if the bank is not working satisfactorily, you find that your losses are exceeding and gradually your own assets go on disappearing. The first effect of any loss on any bank is to reduce your own capital. I am now speaking of those banks which have come into difficulty. In this way, the capital goes on being reduced without being properly realised because very often the extent of the debts that are going to be bad is not realised and it is very difficult to know what is going to be bad. As soon as losses start in the bank and your own capital goes on disappearing and you are not getting fresh deposits, then you find that it is not possible for you to keep the standard of fluid resources, so that as a matter of necessity in the case

of those banks which have come into difficulty the standard of fluid resources is not kept up and then it is no use advising the bank that it must keep up the fluid resource because it is not possible for it to do so. Several Registrars have tried their best to make these banks adhere to the fluid resources prescribed but it has been actually found in practice that the banks could not do it. Our position is that if you view the question of the safety of the deposits from a very comprehensive point of view and that you do not lay emphasis only on the question of the fluid resources but on the distribution of the whole of your assets, then it is possibly more easy to understand that you are running into a danger zone. You start by considering what should be the money which you have to keep in cash. The whole point is that in case of small fluctuations in the withdrawals of deposits and the new deposits that you receive, you should be able to meet them without having to dislocate your own business. Next, the Reserve Bank has suggested that a substantial portion of the deposit money should be invested in Government securities. I need not explain this point in very great detail. The idea is that you should keep a certain amount of your funds invested in such a way that you can either borrow against them or realise your money at a short notice.

The third thing that the Reserve Bank has suggested is that that the amount of loans which you should give should not bear a greater percentage than that of 50 to 55 to your deposits. It has been said that this will make it very difficult for the Central Banks to work. Either they will work at a loss or they will have to have a much wider margin between their borrowing and lending rates. Those who raise this contention lay more emphasis on the other side of the business, namely, the lending side of it. They want to see that the money reaches the cultivators at as low a charge as possible. This is a very commendable idea. At the same time, if you are running a bank and if you are obtaining your money on deposits, you have also got to consider the safety of the bank itself, which is a very essential thing. The difficulty about the whole matter is that those who have been fortunate enough not to have to face the troubles and the complexity into which some of the provinces are involved, simply cannot realise the danger of conducting the business in such a way that your assets get locked up and you are not able to meet withdrawals. The contention usually is that the deposits are generally renewed even though they may be of short term. That is, however, like the attitude of a person who has never been robbed and who thinks that he is always safe. The fact that no thief has tried to enter his house so far does not mean that he may not have to face that sort of thing some time in life. Therefore, all of us have got to take precautions of safety and the bank has also got to consider that even though it may run itself on a sound basis, there are extraneous circumstances which may lead to a run on the bank. For instance, some Central Banks have experienced this sort of thing at the beginning of the war when there was a little bit of panic and several people withdrew their money. Sometimes there is a failure of a bank nearby. Your own bank may be absolutely sound but the effect of the failure of the other bank is a run on your own deposits. So that, in spite of the fact that your deposits are generally always renewed, you have all the time to consider the possibility of their being a run on the bank. It is for this purpose that these various proportions have been recommended and though they may result in your having to deny yourself the possibility of lending as much as you would like to your societies and at as low a rate as you

like, there is no getting away from the fact that for the very existence of the banks themselves they have got to take these precautions.

I also feel that I should meet one criticism that has already been made, namely, that, taking into consideration the margin which is generally maintained by the Central Banks at present, these proportions will inevitably lead to losses. Certain figures have been collected by some persons but I feel that in this matter the fact that you could get a large part of your deposits at a very low rate if you take them for a short period or the fact that you could get deposits for practically no interest if they are taken as current deposits is not taken into consideration. After all, the borrowing rate of the bank is the average borrowing rate for all kinds of deposits. If you simply base your calculations on the rate of interest which you pay on deposits for one year, then naturally there may not be sufficient profit left. But if you take into consideration the possibility of attracting deposits on current account or for shorter periods at a lower rate of interest, then it may not be necessary to increase the margin between borrowing and lending rates. This is a matter of finding out a practical way of getting over this difficulty but there is no possibility of getting away from the fact that safety must be the first consideration of all the banks and therefore these distributions which have been suggested have got to be considered.

There is one more point which I should like to make clear and that is that these distributions which have been suggested are based on a study of the balance-sheets of commercial banks. So far as the point is concerned that the co-operative banks stand on a different level, I have already said that, so far as they depend for their funds from the public, there is no distinction and they have got to take the same steps. The other point is that these proportions which have been laid down are a kind of standard which you have to keep up before yourself. It does not mean that it cannot be deviated from under any circumstances. Actually, the whole idea of keeping a large amount in Government securities is that during times of emergency you can utilise that amount for borrowing in order to extend your credit activities, so that these proportions are just the standard which you have to keep all the time in your mind in order to be on the safe side. But it does not mean that during times of stringency or during times when it is necessary to extend credit you cannot increase them. Also, it may be possible in the case of those banks whose capital is derived from longer term deposits to have a less margin of safety, that is to say, they might have a larger proportion in loans and a smaller proportion in investment. The figures which have been given by the Reserve Bank are for the purpose of guidance only. If you view it from this point of view, then I hope there will not be much difficulty for the Central Banks or the Provincial Banks to adhere to them. I have found that most of the Provincial Co-operative Banks actually do observe these proportions and even in the case of Central Banks in one province which I visited recently when a vehement controversy was going on whether these proportions can possibly be adhered to, one of the officers himself said that he had gone into the figures of all the Central Banks and he found that taking the consolidated figures these were the proportions which were maintained. So, you will see that it is not impossible to maintain these proportions even in the case of Central Banks. I would therefore suggest that you should all give a thought to the necessity of

viewing the balance-sheets of your banks from the point of view which the Reserve Bank has recommended and consider whether it may not be safer and sounder in future, irrespective of the standards of fluid resources which you may have to fix, to consider the balance-sheets from this point of view.

The Honourable Mr. V. Ramadas Pantulu: Sir, the resolution as drafted by the Committee is certainly an improvement on the suggestions which were made by the Reserve Bank but I owe it to the provincial banks in India to state what we feel in this matter. The provincial banks are quite alive to the necessity of observing a very conservative policy and of being cautious in regard to the loan policy so as to secure both fluidity and strict security for the loans, and we value the recommendations of the Reserve Bank very greatly. But the difficulty is this. We in India have now for a long time been working on a different system—the system of fluid resources—prescribed by the various Provincial Governments. In those provinces where the fluid resources have been kept up and observed strictly there has been no difficulty. For instance, in Madras, Bombay and the Punjab we have not found any difficulty in meeting our commitments. If fluid resources are considered to be inadequate and require revision in the light of the recommendations of the Reserve Bank, certainly it may be done where they require modification. But the whole standpoint of the Reserve Bank is different from the practice which is now observed in provincial banks. The Reserve Bank insists upon 50 to 55 per cent. of their assets to be invested in loans and 30 to 40 per cent. in Government securities and 10 per cent. in cash. It is not possible for many Central Banks to comply with this. They can work on the present standard without any difficulty in regard to either maintaining the safety of their loans or in regard to meeting their commitments. I have circulated to the Chairmen of the various provincial banks and associations the scheme of the Reserve Bank and I must say that no provincial bank is agreeable to that scheme. One important implication of the Reserve Bank scheme is that unless we put up our ultimate lending rates, it is absolutely impossible for many Central Banks to follow the Reserve Bank suggestions. It all depends upon the margin of income we have on the loans. If we have a larger margin, I daresay we can lend 5 per cent. of our working deposits according to the Reserve Bank scheme. For instance, whereas we charge 6½ per cent. to ultimate borrowers, our Central Banks lend to the Societies at 5 per cent. only. I have worked out all the figures for the 32 Central Banks in the Presidency of Madras and I have shown that many Central Banks would have to work at a loss unless, of course, we increase our lending rate. The trouble now is that many provinces have passed different legislation and they have prescribed the maximum rates of interest which the money-lenders may charge. I find on working out the details that, unless the co-operative banks charge a higher rate than what the money-lenders are allowed to charge under these Acts, we cannot really work out that scheme. That is my difficulty. However, I am only voicing the feelings of the provincial banks in this matter, and the Committee which sat yesterday has considerably mitigated the rigour of the Reserve Bank's original plan. All that the resolution aims at is that we should pay considerable attention and respectful attention to the suggestion of the Reserve Bank in revising fluid resource standards. We shall certainly do it. But if it is in any way intended that we should follow it as binding, then I must enter a mild but emphatic protest that we are not going to do it.

After some discussion, the wording of the resolution was, on the motion of the Honourable Mr. Ramadas Pantulu, changed as follows:

“This Conference recommends that the scale of fluid resources fixed for each province should be *reviewed* in the light of the distribution of *working capital* as suggested by the Reserve Bank and the results to be put up before the next conference. In any case the scale of fluid resources prescribed by the appropriate authorities should be strictly adhered to.”

Mr. F. B. Wace, I.C.S. (Punjab and N. W. F. P.): Sir, I do not want to say very much because the resolution as it has finally emerged is so very non-committal that I don't think anybody will have much difficulty in accepting it, but I do wish to make one or two comments. As Mr. Ambegaonkar has himself admitted, he has found that the distribution of assets in most of the central banks are very much in the proportion he has recommended, and it certainly strikes me that the recommendations made by the Reserve Bank were founded very much more on their own reflections on commercial banks than on a real examination of what co-operative banks have been doing. He also implied that the only regulation binding on central banks was the matter of fluid resources and that the rest of their business was more or less left to chance. I think he is very unjust to the general administration of co-operative banks which have not only prescribed fluid resources but have also laid down from time to time rules according to which their funds should be invested.

There is one further small point about this distribution of assets, and that is the matter of cash balance. The Reserve Bank has prescribed a somewhat larger cash balance than is kept by co-operative banks, and we have always maintained that the preservation of a high cash balance is not only unnecessary but that it is also a potential danger, and I certainly think that the central banks would be ill-advised to accept this proportion as it stands. Generally speaking, I think the central banks will be well advised to observe the general principles laid down; at the same time it should be recognised that it is not something new which has been forced upon them, but it is only a different way of looking at the principles which they already follow.

Mr. S. K. Chatterjee (Bengal): We have heard the Honourable Mr. Pantulu about fixing fluid resources. I believe there has been some distinction about assets and working capital. Will it not be more appropriate to call the fluid resources as borrowed capital?

The Honourable Mr. Ramadas Pantulu: Yes, fluid borrowed capital is right.

Mr. K. G. Ambegaonkar: The proportions suggested are really in regard to borrowed capital, but what the speaker implies is something different. He implies that so far as your owned capital is concerned the entire amount can be invested in your loans; something has to be done even in regard to your owned capital, and you have got to take some kind of precautions. I don't want to accept his implications

Mr. S. K. Chatterjee: I wanted to say that the whole capital can be utilised to a larger extent in loans.

Chairman: I think the general feeling is that the Resolution as it stands is quite clear.

Sir Madhorao Deshpande (C. P.): I have to make a few observations. Cash balance is always kept with the bank without interest. If the suggestion of the Reserve Bank is accepted that 10 per cent. of the deposits should be kept with them, then the provincial banks will have to suffer a great loss. I suggest that the percentage should be reduced to 5 instead of 10, because if the central and provincial banks are compelled to deposit 10 per cent., they will suffer a great loss.

The Honourable the Chairman: I think these are matters to be considered by each authority. A particular standard is not laid down. I think the resolution now as amended may be taken as approved.

I now come to No. (2) Mr. Bhide will kindly explain the Resolution.

DRAFT RESOLUTION NO. 2.

This conference recommends that Primary societies should only give short and intermediate term loans repayable in a fixed period ordinarily not exceeding three years and with due regard to the purposes of the loans.

Mr. M. R. Bhide, I.C.S.: In moving this Resolution I have a feeling that I shall be attacked on the one side by the Reserve Bank for not going far enough, and by certain provinces for going too far. This Resolution deals with the question of the period of loans as recommended by the Reserve Bank in para. 10 of their circular of the 10th June. That circular says that co-operative banks should not lend for a period longer than 9 months as the agricultural cycle is normally 9 months. The Reserve Bank does not advise central banks to lend money to their societies for periods longer than 9 months. On the other hand, all the Registrars of co-operative societies and the delegates from the provincial banks will admit that co-operative banks have in the past been lending money for longer periods. It is now admitted by all that giving long-term loans is not the function of a co-operative central bank but that there should be a special agency for this like the Land Mortgage Bank. That leads us to the question whether short-term and intermediate-term loans should be given by central co-operative banks. I believe the Madras view is that the period may be as long as 5 years; the Reserve Bank view is it should not be longer than 9 months; but in deciding the period we must admit that it may be possible to lend a certain amount of money for six months, some for a year, and some for two or three years and so on; it will have to be exceeded only in exceptional circumstances. For instance, I might quote the case of my own province. In the Punjab we have now classified our loan business roughly into three categories, one is crop loans, the second is cattle loans and the third is miscellaneous which includes small loans for marriage, etc. The criterion we have fixed is one harvest, i.e., a six-monthly period for a crop loan; loans for cattle are normally advanced now for periods between two and three years and the other loans according to the type of the loan and the size of it. So in fixing this period of 3 years, I don't suggest that there should be a limit which should never be exceeded, but the object should be to come down as far as possible. That we should keep 3 years as the limit which should never be exceeded even in special circumstances is a proposition which I cannot accept.

Mr. K. G. Ambegaonkar (Reserve Bank): I am afraid Mr. Bhide has probably misinterpreted our views in saying that the Reserve Bank has recommended that loans should be given for 9 months only. The Reserve Bank has said that short-term finance should be the main function of the central bank, and that if they find it necessary to lend for other purposes for a longer term, then that money should be found from their owned funds so that they may not jeopardise their deposits.

Mr. E. C. Anson (Orissa): I should like to know what is the intention of this proposal. Is it intended that the duration should be provided for statutorily in the bye-laws and in that case who should be the authority to vary or allow more extended periods, or is it intended merely to express the pious hopes which have been expressed for a great many years past? Exactly similar proposals regarding the duration and classification of loans have been made before. I remember myself making them as Registrar 10 years ago, and if it is merely another of those pious hopes, I don't think it is going to have any very great effect. I don't know whether the proposal is that this should be given any statutory force.

Mr. M. R. Bhide: This raises the question of different practices in different provinces. In Bombay, I believe, loans are given for fixed periods; in the Punjab they are given without any limit. What we desire by this is that at the time of giving the loan the period should be fixed at 3 years as a maximum. We do not contemplate any change in the law, but it is a thing which will have to be followed up by by-laws or rules or regulations approved by Registrars.

Prof. V. G. Kale: These rules seek to lay down that these loans should be for short periods. The difficulty arises when the loans given for short periods are not repaid in time, and short-term loans tend to become intermediate-term loans, and intermediate-term loans tend to become long-term loans. Now what is to happen if a loan which is granted only for 9 months is not repaid within the period prescribed? Generally extensions have to be granted. Is it intended then that as soon as the period is over, coercive measures should be adopted to recover the loans? I should like to know whether the implication of this Resolution is that if loans are not repaid within the prescribed period, immediately coercive measures should be adopted to recover them? In many cases we find serious difficulties; there is the award, and it takes years and years to recover the loan, so that these short-term loans become long-term loans.

Mr. S. K. Chatterjee (Bengal): We have always been giving three years' loan to members of primary societies with the result that a large number of these loans have become frozen. Recently all the central banks have decided that short-term loan should not exceed one year, and we have found very good results. If we introduce the same question then the very same society would give loans for 3 years again, we will be faced with the same difficulty which we are experiencing now. If primary societies have to cater for only short-term loans of one year, then this should be made clear. If there is necessity for intermediate-term loans for purchase of cattle or for minor improvements of lands, etc., this should be done by some other agency like the Land Mortgage Banks. I don't want to introduce another agency between primary societies and the central bank. A portion of these loans may be made long-term loans, and it need not be confined to 3 years, because in Bengal we find that in every third year some sort of natural

calamity happening and there is some difficulty in recovering these loans. So these loans may be extended to 5 or 7 years. Therefore I propose that the ordinary village agricultural society should confine itself to granting loans only up to one year; there can be an extension if there is a bad year, but we do not want to impose on village societies the function of giving 3 year loans again, and this should be done by Land Mortgage Banks or any other agency.

Rai Bahadur S. N. Sahay (Bihar): There is no doubt that the primary societies as at present constituted are the best suited to give short-term loans, but the real difficulty is that the co-operative movement has to arrange for all the needs of a member. A member does require not only short-term but long-term loans also, and if it is decided that a member should go for long-term loans to a village mahajan, the difficulty will be that although the short-term can be recovered, the village mahajan who is on the spot takes all that he gets, being on the spot, out of the crops from which you desire to recover your short-term loan. Therefore, in the province of Bihar it was at one time circularised that attempts should be made by co-operative societies to pay off the old debt of the mahajan and to see that the member does not take any more money from the mahajans. This led to long-term commitments, but we find that even if we pass a resolution that primary societies should confine themselves to short-term and intermediate-term loans, the difficulty will remain in those provinces where there are no land mortgage banks nor any other arrangements for catering to the needs of a member. This will be all right in provinces where there are land mortgage banks; but in a province like Bihar where there are no land mortgage banks, I don't think by passing this resolution it will have any effect. Therefore, we must keep in view in passing this Resolution whether it can be given effect to in all provinces.

Mr. Bhide: I am afraid there is some misapprehension; it should read central banks should lend and not primary societies.

Mr. T. M. Desai (Baroda): I might here mention our experience in Baroda. During the last 10 years every society which gave long-term loans either for repayment of old debts of members or even for agricultural improvements, with the exception of two has gone bad. I don't suggest that other societies have not gone bad, but those societies which gave long-term loans, with the exception of two, have all gone bad. It should not be the business of primary societies to give long-term loans. We have found that even short-term loans have tended to become long-term loans.

The Honourable the Chairman: Your point, Mr. Kale, is one for the administration.

Prof. Kale: I want to know exactly what will happen to these loans.

The Honourable the Chairman: That would depend entirely on the borrowers. There may be circumstances in which an extension for repayment may have to be given, but every case must be examined on its merits. I don't think you can put in everything in a Resolution. The Resolution before us is a very flexible one.

As regards the point raised by the Member from Bihar that because there are no Land Mortgage Banks, therefore the primary societies should take their place,—I think the resolution should encourage provinces to start land mortgage banks rather than reverse the process.

Mr. Satyanarayana: Short-term loans are required by the cultivators not only for cultivating paddy but also for buying manure. Generally they put a sort of manure which lasts for 5 years. The agriculturist must purchase special manure and then put it in the soil which will last for 5 years. In the case of sugar-cane he has to buy bamboo which also will remain for 3 or 5 years. Therefore, not only members of primary societies must borrow for raising crop but they must also borrow from co-operative societies short or intermediate loans which will be for 3 or 5 years. Only the primary societies can do it. I have started a multi-purpose society in my area. During the last few years I have given money for raising crops, for purchasing manure, for buying bamboo, vessels, etc. Therefore, the multi-purpose society can take up short-term loans for raising crop and small things. Take the case of an agriculturist who wants to get a cart say for Rs. 200. He cannot go to a Land Mortgage Bank for it. Therefore, the primary society must be in a position to help him with a loan for 3 or 5 years.

Mr. S. K. Chatterjee: I want to propose an amendment. The primary societies should only give short-term loans repayable in a fixed period not exceeding one year. . . .

The Honourable Mr. Ramadas Pantulu: The resolution as it is worded is quite elastic. I appreciate the point of view of Mr. Arshad Ali from Bengal. If there are provinces which do not want to give loans, we do not compel them at all, but I feel that the legitimate function of a co-operative society is to finance the agriculturist for short and intermediate purposes. It is difficult to lay down an exact period, because in the case of some crops, the land is under the crops for 12 months, and there must be some margin left for the value to be realised and then repaid to the society. Therefore the period depends on each case and I think the wording may be left as it is.

Mr. Wace (Punjab): I suggest a small change. The Resolution relates to primary societies. I think it will be well to say primary societies other than land mortgage banks.

K. B. Nur Muhammad (Punjab): I submit there is a difference between commercial banking and our banking. The sole object of commercial banking is to earn profits and give dividends while co-operative banking is organised for the uplift of the masses. Therefore you cannot judge the two from the same point of view. For instance, Mr. Pantulu has calculated that if we worked according to the distribution of assets as suggested by the Reserve Bank a margin of about 7 p. c. would be left to us. It would be the same in my province; but it is impossible for a co-operative bank to work on that small margin. Similarly this question of fixing a limit for loans should be discussed and decided by Provincial Governments where conditions and circumstances vary, rather than here. In some provinces crops can be carried to a marketing limit within a year whereas in other provinces it cannot be done. Therefore I suggest no limit should be fixed which will handicap them but the discretion left to the provincial organisations should be wide enough and land mortgage banks are difficult to organise in the Punjab on account of certain statutory difficulties. Therefore the character of the Resolution should be advisory and not mandatory.

Mr. B. G. Desai: This question of the period is a very intricate one. My friend there proposed that in provinces where there are land mortgage banks the question of short-term credit is very simple. The agriculturist mortgages all and his credit is rather shaken. He does not go to the mahajan because he will not give him a loan without security. So the question of short-term loans from a primary society or agricultural society is also a very intricate question from that point of view because the society also would demand some kind of security. So the period should be left to each society or each bank rather than be decided here. So every society has to be careful regarding short-term loans. In a good year the agriculturist tries to fritter away his earnings and the society has therefore to see that the short-term loan is repaid as early as possible. The societies must also advise them, when they make profits, to pay up the older and longer debts. So short-term should not be defined but be left to each society or each bank.

Sir Malcolm Darling: This Resolution originated as a protest against the recommendation of the Reserve Bank that short-term loans should ordinarily be confined to nine months and for the purpose of financing crops like sugar-cane, somewhat longer. We considered that as hampering the primary societies and we recommended, if there was to be a limit, a limit of three years. We thought it unwise to go beyond that because we thought that long-term loans were not the proper business of an agricultural primary society. So this recommendation means that the operations of agricultural primary societies other than land mortgage banks should be confined to short-term and intermediate loans and that the proper limit for such loans should be three years leaving it to the discretion of each society to fix a shorter period as circumstances require.

Mr. E. C. Ansorge (Orissa): I strongly support the Bengal amendment and we should lay down the period for short-term as well as intermediate loans. Otherwise, as happened in Bihar in the early days of the co-operative movement, four or five years was regarded as the normal period for a loan. I should not like this Resolution to back the same principle and therefore the normal maximum for short-term loans and intermediate loans should be given separately.

Sir Malcolm Darling: I agree with Mr. Pantulu. I would deprecate the introduction of the further complication of short-term and intermediate loans and leave it to each province and each society to decide in each case as to the length of a particular loan. The Resolution as it stands is quite elastic and no further complication should be introduced.

The Honourable the Chairman: It seems to me that the general feeling is that the Resolution is flexible and gives enough latitude to each province to deal with short-term and intermediate loans. And I think the Conference is generally in favour of the Resolution

[Resolution adopted.]

DRAFT RESOLUTION NO. 3.

Mr. Ambegaonkar (Reserve Bank): I beg to move this Resolution which reads as follows:

"This conference recommends that Provincial and Central banks should, in their Balance Sheets, show the amounts advanced for more than one year and the amounts held for more than one year. Bad and

doubtful debts should be carefully estimated and shown in the Balance Sheets."

This is non-contentious and well-conducted banks are following this practice. A bank must understand the nature of its loans and therefore we have suggested the classification of loans into those advanced for less than one year and those advanced for more than one year. It will indicate to the bank at a glance how much has been lent for short-term purposes and how much for a longer term. In order to provide for the other contingency of short-term loans becoming long-term it also says that loans advanced for less than a year but outstanding for more than a year should also be shown along with loans advanced for more than one year.

The second classification is in regard to bad and doubtful debts. This needs no explanation as all banks understand the necessity of showing them. Only what is stressed here is the necessity of scrutinising their loans after every year and assessing the bad and doubtful debts and showing them in the balance sheet. I hope the Resolution will commend itself to the Conference.

Mr. Chatterji (Bengal): I think in view of the last Resolution which we have passed "three years" should be substituted for "one year".

The Honourable Mr. Pantulu: I think the Resolution as worded is unobjectionable. Short-term loans are one-year and it is better to have in the balance-sheet a statement as suggested in the Resolution.

Rai Bahadur Pt. Radhe Lal Chaturvedi (U. P.): I suggest that for the word "held" the word "outstanding" should be substituted.

(The amendment was accepted and the Resolution, as amended, was passed.)

DRAFT RESOLUTION NO. 4.

Mr. Ambegaonkar (Reserve Bank): I beg to move Resolution No. 4 which stands in my name:

"This Conference recommends that in the Balance Sheet all unrealised interest should be shown under the following heads:

- (i) *Interest recoverable from D class societies (and also E class societies where this class exists).*
- (ii) *Interests recoverable from societies under liquidation.*
- (iii) *Interest recoverable on other bad and doubtful debts.*
- (iv) *Other interest recoverable—*
 - (a) *Interest earned on accounts on which no interest is overdue.*
 - (b) *Interest on accounts on which interest is already overdue."*

The treatment of overdue interest was considered at the last Conference which passed the following Resolution:

"This Conference considers that in future all accrued interest may be appropriated to reserve and dividend, provided it is not due on an account in respect of which interest is already overdue, and further that all other unrealised interest (including all overdue interest) be excluded from appropriation."

Thus the last conference has already accepted the principle that all unrealised interest should be excluded from appropriation and therefore there is no reference to appropriation of unrealised interest in this resolution, what is sought to be done in this resolution is that unrealised interest is classified in more detail and I think the categories laid down are sufficiently clear. In cases (i), (ii) and (iii) it is intended that where the debts themselves are already bad or doubtful or the society is in liquidation or not working properly, you have to be careful about unrealised interest. Class (iv) (a) may be considered unnecessary because though the interest has not been actually recovered the account itself is not bad. Still as it is considered safer to exclude unrealised interest from appropriation this has been provided for. Class (iv) (b) is quite clear. So the principle agreed to at the last Conference is now elaborated in greater detail.

Rai Bahadur S. N. Sahay (Bihar): I should like to know what useful purpose will be served by this classification.

Mr. Fazlullah (Hyderabad): Will this apply to central banks or to provincial banks also? The intention is not clear.

Mr. Ambegaonkar (Reserve Bank): It was intended to apply to both. In fact all the recommendations made under "FINANCE" refer to provincial as well as central banks. The difficulty is that in the case of provincial banks it might be difficult to find out what are bad and doubtful debts, but in that case they might adopt some kind of mechanical standard as has been suggested in the circular issued by the Reserve Bank. Apart from that, every banker is able, from the period the loan is outstanding and his knowledge of the borrower, to assess approximately the bad and doubtful debts and the provincial banks should also adopt the same policy to assess them. Therefore, I do not think the provincial banks should be excluded.

As to the purpose it will serve, it will indicate your own position as regards interest which you are likely to realise. When Sir Malcolm was going about the various provinces, he directed his attention to the outstanding unrealised interest and in some cases it was difficult to find that out because there were no proper accounts. Therefore I think it is in the interest of the banks themselves to know it and I think it is the practice in ordinary commercial banking also.

Mr. Chatterji (Bengal): I do not understand classification (iv) (a) and (b). Interest overdue from which year, up to what period of time, etc.? I do not think the classification is necessary at all.

Mr. Ambegaonkar: It means that there may be an account on which interest is overdue, which means due and not paid. It must be for the last year. Then there is such a thing as an account which is considered bad and doubtful, and such a thing as an account which is considered good and yet for some reason the interest may be overdue for the last year.

The Honourable Mr. Pantulu: This is a technical point. The first item (a) is taken into the profit and loss account though not appropriated but item (b) is not taken into the profit and loss account. In Madras and Punjab that distinction is made and technically it is necessary.

The Resolution was adopted.

DRAFT RESOLUTION NO. 5.

Mr. Ambegaonkar: I beg to move Resolution No. 5 which is as follows:

"This Conference recommends that the Reserve Fund should be constituted out of realised net profits and should be invested outside the movement in unencumbered trustee securities, approved by the Registrar other than mortgages of immovable property."

This also emphasises what has now become a generally accepted principle.

The practice in some provinces before some years was to take all kinds of unrealised interest towards profit and to appropriate them to the reserve fund. Now, that has generally disappeared. I take it that now almost everywhere reserve funds are generally constituted out of realised profits. The investment of the reserve funds still differs in different provinces. In some cases the reserve funds of the Central banks are invested in the provincial co-operative banks and in some places they are invested entirely outside securities. The accepted banking principle is that the reserve fund which is intended as a guarantee to your borrowers should be kept apart from your ordinary business in order that money should be available to the creditors and therefore it is considered desirable that your reserve fund should be invested entirely outside in unencumbered trustee securities. The insertion of the word 'unencumbered' has a particular significance because very often the reserve fund is invested outside in Government securities but the securities are pledged outside to the full extent for borrowing, with the result that though it is nominally shown as invested in Government securities, it does not exist for all practical purposes. This word 'unencumbered' does also exist by implication in the amendment of the Indian Companies Act with regard to banking companies and there also it is laid down that the reserve fund should be held and should continue to be held in trustee securities. That is the meaning of 'unencumbered'.

Then I come to the last point, namely other than mortgages of immovable property. I do not think it necessary to explain this in detail. Most of you know that under trustee securities loans advanced against first mortgages are also included. That of course is not a proper form of investment for the reserve fund of co-operative central banks and therefore we found it necessary that special mention should be made of this fact. So the full effect of the whole Resolution is that first of all you take only the net realised profits towards the reserve fund, secondly you invest it outside the movement, thirdly you invest it in trustee securities, fourthly that they should be unencumbered and finally these securities should be other than mortgages of immovable property.

Mr. S. A. Venkataraman (Madras): I should like to know whether the term 'invested outside the movement', according to Mr. Ambegaonkar, includes debentures of land mortgage banks, classed as trustee securities.

Mr. Ambegaonkar: They should be included because they come under the term 'trustee securities.'

Mr. S. A. Venkataraman: In Madras the bulk of the reserve fund is invested in debentures or Government securities. What would Mr. Ambegaonkar have to say of a position like that?

Mr. Ambegaonkar: If there is a regular rule that all the reserve funds should be invested by the provincial co-operative banks in trustee securities, then there is no objection. It amounts to the same thing. That is also the practice in C. P. and Berar. There should be a cent. per cent. cover in the form of trustee securities in regard to the reserve funds of central banks invested with Provincial Banks.

Mr. Satyanarayana: Our primary societies place the reserve fund in the provincial banks. Is that outside the movement. How would you advise the funds of the primary societies to be invested?

Mr. Ambegaonkar: This refers only to the central and provincial banks. It has nothing to do with primary societies.

Sir Malcolm Darling: That is not made quite clear. I think we should add the words 'the reserve fund of provincial and central banks.'

Mr. Chatterjee: The meaning is made clear in the Resolution. You say that the Central banks and the provincial banks should invest the money outside the movement. If the reserve fund of the Central Bank is sent to the Provincial bank and the provincial bank invests it outside the movement, will it be sufficient compliance. If that is so, it ought to be made clear in the Resolution itself.

Sir Malcolm Darling: We might say that after the word 'investment' we might insert the words 'either directly or through the provincial banks concerned'.

Mr. Chaterjee: That will be all right.

Rai Bahadur Pandit Radhe Lal Chaturvedi (U. P.): There are trustee securities in which both interest and principal is guaranteed by Government. There are others in which only the payment of interest is guaranteed. Will Mr. Ambegaonkar add the words after the words 'on which both the interest and principal are guaranteed by Government' after the word.

Mr. Ambegaonkar: They are also trustee securities I do not think we need go into details.

Rai Bahadur Pandit Radhe Lal Chaturvedi: Take the 3½ per cent. securities. They are subject to violent fluctuations.

Mr. Ambegaonkar: The practice of banks is to select as far as possible short-dated securities.

The Honourable Mr. Pantulu: The words 'approved by the Registrar' are there.

The Honourable the Chairman: I think you can safely leave this to the discretion of the Registrars.

I take it that the Resolution as amended in the following form is acceptable to the Conference:—

The amended Resolution was carried.

DRAFT RESOLUTION NO. 6.

Mr. Ambegaonkar: Sir, I move the next Resolution:

"This conference recommends that Banks should not ordinarily borrow for long periods when rates of interest are high and should obtain their money as cheaply as possible".

Actually this Resolution itself was a compromise in the committee. The recommendation made by the Reserve Bank was that the banks should as far as possible get their funds cheaply by confining their borrowing to short term, that is to say, they should borrow up to two years and should not go in for long term deposits and they also suggested that the money should be borrowed as cheaply as possible. Now, this position that the banks should confine their borrowing to two years was not accepted by the committee. One point of view was that when the rates of interest are cheap, the central banks should borrow for as long a period as they can in order that they may take advantage of cheap money condition. I myself do not like that position. I believe that the best policy for all banks is to limit their borrowing to two years. When the rates rose to 6 per cent. as in the last war and subsequently came down to 4 per cent., people might have thought that money had become cheap and they would have been tempted to go in for long term deposits and if the rates had fallen still lower they would have found themselves in considerable difficulties. If you know absolutely that the rates have reached the rock bottom, then it might be advantageous to borrow for long term but it is ordinarily difficult to know this. If your judgment has gone wrong, you are bound to be in difficulty. The safe policy is therefore not to borrow for more than two years and actually you will find that the commercial banking practice also is this. They don't go in for this kind of speculation. The reason is clear. When you have to pay a higher interest to your depositors you will generally find that there is a certain amount of prosperity in the country. For instance, during war time the rates of interest have a tendency to go up but at the same time the income of the agriculturist also shows a tendency to go up. Therefore even if you have not got cheap money it is not a particular hardship. It is therefore better that you should try to regulate your borrowing rate according to the conditions of the money market rather than try to hedge by trying to take advantage of cheap money conditions. But this is not the proposition which is being discussed. What this Resolution says is that banks should not borrow for long terms when the rates of interest are high and should obtain their money as cheaply as possible. This may be thought to be an unnecessary Resolution but those who have never made mistakes do not understand that there are others who can and do make mistakes. People who have gone round the country three or four years ago may have discovered that several banks were in difficulties because they had taken deposits for long periods at high rates of interest. They could not reduce the interest on these borrowings even though the rates had subsequently gone down and the poor agriculturist was not able to pay the high rate of interest. It is therefore necessary that we should reiterate the sound principle that banks should not ordinarily borrow for long term when the rates of interest are high and that they should borrow for as short a period as possible.

K. B. Arshad Ali (Bengal): What will be the rate for three years?

Mr. Ambegaonkar: I don't think you can lay down any absolute rule about it.

Mr. Zaman (Bengal): What is the suggestion of the Reserve Bank?

Mr. Ambegaonkar: I do not think there can be any exact mathematical relation between lending and borrowing periods. There has got to be a certain amount of relation of course.

Mr. Ansorge: I think Mr. Ambegaonkar does not realise the reasons why banks have been taking long term deposits. The reason why they take these long term deposits is because they think it is wiser to take them and not because they want to pay more than they need pay. We can certainly adopt this as a wise policy but it does not improve the position.

Mr. Chatterjee: I think we should drop the Resolution. The banks have to deal with the situation as they find it and I do not think this Conference can lay down any general rule.

Sir Malcolm Darling: I should explain that the Resolution was almost forced upon us by circumstances. I myself thought that the recommendation of the Reserve Bank was an unwise policy. Ever since money became cheap, I have always urged that banks should get a certain amount of their money for as long as possible in case money became dear again. As a result too of the fall in prices most banks have frozen loans and it would obviously it would be wise on their part to get a certain amount of long term money to cover them. Those are the two points I had in mind. It is really a compromise. The last part of the Resolution was greeted with a certain amount of laughter because gentlemen regard it as self-evident. My experience compels me to say that many central banks pay more than they need pay. The reason they generally give is 'we must consider the interests of our depositors'.

The Honourable Mr. Pantulu: I think the Resolution puts forward only a very elementary maxim.

Mr. Hasan (U. P.): Is this intended to apply to central banks or land mortgage banks as well. The second point I would like to know is whether the mover of the Resolution intends this to apply to the provincial banks also?

Mr. Ambegaonkar: This has nothing to do with land mortgage banks.

The Honourable the Chairman: May we as a compromise, omit the second part of the Resolution which says 'and should obtain their money as cheaply as possible.'

Prof. Kale: This makes the whole thing very colourless. It might be necessary for some banks to borrow at high rates in certain circumstances. Our experience is that sometimes our money is locked up and in those circumstances we have got to strengthen our position. I would suggest that the whole Resolution should be dropped.

Sir Malcolm Darling: As Chairman of the Committee which was responsible for bringing this Resolution before the Conference, I have no objection if this Resolution is dropped.

The Resolution was dropped.

The Conference then adjourned for Lunch till 2-45 P.M., the afternoon session to be presided over by Sir Malcolm Darling.

The Conference re-assembled after Lunch at a quarter to three, Sir Malcolm Darling in the Chair.

DRAFT RESOLUTION NO. 7.

Rai Bahadur Pt. Radhe Lal Chaturvedi (U. P.): I move—

"This Conference recommends that loans should be advanced in the form of seed, fertilisers and implements where practicable after a survey of requirements."

This is a thoroughly non-controversial resolution and I hope it will meet with unanimous acceptance. In European countries like Ireland and Denmark wholesale supply societies have been organised which supply these requirements to their members: they have been doing splendid work and are progressively getting popular. The advantages are obvious. The danger of misuse disappears for one thing, and for another, bulk purchases reduce the cost to members. Having regard to the volume of business and the overhead charges, the work is beyond the scope of an ordinary individual society. It can only be taken up conveniently by a central society which can supply the requirements of a compact area. Mr. Ambegaonkar has suggested that this work should be taken up by banking unions. I may say that banking unions have, with one exception, failed in our province and I doubt very much if they will be able to take up this additional work. My suggestion is that either a central society should take up this work or it should be tacked on to marketing unions organised for the sale of members' produce.

The Resolution was adopted.

DRAFT RESOLUTION NO. 8.

The Honorable Mr. Ramadas Pantulu: I move the following Resolution:

"This Conference recommends that as regards the guidance, supervision and control by the Provincial Banks over the financial policy of Central banks—

- (i) *All co-operative banks should send a monthly statement of their financial position to the provincial bank:*
- (ii) *provincial bank may act as an investment agency for the affiliated central banks. Those central banks which want to invest their funds in securities direct should consult the provincial banks or the Financial Adviser, if any, before doing so.*
- (iii) *The rate of interest in co-operative banks on deposits should not exceed the lending rates of provincial banks on loans given for similar periods.*

(iv) *The Provincial bank should have a right to inspect central banks and to bring to the notice of the Registrar any serious defects in their working.*"

As regards part (i), I know it is done now. The Reserve Bank suggested weekly statements but we thought them unnecessary and we have adhered to the monthly statement.

As regards part (ii) this is enabling the central banks not having the necessary information or the technical advice necessary to invest their funds safely at remunerative rates. The provincial banks should therefore act not only as a financing agency but also as an investing agency. In Madras we charge specially low rates—one anna per cent. for the central banks as against two annas for others—for this kind of work.

As regards (iii), this is a necessary corrective to central banks paying high rates of interest on their deposits. We have definitely linked the borrowing rate and the lending rate.

As regards (iv), there is a specific section—40—in the Madras Act enabling the provincial bank to inspect a central bank. In the All-India Act there is no such provision, and I hope when the Act is amended they will insert some such provision enabling the financing banks to inspect societies financed by them.

The Resolution is intended to co-ordinate the policies in regard to borrowing and lending of the central banks and the provincial banks. In Madras and Bombay this co-ordination already exists and I hope this resolution will have this effect where it does not already exist.

Chairman (Sir Malcolm Darling): We will take up the Resolution part by part.

Sub-clause (i)

Khan Bahadur Malik Nur Muhammad: In the Punjab we send a monthly statement to the Registrar and it is only as his representative that the Financial Adviser considers this financial statement. I think it should be made obligatory only on those central banks to send statements, which are indebted to the provincial bank and not on all. These central banks are independent institutions and unconnected with the provincial bank except that they get accommodation when necessary. I would suggest an amendment adding the words "requiring accommodation or indebted to the provincial bank" at the end of this part.

Chairman: Does Mr. Pantulu agree to the addition?

Honourable Mr. Ramadas Pantulu: No. Sir. The idea is to make the co-operative movement an organic whole, all the parts being inter-related not as loose units dealing with each other as and when they choose but as integral parts of one whole. It should not be left to any central bank to say that they will not send statements. The provincial bank should know the financial position of all the central banks from time to time and not merely when they want accommodation. Of course the central banks should depend on local money and local deposits but at the same time the relations between the provincial bank and the central banks should not be loose.

Prof. V. G. Kale: It will not be possible to do this in Bombay because we have gone even further: a central banks' association has been recently established—but not yet registered—and this does the work of co-ordination: the provincial bank is a member of this association, but it also works as a central bank in two or three districts. This association will exercise all superintendence and control and will get all these statements monthly. I suggest the words "or in the case of Bombay by the Central Banks' Association" be added at the end of this part.

Khan Bahadur Malik Nur Muhammad: I only think it might mean duplication of work and dual instructions and that is why I want the words "requiring accommodation" to be added.

Mr. W. B. Lakhe (C. P.): There are some central banks which do not borrow a single pie from the provincial bank. Perhaps if the statements are sent to the Registrar it will solve all the difficulties.

Rai Bahadur Pt. Radhe Lal Chaturvedi: I support Prof. Kale's amendment. I agree thoroughly with the view that all co-operative banks should be integral parts of one structure.

Mr. S. K. Chatterjee supported the original resolution.

Mr. Satyanarayana also supported the original resolution.

Chairman (Sir Malcolm Darling): I think the sense of the Conference is in favour of the Resolution with the addition of the point made on behalf of Bombay.

Sub-clause (ii).

Dewan Bahadur Gandhi: As regards part (ii), why should the central banks be made to pay double charges?

Chairman (Sir Malcolm Darling): I imagine there will be no charge made for this kind of consultation.

Prof. V. G. Kale: I object to this part as most of our central banks are in a better position to invest their funds than the provincial banks—especially in Gujerat. The provincial bank would not like to interfere in this matter.

Mr. Ambegaonkar: We are only passing a general resolution and it may stand as it is. Mr. Kale apparently wants that it should not apply to Bombay.

Chairman: If it is not to apply to Bombay I think it should be expressly stated.

Rai Bahadur S. N. Sahney: The whole idea of the resolution is to assist central banks and not to take away from them any right they may possess. Perhaps in some parts of India the central banks may have better advice than the provincial banks but that is not the case everywhere. This resolution lays down a very sound proposition. Apart from the general principle of co-operation, I do not think anybody should say that the provincial bank should not do this or that. The provincial bank

is an apex institution. That is the idea. Perhaps they may be devising in Bombay a new apex institution like the central banks' association. As a matter of fact that body is not registered yet and I am not happy at the inclusion of the words which you have agreed to even in the first part because we do not know what is actually going to be the nature of that institution. The only argument produced against the incorporating the proposals with regard to Bombay appears to be that the provincial bank there deals with three districts as also the central banks. I suppose the provincial bank in Bombay is not merely a provincial bank, but it does work of three central banks. I think there is no sanction behind the Resolutions we are passing. I know of cases where the central banks refused to give a statement and where they refused to listen to the advice of provincial banks and consequently they suffered. The whole idea of this resolution seems to me to be as flexible as possible. In this case Mr. Pantulu wants to be a little more precise. There should be sanction behind this. So far as I am concerned, I will feel much happier if we do not stop with passing pious resolutions.

Prof. V. G. Kale: I only wanted to point out what we are doing in Bombay. It would be very difficult to apply this resolution to our case. I do not however propose to move any amendment.

Chairman: I think we may take it that sub-clause (ii) of (8) is agreed to.

Sub-clause (iii) of draft-resolution (8).

Mr. F. B. Wace: With regard to this sub-clause, I must say that this means in effect that the central banks are compelled to do their borrowing from provincial banks unless they can get their money at a lower rate of interest. I am not sure that is advisable. I do not think you ought to deprive the central banks the right, in cases where they find it difficult to borrow, to do so at a slightly higher rate of interest than provincial banks. In order to attract depositors, the central banks may have to pay slightly higher rate of interest, say $\frac{1}{2}$ per cent. or half a per cent. more.

Mr. S. K. Chatterjee: If the central banks are prohibited from attracting local deposits, the provincial banks cannot cater to all the needs of the central banks. In our province, there are 118 central banks and some of the central banks situated in the *mofussil* cannot attract deposits at the rate at which provincial banks take deposits. In order that the central banks might be popular institutions, they must attract local deposits. Another point is that if central banks have to borrow from provincial banks, they ought to hold one-tenth of the share capital in the provincial banks. Supposing the central bank borrows Rs. 10,000, it has got to keep a deposit of Rs. 1,000 with the provincial bank on which it may or may not get interest. Whereas if the central bank takes deposit from the local depositors, it may have to pay slightly more interest, but this will be made good by lending at favourable rates and getting interest on the entire amount.

Rai Bahadur S. N. Sahay: The idea is that the central bank rates should not be higher than the lending rate of provincial banks. To that extent there should be no competition between the central bank and the

provincial bank. When money can be made available at a lower rate, I do not see why we should consider the interests of local depositors. We are here to see to the best interest of the co-operative movement and in that view of the matter, if the provincial banks pay at a lower rate, why should the central banks borrow at a higher rate. Of course there is a great point in what has been said about the holding of shares by the central bank in the provincial bank. That is another point which has been agitating the minds of co-operators all over the country.

Mr. S. K. Chatterjee: I may add that provincial banks cannot cater to the entire borrowers throughout the country. The funds at their disposal are very limited and therefore the central banks ought to go to the general public throughout the country in order to get deposits not for the sake of share capital, but for the sake of the co-operative movement. A higher rate of interest may be necessary in particular cases. Not that this is good. But if necessity arises for the payment of higher rates of interest, there should be no bar to the same.

Dewan Bahadur C. M. Gandhi: I think the central banks should have complete freedom in the matter of taking deposits. There should be no restriction.

Mr. S. A. Venkataraman: The resolution as it stands does not fetter the discretion of the Central banks. It only fixes the upper limit. What I want to know is whether Mr. Chatterjee visualises extreme isolated cases of central banks being unable to get accommodation from provincial banks.

Mr. Chatterjee: It may be that provincial banks may not be able to cater to all the needs of central banks. In such cases, the central banks may have to pay higher rate of interest. If freedom is not given to central banks, then there will be bar to their taking deposits at higher rates of interest from the public.

Khan Bahadur Malik Nur Muhammad: We have already dropped the Resolution relating to obtaining money as cheaply as possible. My submission is that central banks should maintain their popularity in the vicinity in which they are existing. If central banks are prevented from receiving deposits from local people even if they have to pay a little more interest, then surely this co-operative movement is likely to get a bad name. There is a likelihood of unpopularity for the movement. Therefore I must strongly support the view expressed by our Registrar that no check should be placed on the central banks in the borrowing field. I submit that the Resolution should not be made obligatory and the choice should be left to the central banks whether to borrow at slightly higher rate of interest and keep in touch with the local people.

Mr. Satyanarayana: In Madras there is a convention that the central banks should borrow only half per cent. less than the provincial bank rate, not only equal. This resolution means that the central banks can borrow at the same rate at which provincial banks are lending. When there was not that rule, there used to be competition between one central bank and another. One would pay five per cent., another four per cent. yet another three per cent. and so on. There was then no co-ordination. The provincial bank acts as the balancing centre. If there is no competition, then

there would be a flat rate throughout the province. The provincial bank will get loans at $2\frac{1}{2}$ per cent. from big corporations, rich men and so on the central banks can get deposits at par from primary societies and these primary societies can in their turn get their deposit at a slightly higher rate. If there is a sort of co-ordination then there will be no competition. If there is no healthy convention, the whole movement will collapse. It is on account of this healthy convention adopted in the provinces, that the primary societies are getting deposits at higher rates, the central banks at a rate little higher than provincial banks. In this way, we have got $2\frac{1}{2}$ crores in Madras. Therefore I submit that the provincial bank should regulate the rate of central bank and the central banks in their turn should regulate the rate of primary societies.

Mr. T. M. Desai (Baroda): I should like to utter a note of warning against the whole Resolution as it stands. This resolution has been drafted more or less on an obligatory basis, unlike other resolutions. Mr. Pantulu has tried to justify the wording of this resolution purely on a financial basis, and a little on a moral basis. He says the co-operative movement must be an organic whole and that all the component parts must pull together. I should like to bring to the notice of the conference that you cannot have an organic whole out of a collection of parts. You cannot have a collection of central banks and try to coerce them to give up their powers and privileges. This will not make a success of the co-operative movement. Just as mere collection of bricks will not make a house, so also a collection of central banks without any freedom would not make for the success of the co-operative movement. There is no use forcing this Resolution through this conference. These monthly or weekly statements are no doubt good, but we should have no coercive legislation.

Khan Bahadur Malik Nur Muhammad: I want to suggest an amendment to sub-clause (iii). The words 'as far as practicable' should be inserted after the word 'exceed' so that the sub-clause will read ". . . . the rate of interest in co-operative banks on deposits should not exceed as far as practicable the lending rates"

Chairman: The word 'ordinarily' can be put in.

Mr. F. B. Wace: May I suggest another amendment. In the beginning we can insert: "This conference recommends that local administrations should consider the adoption of the following measures" and then it would be left to the local administrations to carry them in full or not.

Mr. E. C. Anson: I should like to utter a note of warning as regards this resolution. There are two reasons. The provincial banks may not be able to give this accommodation to the central bank because the security of the central bank is not good. There has been an instance where, at the instance of the provincial bank, a central bank refused to receive deposits at a higher rate of interest. Afterwards, it was found that the provincial bank was not in a position to accommodate the central bank. Then when the central bank was forced to go to the outside public for receiving deposits, it was not able to attract them. So if you put in the word 'ordinarily', it would be of no help. Deposits once lost are lost for ever. If the provincial bank is not able to accommodate the central bank, then the latter has to go to the public. The other case is where a central

bank is unable to offer sufficient security to the provincial bank. If the provincial bank does not give accommodation to the central bank, and if the central bank is not able to get deposits from the outside public, then it will have to go into liquidation.

The Honourable Mr. Pantulu: I am a little disturbed in regard to my notions of co-operation from the speeches I have heard just now. I think the whole of the co-operative movement in every province, if they are not regular federations, are at least parts of the same organisation. If everybody wants autonomy for his own institution, then the co-operative movement cannot work at all. The village societies should borrow from the public, then the village societies combine and organise central banks and the central banks co-operate and start provincial banks as the apex bank. In this way all get the required credit. That is my idea of co-operation. Now, I find that each central bank wants to borrow at any rate it pleases. Then the co-operative movement will suffer. The central banks have got to look at the provincial bank as their apex, balancing centre. From my experience I can say that in all provinces where autonomy is claimed for central banks, they become weaker. There is bound to be friction and bad feeling. The central banks will look upon the provincial bank as a rival organisation. I strongly feel that in order to rehabilitate the co-operative movement in all the provinces and place the central banks in strong financial position, some such rule as is suggested in the Resolution should be introduced. The central banks run to the provincial bank, the moment they are unable to pay back the deposits received by them from the public. I was told of an instance in Behar where the central bank asked for accommodation from the provincial bank. The provincial bank naturally turned round and said "you were reluctant to send me a statement of your financial position, why should I help you now". There is another danger if central banks borrow at higher rates of interest. The relations of the directors will be shown favouritism. I know this happens in a great many cases. I submit the provincial bank is the only proper organisation to borrow, if you cannot get money at the same rate at which the provincial bank borrows. This is the correct principle of co-operation.

Khan Bahadur A. M. Arshad Ali: This is a most important resolution so far as Bengal is concerned. Our movement is now in a very bad condition for sometime past, so far as debts are concerned. We have devised a scheme for pulling up the movement and we feel that if at any time the control and guidance of the provincial bank is necessary it is at the present time. I submit that effective measures should be taken either through legislation or in some other way to ensure the control and guidance of provincial banks to these central banks. As a matter of fact in our new Bill we have provided for inspection of the central banks by provincial banks. We have also provided that the provincial banks should be able to impose any by-law in the management of any central bank so that it may ensure control and guidance in that way. As Mr. Pantulu has said the central banks must depend upon the provincial banks for guidance with regard to their financial policy. I suggest that to this Resolution should be added a provision that effective steps should be taken either by legislation or otherwise to ensure control and guidance of the provincial bank.

Mr. S. K. Chatterjee: In Bengal we have a rule published under section 43 of the Co-operative Societies Act. That is the reason why I said they had to take one-tenth share capital. I only suggested that the central

banks should have a free hand in the lending rate or borrowing rate. If the conference does not require to give a free hand, I do not want to press my proposition.

Mr. T. M. Desai: I only said that any of the provisions of this Resolution should not be forced upon the central banks against their will. In some provinces the provincial banks have failed to achieve the ideal set out by Mr. Pantulu. That is why I say the central banks should not be forced.

Mr. Kharegat: I take it that there is no general opposition to the principles underlying sub-clause (iii) of the resolution. The real position seems to be as regards the practical difficulties that are likely to be encountered in giving effect to the same. Some special difficulties might crop up owing to which it may be necessary to allow the central banks to obtain the deposits at higher rate. That is intelligible. I would suggest that to provide against such contingencies, we may put in a clause that the rate of interest should not, without the sanction of the Registrar, exceed that fixed by the provincial banks.

The second suggestion is this. Much was made about the importance to be attached to the raising of local deposits. I am inclined to agree to a large extent with that. It is necessary to encourage local deposits. I would therefore suggest for your consideration that in cases of deposits obtained from within its own area of operation, the central bank may allow a rate not exceeding half a per cent. above the lending rate of the central bank. That would give a small and a higher margin for local depositors as against the deposits from outside. If these two suggestions are acceptable, I think there need be no further discussion.

Khan Bahadur Malik Nur Muhammad: Sir, I have always thought that co-operation did not mean compulsion but common feeling and fellow understanding, but to-day independence is not tolerated in co-operation. For instance, the Central Bank does not want accommodation from the Provincial Bank by way of deposits, by way of loans and by way of advice. As was pointed out in Bombay, some of the Central Banks are much more competent than the Provincial Bank. Why should a Central Bank be made subservient to the Provincial Bank by compulsion and legislation? These conditions may be peculiar to a particular province but I can safely say that they do not exist in our province and the necessity is never felt like that.

As regards the deposits of relations and friends, I can boldly submit that the complaint is imaginary as far as the Punjab is concerned. It may be existing in any other province: I have no knowledge of that. The only thing that was said was that an independent character of the Central Bank should be maintained. When I go to the Provincial Bank and ask for accommodation, they have a right to inspect my resources and my assets. But it should be remembered that in our province we have got the Financial Adviser, who goes into our affairs very intimately and makes periodical inspections. He sees our balance-sheets every now and then. Every month he receives a statement of our affairs. If in spite of all that, the Provincial Bank must have a say in our affairs, then I cannot subscribe to it. That is why some of us suggested that our independent character must be maintained and this resolution, like other resolutions, should also be made elastic and optional.

Mr. N. Baksi (Bihar): I think it is rather unfortunate that considerations of prestige and business considerations should get mixed up and tend to blind about the real objective which we have in view. As Mr. Pantulu has explained, in a properly organised co-operative movement, there should be no room for suspicion resulting from loss of prestige or any question of rivalry between the constituent parts of the apex bank. What we have to bear in mind first and foremost is the position of the ultimate borrower, namely, the member of the society. Owing to various considerations including certain precautions which we have to adopt sooner or later perhaps under the pressure of the Reserve Bank and owing to certain other business considerations, the incidence of profit is sure to decrease inasmuch as we will not be able to invest all the money we borrow in a manner which is likely to give us the maximum interest. Then, owing to the outbreak of the war, our borrowing rate must necessarily go high, be it in the Provincial Bank or in the Central Bank. These two considerations make it absolutely essential that under existing conditions we must keep our borrowing rate as low as possible. I quite agree that our friends from the Punjab are fortunate enough in having a Financial Adviser who helps them in many ways and therefore they do not feel the need of a guiding hand and of a properly organised bank. I submit that we have to weigh the advantage which we are likely to get by keeping ourselves in intimate touch with local depositors at the cost of a higher rate of interest with the economic distress that will be caused to the ultimate borrower who requires our first protection and under conditions which obtain at present when our borrowing rate must necessarily go high. I submit that we cannot take any risk in raising the borrowing rate even if we have to lose the sympathy of the local depositors. A properly organised and properly maintained Central Bank ought to be able to obtain a sufficient part of its investment from the local depositors and where it does not, my suspicion will be that it is not being run in a proper way with the result that it is not enjoying the public confidence to the fullest extent. At any rate, I, for one, would not agree to anything which would unnecessarily increase the lending rate to the ultimate cultivator. With these words I support the resolution.

Mr. P. M. Kharegat: May I move a formal amendment which would make this part of the resolution read as follows:—

“The rate of interest in co-operative banks on deposits should not, without the sanction of the Provincial Bank or the Registrar, exceed in the case of deposits obtained from outside the area of operations of the bank, the lending rates of the Provincial Bank on loans given for similar periods and in the case of deposits obtained from within its area of operations exceed the lending rates of the Provincial Bank on loans given for similar periods by more than half a per cent.”

I think that will secure the largest measure of common agreement.

After some further discussion the amendment was agreed to in the following form:—

“(iii) *The rate of interest in co-operative banks on deposits should not, without the sanction of the Provincial Bank or the Registrar, exceed the lending rates of provincial banks on loans given for similar periods.*”

Clause (iv) of the resolution was also agreed to.

DRAFT RESOLUTION NO. 9.

“This conference recommends that advantage should be taken of the present rise in prices to induce defaulters to pay up their dues and such repayments may be encouraged by granting rebates. The debts should be adjusted to the repaying capacity of the debtors and instalments fixed normally for a period from 5 to 15 years and in any case not exceeding 20 years. The rate of interest charged should ordinarily be not more than 1 per cent. above the Provincial Bank rate or where there is no Provincial Bank of the Central Bank borrowing rate for fixed deposits for one year”.

Mr. S. A. Venkataraman: At the outset, I may express the hope that this resolution will be generally acceptable because there is nothing in it which needs debate. Something is happening to the co-operative movement and we can only say that the movement is getting more and more insolvent in the sense that the borrowers are displaying either a greater and greater disinclination or else an inability to meet their obligations. The result is that the shorter loans are becoming medium term loans and the long term loans get frozen for an indefinite period. The suggestion has been made by the Reserve Bank that advantage might be taken of the present conditions caused by the war, and the resolution, as it stands, seeks to do that. The first part of it says:—

“Advantage should be taken of the present rise in prices to induce defaulters to pay up their dues and such repayments may be encouraged by granting rebates.”

It is a matter of common knowledge that the period of war, especially if it is prolonged for some time, does create a rise in the prices of agricultural commodities and a certain prosperity to the peasant. The experience in the past has been that this prosperity and boom has been regarded as something permanent and the result is that instead of using this very important period for liquidating his obligations his credit becomes more and more inflated. At the end of the war, his condition becomes much worse, and a slump follows every war. What we want to do now is that by some inducement they should be made to part with the profits caused by the war to liquidate their prior debts. I think there ought to be no opposition to a proposal of this kind. If he will not readily come forward, we might give him a rebate for prompt payment. We may scale down his debts and try any of the other numerous methods. The next sentence says:

“The debts should be adjusted to the repaying capacity of the debtors and instalments fixed normally for a period from 5 to 15 years and in any case not exceeding 20 years.”

The period of 20 years is now universally accepted as the maximum period for a long term payment. If possible, an attempt should be made to see that the borrower does liquidate his obligation in a much shorter period. So we have made it elastic. The final sentence runs thus:

“The rate of interest charged should ordinarily be not more than 1 per cent. above the Provincial Bank rate or where there is no Provincial Bank of the Central Bank borrowing rate for fixed deposits for one year.”

This is only a precise way of saying that the rate to the borrower should be as low as possible. I think I can commend this resolution with

the confidence that the House will certainly agree to the principles even if they object to the precise wording here and there.

Mr. E. C. Ansonge (Orissa): Sir, I am particularly interested in this resolution and I should welcome any help and assistance that the Conference can give to us in Orissa in dealing with the problem of frozen assets of the banks. This resolution reproduces a proposal that I made 9 years ago and Mr. Bakshi will probably be able to say what has happened since in Bihar and to what extent it has been possible to carry out that proposal. One thing that has occurred to me is that if you are going to place your loans on a long-term basis, you must have long term capital and I should like to know how it is proposed to get it in order to follow out this Resolution. If it is going to be put into force, it must be backed by the necessary long term capital. Another essential seems to me to be a classification of all the outstanding loans. It is necessary to examine all the overdue loans and find out which of them are due from members who can pay but won't; which of them are due from members who can pay and would pay if they were given sufficient time; and which of them are due from members who could never pay however much time they were given. Obviously, in the first case, every kind of pressure should be brought to bear upon the defaulters to force them to pay at once. In the second case, provided you have a backing of sufficient long-term capital, you can and should spread your loans over a longer period. In the third case, you can only write off your bad debts at once because the giving of further time would be of no use. It seems to me that it is very important that there should be such a classification because to give longer terms for loans which cannot be repaid, however much time you may give is merely deceiving yourself, the banks and the public. It is much better that they should be treated as bad debts and you should then find out what your position is. The third point on which I should be very glad to have information is how you are going to find out the re-paying capacity? There was an experiment initiated six or seven years ago in Bihar and Orissa for carrying out an experiment of that nature in a limited area but I do not know its result. I believe that in the United Provinces an inquiry was similarly made into repaying capacity. Any advice as to how that essential work can be done would be welcome to us. Those three points seem to me to underlie any action that may be taken in regard to this resolution which in itself is undoubtedly most desirable. It must, I think, be preceded by the provision of the necessary long-term capital, the classification of the outstanding loans and an inquiry into the re-paying capacity of every single member.

Mr. N. Bakshi (Bihar): Sir, as Mr. Ansonge has pointed out, as soon as I looked at this resolution, it occurred to me that there are some very important points covered by this resolution, each of which raises many complicated considerations. This resolution can be split up into three if not four different resolutions. The first is the question of granting rebates. The second part deals partly with the first part, namely, the rates should be adjusted to the re-paying capacity of the debtors and instalments fixed normally for a period of 15 to 20 years. I take it that it is meant that the existing dues should be scaled down to what the members can be expected to pay within their re-paying capacity during a maximum period of 20 years. Then, it follows that the difference between the total volume of expected payment calculated in this way and the amount outstanding

would be the amount of rebate. I do not know whether it is intended that any further rebate in addition to this amount should be given.

Chairman (Sir Malcolm Darling): It was intended that anything over and above what could be repaid in the period fixed, which should not exceed 20 years, should be written off but within that period rebates should be given for punctual or early payment.

Mr. Baksi: Then as regards future interest, the actual amount a man will have to pay will be his repaying capacity in 20 years plus the future interest.

Chairman: The amount of interest payable will have to be included.

Mr. Baksi: In Bihar for the 2½ years we have been spending all our time in working out as minutely as possible the details of these inquiries, and we have been assisted in our task by several experts like our friend Mr. Ramadas Pantulu. Till now we have been able to complete inquiries in respect of 24 banks in regard to the assets and liabilities and also the paying capacity of the members. That is why I suggest that in a matter of such complexity this subject should be split up for discussion, because it raises a number of different points and it will not be possible to vote in the form of one resolution.

Chairman: I think it will be useful if we take up this matter clause by clause. First of all, we might consider the question of encouragement by the grant of rebates. I take it that no one will dispute that the present rise in prices will help people to pay their debts.

Mr. Bhide: The amount of rebate you are going to give must be regulated by the funds of the society. No society should be made to suffer a loss for the sake of rebates.

Chairman: The general sense is that rebates should be given because they encourage repayment.

Mr. Wace: I don't think the general experience supports the theory that rebates do encourage repayment.

Rao Bahadur S. N. Sahay: Unless the rebates are very appreciable, say 25 or 30 per cent., I don't think small rebates will encourage repayment, I am not however opposed to the principle.

Khan Bahadur Malik Nur Muhammad (Punjab): Rebates don't encourage repayment.

Sardar Bahadur Beant Singh (Punjab): Rebates encourage default in the hope that they can continue the loans and that they will get more concessions. Then the other difficulty is to determine the paying capacity of a particular debtor. If the term is from 5 to 10 years, we find that the paying capacity changes. Sometimes a man inherits property which he had not expected at the time of the adjustment of the loan.

Rai Sahib S. C. Roy (Orissa): People in Bihar hope for larger rebates, but our past experience in this matter is not very encouraging. Rebates only tend to foster the hope of greater rebates.

Mr. S. A. Venkataraman: In Madras we have brought down the rate of interest from 9 to 6½ per cent., and if a person is not able to pay, we are writing off the whole of the interest. And if a member can pay at least the principal, we accept it. If he is not able to pay the entire principal, we write a part of it off. A thorough examination is made into the condition of each man. It depends upon investigation into the conditions of each man. Until that is done, we can't grant rebates. That is to say, those who can't pay must be given rebates; but if you give rebates to every one, then the society will lose heavily.

Chairman: Have you found that position effective?

Mr. S. A. Venkataraman: Yes.

Chairman: Madras in favour, what about Bombay?

Mr. S. M. Ikram (Bombay): Rebates do encourage repayment. By giving individual concessions, it has been possible to recover money from people who had not paid for some years. There have been some complaints from punctual repayers, but the result has been on the whole good.

Khan Bahadur Arshad Ali (Bengal): It has given encouragement, no doubt, but more rebates are demanded. If we can forego the entire arrears of interest, a large portion of the principal can be realised now owing to the rise in prices. Rebates certainly encourage collection.

Mr. W. B. Lakhe (C. P.): We find that even after the conciliation of debts, some people are not paying their debts. Then the 1 per cent. interest stated here should also be within the paying capacity of the individual, otherwise we will not be able to recover the old debts.

Sir M. Deshpande (C. P.): In Berar this rebate system was tried and it failed.

The Honourable Mr. Ramadas Pantulu: In some provinces it may not have produced the results expected, but on that account we need not make an exception in the manner suggested. In some provinces however, I know the rebate system has been very successful.

Chairman: My own experience is that sometimes rebates have not been effective, because they were not substantial.

Mr. Wace: I don't wish to press my point, nor do I wish to say that it has been entirely unsuccessful.

Mr. N. Baksi: I know that rebates have demoralised a good many members. In Bihar, we calculate the amount of the remission on the paying capacity. We find out how many years will be taken for repayment of the scaled down dues and then divide the total amount remitted by the number of years. The amount to be remitted is conditional, and as the man pays annually, a certain portion is remitted. If he does not pay, he becomes liable for repayment not only of the scaled down portion of his dues but also for the unremitted portion of the amount provisionally shown as remitted.

Chairman (Sir Malcolm Darling): We come to the second point, the question of the period of years, whether it should be 5 to 15 years or whether in any case it should not exceed 20 years.

Sardar Bahadur Beant Singh (Punjab): It is very necessary to fix the period within which a man should pay his dues. Without giving sufficient time concessions would not mean anything. At the same time there should be some guidance from this conference, because the period mentioned here 5 to 15 years is such that the paying capacity of the man may often change. For instance the paying capacity of a man on the 1st August has now practically doubled with the rise in prices. So we must have some guidance from this conference.

The Honourable Mr. Ramadas Pantulu: It is very difficult to adjust the debts according to the repaying capacity of the debtors. In this connection Mr. Baksi, the Registrar of Bihar, has been able to produce some records which cannot be described as absolutely accurate. He has devoted an enormous amount of time and labour for the preparation of these records, and he has done very well in arriving at some estimate of the repaying capacity and also in fixing the duration for repayment of debts. In some cases by taking a fresh bond a man can repay in 5 years even. If you specify the period, I think we can do something. It is true the financial position of a man changes from time to time, but time adjusts itself, and in the course of time things will adjust themselves.

Now, if we place our financial commitments on a long term basis, we ought to link up with this some scheme of getting long term money, and for this purpose outside agency should be appointed,—either the Government or the Land Mortgage Banks should do this. Of course, we have come across cases where the scaled down debts and rebate system have left us with insufficient assets to meet the commitments, and in such cases the question is whether depositors should be asked to forego a portion of their claims. These questions should be answered in each case according to local conditions. Anyhow, I commend the second part of the Resolution for the acceptance of the House because the position here is very elastic.

Rai Bahadur Pandit Radhe Lal Chaturvedi (U. P.): Mr. Anson has addressed a query to the representatives from the U. P. about the question of paying capacity. We had a committee constituted in our province to look into rural indebtedness. In the meetings held last year, we came to the conclusion that repaying capacity in the case of a statutory tenant was to be fixed by twice the annual rental and proportionately high in the case of tenants paying rents at lower rates. To this was to be added the value of other tangible assets which was calculated at twice the annual value of the grove land and the market value of such property as was not protected against under section 60 of the Civil Procedure Code. In the case of petty zemindars their paying capacity was to be fixed at ten times the land revenue plus the value of other assets. For a definite determination of the paying capacity of the different classes of tenants, it would be necessary to consider each individual case. We found that this subject was the most difficult to deal with, and in the absence of a better solution we propose to follow this method in our province.

Mr. T. M. Desai (Baroda): If the House will permit me, I should like to give a few figures to show how we have reconstructed our societies in Baroda. I don't want to thrust these on the House, but, if the House is so disposed, I shall gladly give the figures. The biggest item in the programme of the Department was a close scrutiny into the affairs and reconstruction of 145 societies during the year. 141 of these were affiliated

to the various banks and 4 worked with their own capital. Of the 141 societies 29 with loans amounting to Rs. 46,512 were reconstructed after the season and their instalments are to begin from 1st January 1940. The remaining 112 societies were indebted to the banks to the extent of Rs. 3,23,366 as principal and Rs. 33,387 as interest recoveries from which for a number of years had either been nil or only nominal. After a close inquiry the repaying capacity of each individual member and of each society was ascertained and instalments ranging from 2 to 10 were allowed to them. After a close scrutiny into the repaying capacity of each individual member and each society we determined the repaying capacity. In some cases we had to write off the interest, while in other cases we had to write off the capital also, after making allowance for bad years and so on.

Rai Bahadur S. N. Sahay (Bihar): How do they meet the depositors' demands under this long-term scheme? With that rate of interest how do the central banks meet their recurring expenses?

Mr. Desai: I found that these amounts were already frozen for some time as long as 10 or 12 years. So the adjustments that had to take place had already taken place in the banks. After all the debts of these societies were 40 per cent. of the total borrowings of the banks. Apart from that, from Government we have given cash credits to these banks and that creates a sense of confidence in the depositors.

Mr. N. Baksi (Bihar): In view of different standards of rehabilitation followed in different places it will be useful to have directions about a standard method. For instance, U. P. estimates the paying capacity without reference to expenditure whereas Baroda and Bihar take that also into account. I find that in Bombay a lot of rectification of societies has been done and they separate the bad from the doubtful debts though the purpose of the differentiation is not clear nor are the exact methods they follow in estimating bad debts. It would be useful to have a direction from this Conference as to the method of estimating paying capacity because on that will depend the ultimate losses of the Central Bank.

Sir Malcolm Darling: I suggest that each Registrars should supply the Registrars of other provinces a statement showing the lines on which they proceed with regard to these various classifications and methods.

Mr. Wace: I support that. I was appalled by the comprehensiveness of this Resolution and the best thing would be to pass a Resolution that there should be exchange of information as regards the methods followed by the different provinces. I think a Resolution fixing the years of repayment and rates of interest would be misleading. The best thing is for provinces to work out their own policy after exchange of information.

Sir Malcolm Darling: I thought it would be useful to come to a decision as regards the maximum period of years for these frozen loans in the light of our experience, and that was the intention of this Resolution.

Rai Bahadur S. N. Sahay: Exchange of views is of course useful but more important is the question of long-term capital. As to whether it should be 15 or 20 years may be left to correspondence.

The Honourable Mr. Ramadas Pantulu: The period to be fixed will depend on what long-term capital we will get. We have said in another connection that land mortgage banks should not issue loans for more than 20 years. So we are bound by our own limitations, however, much we may wish to give relief for a longer period. Therefore I think it is wise to limit it to a maximum of 20 years and give normally from 5 to 15 years. It is not a question of a province requiring a longer period but of each debtor wanting some particular period, and we cannot go beyond our limitations.

Mr. N. Baksi: The period of repayment has an important bearing on the total volume of repayment. In Bihar we found that those who are repaying according to their repaying capacity in 20 years were paying about 80 to 85 per cent. of the total amount of debts in respect of retained members, i.e., those members of reconstructed societies retained as members who can pay within a maximum period of 20 years at least the principal amount due plus future interest at the prescribed rate. Those who cannot pay that are put in the category of eliminated members. If we put the period at 15 years, it will fall below 70 per cent. So if reconstruction is based on the repaying capacity the period of repayment will have an important effect on the deficit of the Central Banks. So it is a matter not of convenience only but one to be decided by the depositors and the Local Government on due consideration of the extent to which the depositors should be forced to forego their interests or of such means as will encourage the depositors to accept voluntarily a reduction in their claims. Of course, 15 years would be better because individual members will have the prospect of being free from indebtedness within a shorter period of time, and that will give a better fillip to the movement. With 15 years we found in Bihar that the incidence of loss was very great and a large proportion of members will be eliminated. We extended the period to 20 and on an average the estimated recovery was found to be 60. The estimated recovery in the case of retained members was 82 per cent. and in the case of eliminated members, 55 or 60 per cent.

Mr. E. C. Ansorge: I think what Mr. Pantulu said was important, *viz.*, that the length of the period can only be governed by the term for which you can get your long-term capital.

Mr. Bashir Ahmad Khan: This is an important subject and we must have full information as to the steps taken by other provinces as to the rehabilitation of the co-operative movement. After this information is collected we will devote a special issue of the "Indian Co-operative Review" to this subject. At present we may have a small committee and when the information is collected in about a month's time the committee may frame a Resolution and send it to the provinces.

Prof. V. G. Kale (Bombay and Gwalior): I will mention one point, and that is about the losses that the banks are likely to sustain as a result of whatever schemes may be adopted. They are already worried about these losses. The instalments may be 10, 15 or 20, but after all the banks will have to continue as banks. In case of serious losses the sources of deposits may be dried up and no dividends can be distributed. To the extent of the reserve they will be willing to write off the losses but if they are larger than the capacity of the banks how will they continue as banks? That has to be seriously considered. In the case of some States, Gwalior

for instance, the State has been very generous in writing off. So Government has to come to the assistance of the movement if our schemes are to be a success. So we have to consider where the money is to come from to meet the losses

Mr. Ansonge: In referring originally to the necessity for classifying the outstanding debts that was one of the points I had in mind, *viz.* which of the debts are beyond the repaying capacity, because those are bad debts which must in any case be written off. It is to everybody's interest to know how much bad debts the banks have and for that very reason a classification is necessary. The next thing to consider is that probably you would benefit in the large majority the people who can pay and will not, because they are the people who take the lion's share of the loan. Therefore what we want to know from other provinces who have experience of this is how best to classify on the basis of the repaying capacity.

Mr. T. M. Desai (Baroda): With regard to this bogey of losses, when we have actually reconstructed the societies we found that the losses were quite within the capacity of the banks. Besides, each of these reconstructed societies will have a reserve fund of its own and the banks will have to bear losses only after the reserve funds of the societies are wiped off. So we should first ascertain what will be the losses and then see whether they cannot be borne by the banks. The losses will be distributed over several central banks and the reserve funds of the societies will be able to bear them.

Prof. Kale: When I spoke of losses I referred to losses incurred by the banks after all the reserves of the banks and societies have been written off. So I am not talking of bogeys only.

Mr. Fazlullah (Hyderabad Deccan): In Hyderabad we had the same difficulty of central banks working at a loss after the accumulated reserves were wiped off. And the movement was in a very bad condition. So Government sanctioned 15 lakhs of which 8 lakhs was interest-free repayable in 10 years and 7 lakhs repayable in 5 years at 3 per cent. In many cases they had to stop future interest on the loans of the societies.

Sir Malcolm Darling: To simplify matters we may exclude the banks that Prof. Kale has in mind. The banks that are likely to incur losses have to be dealt with on special lines, but there are many banks which are able to meet their frozen credits on any reasonable basis of settlement. It seems to me that the general sense of the Conference is that the maximum period should anyhow not be more than 20 years. We might record a Resolution to that effect, omitting what is said about 5 to 15 years as not being of practical use.

Rai Bahadur Pt. Radhe Lal Chaturvedi (U. P.): I suggest that this Resolution may be postponed till to-morrow. To me it appears to be incomplete because whatever formula may be adopted for determining repaying capacity, repayment will not be made unless you arrange for financing of crop cultivation in the meantime. Secondly, whatever the period over which you spread repayments there will be defaults until you get control over members' produce. These factors should come in to make the Resolution complete.

Sir Malcolm Darling: I think we may now adjourn till to-morrow. We are agreed in regard to rebates and also in regard to the maximum period of instalments. Some important aspects remain such as the provision of long-term money on which a Resolution would be useful, and also the points raised by Mr. Chaturvedi. We will take these up to-morrow.

The Conference adjourned till 10-30 A.M. on Tuesday, the 12th December 1939.

Tuesday, the 12th December 1939.

The Conference met at 10-30 A.M. Sir Malcolm Darling in the Chair.

The Chairman announced that the Honourable Member had agreed, if that was the desire of the Conference, that their deliberations should continue the next day in order to facilitate discussion.

The Conference agreed to the suggestion to sit till lunch-time on Wednesday the 13th December 1939.

Condolence Resolution.

The Honourable Mr. V. Ramadas Pantulu: Before we begin business, I have to make a reference to the sad death of Sir Daniel Hamilton, one of the most distinguished co-operators in India. His colony at Sunderbans is well known. He was a vigorous thinker and gave a new orientation to the movement in Bengal. I would request the Chairman to convey to Lady Hamilton and the relatives of Sir Daniel Hamilton the condolences of this Conference.

The Honourable Mr. M. B. Mullick (Bengal): I associate myself with all that Mr. Pantulu has said. Sir Daniel spent the best years of his life in service to the people of Bengal. His colony at Gosaba is a wonderful place and he and Lady Hamilton made it a point to live there for three or four months in the year. We feel greatly grieved at his death and our hearts go out to Lady Hamilton in her hour of sorrow.

Khan Bahadur Arshad Ali (Bengal): Supported the resolution and read out extracts from a letter he had recently received from Sir Daniel Hamilton.

Chairman: I should like to associate myself and I am sure you will all wish me to associate you with this resolution of condolence. I had the honour and privilege of knowing Sir Daniel Hamilton and seeing his very remarkable work. He was an example to landlords and to co-operators—he had the quality of disinterestedness. I shall convey the message of sympathy to Lady Hamilton.

The Conference passed the following resolution of condolence standing.

“This Conference expresses its sense of sorrow and loss at the death of Sir Daniel Hamilton and places on record its high appreciation of the eminent services rendered by him to the Co-operative Movement and further resolves that a copy of this resolution be forwarded to Lady Hamilton.”

Chairman (Sir Malcolm Darling): The discussion on draft Resolution No. (9) will be continued.

The Honourable Mr. Ramadas Pantulu: With your permission, Sir, I would add the following words to the Resolution as it now stands:

(a) *In order to rehabilitate the co-operative movement on the lines indicated in this Resolution, long-term funds must be made available to the movement. The Governments of the provinces and the states should assist the credit institutions in their provinces or states by providing the required long-term funds, either in the form of subsidy or loan or both, or by enabling the Provincial Co-operative Banks to raise such funds by floating debentures; the principle and interest thereof being guaranteed by the Governments concerned. Such debentures will be backed by the mortgages of the lands of the members to whom the benefits of the rehabilitation scheme are extended.*

(b) *The Governments of the provinces and the states are requested to take speedy action on the rehabilitation schemes now pending before them, for any further delay in dealing with the problem will lead to rapid deterioration of the movement, making rehabilitation more and more difficult, if not impossible.*"

The addition is self-explanatory. The matter must be left to each province or state to deal with it according to its particular circumstances. When the debts are scaled down and loans are given, in most cases they can be repaid without much difficulty in the course of some years.

The second part of the resolution asks the Governments to take speedy action. We have not indicated what they should do exactly: emphasis is laid upon speedy action, whatever they may take: further delay will mean more deterioration. Already in Bihar and Berar conditions have gone very bad. Perhaps concrete suggestions will be placed before the Provincial Governments. As regards the repaying capacity, I think Mr. Chaturvedi has some suggestions to make.

Mr. E. C. Ansorge (Orissa): My province is very different from Madras or Bombay or the Punjab and I would suggest that we should ask for funds to be provided in some form or another by the Central Government—otherwise it will be putting off the matter till the Ides of March! It is quite impossible otherwise for the smaller provinces to tackle this matter. They have not got the money. And in present war conditions it will be difficult for them to raise money in the open market. Unless we get money from outside I can see no possibility of getting long-term money at all. As regards repaying capacity, I shall be glad to hear about any memoranda or pamphlets that might have been published by any of the Governments or Departments.

Dewan Bahadur C. M. Gandhi (Bombay): I think the resolution should stop after the words "subsidy or loan or both". The responsibility of floating debentures should not be thrown on the provincial banks—otherwise time will be wasted. If any prompt measures are to be taken, Government should come forward with a subsidy or loan to help the movement.

The Honourable Mr. M. B. Mullick (Bengal): This is a very important resolution since it seeks to minimise the burden of indebtedness of the agriculturist throughout India. This resolution opens up a very complicated matter. Some provinces may have the feeling that they are better off than their neighbours; but in reality all the provinces may be said to be on a par in this matter because the agriculturist everywhere is under a heavy burden of debt and the problem is the same all over India. The first Act to deal with it was adopted in the Central Provinces in 1932-33, followed by the Punjab Act in 1934 and by the Bengal Act of 1935. Madras took it up in 1937 or 1938. Section 7 of the Madras Act empowers civil courts to wipe off the debt when the agriculturist-debtor has already paid about double the amount of the original debt. I visited a number of provinces recently and studied this question. I would not go into further details about this matter, but I would say this that a co-operative society member in the village is indebted not only to the society but also to the various other creditors. If we try to settle his debt so far as his obligation to the society is concerned, it will not be enough, but measures must be adopted by which he will be able to settle his debts with the other creditors also. I am not in a position to give you the exact figures of this indebtedness in other provinces, but the Board of Economic Enquiry that was set up in Bengal gave the figure of 100 crores for this rural indebtedness. So far as the province of Bengal is concerned, we have about 23,000 village-agricultural societies functioning. It embraces a total membership of about 4½ lakhs. That accounts for a total population of about 25 lakhs, and when we take the total population of Bengal at 5 crores and ten lakhs, it gives us about one-twentieth of the population of Bengal. The indebtedness of the village society members last year came to about four crores and 99 lakhs, which represents exactly one-twentieth of the total rural indebtedness of Bengal. The annual revenue of the Bengal Government comes to about 13 or 14 crores. If we capitalise the whole revenue, it will even then be difficult to say whether the rural indebtedness can at all be wiped off. Following the Agricultural Debtors' Act of 1935-36 we have established debt conciliation boards all over the province and the total number of boards that we now have comes to about 3,500 or 3,600. These boards are manned mostly by non-officials except those that function at subdivisional or district headquarters, which we call special debt conciliation boards. Their chairman is invariably an official,—either a circle officer, such as a sub-deputy collector, perhaps the term is tahsildar in some parts of the Punjab,—he is the chairman, and we have now got the High Court to agree to some of the junior judicial officers to act as chairman of special boards. They are called special Boards, because they have some powers given to them under the Act. They have in the course of these two years been able to tackle debts to the extent of five crores. This department and the department of co-operative credit are in my charge and therefore I am able to give you those figures, which you may take into consideration in putting an end to or rather effectively dealing with this problem that faces us to-day. The amount that they were able to tackle was about 5 crores and they have brought it down by fifty-per cent. So far as the exact amount of debt of each one of those agriculturist debtors is concerned, it is dealt with in this way. When an application is made to the board, notice is given to all the creditors including the co-operative society. They put in statements of their claims. The amount of debt that the man has is thereafter determined, and then his paying capacity is settled in this manner. His annual budget of income

and expenditure is taken into account by the board by taking evidence from his neighbours and the man is not able to hide or to keep back the figures from them. After his annual income and expenditure are settled, the amount that is left behind, which we call surplus, is taken to be the man's paying capacity and all the creditors are requested and they have been successfully requested so far—to reduce their amount of claim to that extent, and when the final settlement is reached and an award is made, the man's debt is spread over a number of years, sometimes, 10 years, sometimes, 15 years and sometimes 20 years,—I do not think we have gone beyond 20 years so far. The question was raised by the provincial bank, to one of whose meetings I was invited, that so far as the co-operative societies were concerned they were not being treated properly by the debt conciliation boards, and, at their request, we have now got a special set of boards to deal with the co-operative society members, not only with regard to the debts to the society, but with regard to the debts that they owe to other creditors as well. These boards are manned invariably by an officer of the department, either an inspector or a senior auditor as the chairman, two members from the central bank and two from outside. They deal with this problem and the basic principle of getting at their paying capacity is determined in the same way as is done in the case of others. In March last I found that applications involving a debt to the tune of 26 crores were pending and we hope that a good portion will have been settled by now. That is the position that we have now in Bengal and this might help the Conference in coming to a conclusion on the subject. Mr. Ansonge has expressed his anxiety and I entirely share his feelings, for as a member of a Provincial Government, it is not possible that we could give our support to this resolution, but it will be for the Conference to take a decision that they may like with regard to this subject. I have given an account of what is taking place in Bengal and in coming to a conclusion we must also take into account what is being done in other provinces.

Various apprehensions were expressed, I believe, yesterday by Mr. Chaturvedi and a few other members of the Conference. As regards debentures, a searching investigation was undertaken by the Registrar in Bengal to find out the assets and liabilities of the 4½ lakhs of society members. The investigation was carried out by some of the departmental officers along with the central co-operative banks' officers and on that a scheme has been drafted by the Registrar which is now pending consideration before the Bengal Government. I do not think that it would be proper for me to disclose all the details of that scheme, but I can inform you in confidence that the resolution, as it has been drafted by Mr. Pantulu, seeks to follow that scheme generally, and it is for the Conference, whether to adopt it or to go further and give a concrete suggestion as to how the problem should be dealt with. I feel that we should profit by our past experience.

Mr B. G. Desai (Baroda): I feel that the three problems which are embodied in the resolution, namely, paying capacity, the period of instalment and the charging of interest—these three subjects could be very well investigated by each province and the Registrar of each province. This resolution and the additions that have been made to it by Mr. Ramadas Pantulu to my mind make the question still more complicated. The most practical solution of this question is not generalisation to be sent up to the provinces and States. But we, on the extreme side of this House, as my

friend pointed out yesterday, have grappled with this question with some success and if we co-operators help in the solution of this question we shall have done something essential so far as this Conference is concerned. We know the condition of the Indian agriculturist. It is a proverbial saying that the Indian agriculturist is born in debt, he carries on debt during his life, and at the end he dies into his debt. Even a lifelong co-operator like my friend Professor Kale, said yesterday that he was very diffident so far as bad debts and bad societies were concerned. So any cut and dried plan to tackle this problem is not in the fitness of things, but I would fall in with the suggestion that the Registrars of different provinces and States should evolve a scheme by studying the results, and, after one or two months, a small committee which could be appointed by this Conference would go into the question and then a general conclusion regarding each province would be arrived at and those conclusions would be able to solve this question of agricultural credit. You know that ability to pay is a very vexed question so far as taxation is concerned, and in the same way ability to pay here also is a very difficult question. What is meant by rehabilitation or repaying capacity of the agriculturist is also a thorny question. In each case a very sound deduction should be obtained from studying the figures and conditions and the circumstances in which the agriculturist is placed. There are different conditions in different provinces and if we support the suggestion of appointing a committee and studying the results and then arriving at certain conclusions which could then be adopted, I think we would be on a safe road to solve this question. Otherwise, general discussions would not help us and I support the suggestion put forward by the U. P. for a small committee.

Sir Madhoroa Deshpande: In this resolution I have got one difficulty. Mr. Ramadas Pantulu suggests that the debentures will be backed up by the mortgages of the lands of the members. But he knows that a major portion of the lands in Berar have been mortgaged in favour of the provincial bank, and so what will be the condition in Berar? Will they get sufficient support from Government? This question I ask my friend because he knows the ins and outs of the Berar scheme.

The Honourable Mr. Ramadas Pantulu: I will answer all this in my reply speech.

Prof. D. L. Dubey (U. P.): The question of rehabilitation of rural credit, specially in its relation to the working of the co-operative institutions, is very important and I am glad that it has come to the fore in this Conference, although I must say that we are only about a decade late. Action on these things was taken in a number of European countries like Austria, Denmark, Germany, Italy, Greece, Canada and other places. After studying the lines on which they proceeded, we arrive at certain general conclusions. They studied all the rural debts. Then they determined which of them were payable and which of them not payable. Then they scaled them down, then they reduced them to certain equated instalments over a number of years, 10, 15 or 20 years. Then the rate of interest was reduced in the case of instalments, and later on action was taken along the lines suggested in the resolution of Mr. Pantulu. In this country the amount of rural indebtedness is 1,000 crores of rupees. The question of Government subsidising, Government finding money for the purpose of repaying all these debts has come up before certain Provincial Governments and on certain occasions either the Provincial Government itself was not willing to do so

or the Government of India placed obstacles in their way. In this country altogether different lines have been followed so far as the question of the solution of rural indebtedness is concerned. So far as this particular resolution is concerned, it refers only to the question of the unfreezing of those assets which appertain to the co-operative institutions. In my own province Rai Bahadur Sahib informs me just now that the total obligations which might be called in the nature of bad debts may be something like 60 lakhs of rupees.

Rai Bahadur Pandit Radhe Lal Chaturvedi (U. P.): No. About eight lakhs out of the outstandings against societies in liquidation.

Prof. Dubey: The tackling of the problem is not so serious from the point of view of Government undertaking the responsibility for its guaranteeing for the future. Well, the same thing can be done. You can spread the whole thing over a period of years. The Government would subsidise, or the Government would give its own bonds, and then there could be some guaranteeing institution through which the payments could be made. That guarantee institution could stand between Government and the actual debtor. In that way something of that sort has been achieved in the State of Bhavnagar and there is no reason why, with a view to raising these institutions from their almost insolvent condition to which they have now been reduced, the Government should not take it up. I heartily endorse the proposal that a small committee consisting of a few Registrars and one or two other persons may go into the whole thing and draw up the total commitments of this kind with a view to enabling the Provincial Governments to know what exactly they are being asked to do and what in future their obligations are likely to be in respect of this. Even ordinary banks are helped either by the Government of the country or the Reserve Bank of the country, and here are co-operative institutions some of which have fallen into very great difficulties and it would not at all be going out of the way if Government comes to their rescue by means of the steps outlined in the resolution.

Mr. Wace: I do not want to take very much time because this resolution threatens to take up the whole time of the Conference and, from the point of view of its importance, I think very likely it might, but I am frankly sceptical of our being able to arrive at a sort of conclusion which will really be useful. Every province or nearly every province has recently had committees or enquiries of some kind into the state of the movement. Those committees have either submitted reports or are shortly submitting reports to their Governments, and the Governments, I hope, will consider those reports and see what steps they can take. I imagine that all reports will make certain specific recommendations about the rehabilitation of the movement and the provision of finance, if any is required. I doubt very much whether any omnibus resolution of this Conference at the moment would be of much assistance to the Governments in making up their minds. As regards this resolution itself, I should prefer to have the last paragraph first, namely, the Governments of the provinces and States are requested to take speedy action on the schemes now pending before them. There is one other reason why I say that and that is, of all ways of presenting the problem that we have heard, hardly anybody has referred to what I think is really the basis of the whole problem and that is the moral problem. The real problem so far as the Punjab is concerned is the demoralisation of members. You may produce any kind of scheme, but unless at the

same time you can provide some sure basis, some guarantee that payment will follow you will be wasting your time. In that connection I might refer to the legislation that has been enacted in various provinces for relief of indebtedness and in particular to the conciliation boards. I watched the operations of those conciliation boards for some time in the Punjab and my own opinion is that to all intents and purposes both the debtor and the creditor regard reference to a debt conciliation board not as a means of paying reduced debt but getting off their debts altogether. Once a man takes his debts to the conciliation board the creditor regards his debt as gone altogether. He may perhaps get an odd buffalo or two, for the moment, but where it is a matter of spreading it by instalments he has small hopes of repayment and the debtor has still less intention to repay. That I am afraid is the problem which is going to affect the debts of co-operative societies. There are only two alternatives and in a way they are mutually destructive. Either we must find some means of reviving the co-operative spirit of members and their moral obligation to their societies, or we must confess that we cannot do that and we must ask Government for help. If we ask Government for help it means that we are admitting that co-operation cannot provide rural credit, that it cannot be the real basis for it. We may combine those two methods,—we may ask Government to support us in any measures that we may take in order to revive the spirit of members and that is a line on which we may find a solution. We must arouse the Government to the importance of giving every support to the co-operative movement not in the direction of arming it with severer powers of recovery but in the direction of supporting those principles by every means in its power so that people may realise what it stands for and what they stand to lose if the co-operative principle is lost. I think one important lead that this Conference can give to Governments is to emphasise that particular aspect and not to try to lay down for all provinces periods of loans or rates of interest.

Mr. Anantaraman (Mysore): I rise to support the resolution most wholeheartedly. It is an important resolution and it reminds me very much of the difficulties which are engaging our attention in Mysore at the present time. Our provincial bank has got into serious difficulties as the amounts that it has lent out are not coming back according to programme, whereas the liability of the provincial bank to its depositors is an important matter which they cannot put off. So there were two proposals, one was that some money should be made available to the provincial bank immediately, and in response to that request the Government of Mysore has placed a sum of five lakhs of rupees at the disposal of the provincial bank. That is only a part of the problem because the amounts that are due from the societies have got to be realised and the rehabilitation of these societies is a matter to which we are giving our attention. The proposal has been made that the provincial bank should be put in a position where it can raise debentures and for this purpose both the principal and interest have been sought to be guaranteed by the Government. This is a matter which is engaging the active attention of the Government and it may be possible to come to a decision at an early date. I think the importance of this Resolution is this. Without laying down any detailed instructions or suggestions, I think it is desirable that emphasis should be laid on the gravity of the problem and also on the necessity of Government coming out a little more than probably they would under ordinary circumstances and give financial support so that the movement may not get into further difficulties. We have organised a system of land mortgage banks under the Co-operative Societies

Act in Mysore and wherever it is possible the Land mortgage banks are coming in and taking over these frozen debts and giving them long-term credit and paying off the dues of the provincial co-operative bank. I wholeheartedly support this Resolution.

The Honourable Mr. Pantulu: I shall confine myself to a few observations which have a direct bearing on the Resolution moved by me. Mr. Ansonge said that the Provincial Government of Orissa may not be able to find money and that we must include the Central Government in this Resolution. I would rather not include the Central Government. Orissa is getting a subsidy already of 43 lakhs from the Central Government and if they want a little more they might approach the Central Government. Personally I feel that the matter must be left to the Provincial Governments to find out the ways and means. In some cases the Provincial Governments may be able to raise money by loans and there are other ways of doing it. I think each Provincial Government may deal with the matter as it likes.

Mr. Gandhi from Bombay said that the portion relating to provincial banks raising debentures on the guarantee of the Government be left out. Now, what suits one province does not suit another and therefore I would ask Mr. Gandhi to take the Resolution as a whole and in a comprehensive way. It is desirable to include all methods of assistance which we may desire from the Government, leaving it to the particular province to adopt one method or the other.

Mr. Mullick has raised some very important questions. Some of them were also raised by Prof. Dubey of Meerut and Mr. Desai from Baroda. I would point out to them that the scope of the Resolution is very limited. We are not dealing with the economic condition of the agriculturist. We are not embarking on any such inquiry. If the sub-committee suggested by Mr. Desai is inclined to make that inquiry I am definitely against it.

Mr. B. G. Desai (Baroda): I did not want a general inquiry—only for the particular problem in relation to co-operative societies.

The Honourable Mr. Pantulu: Mr. Baksi this morning circulated to us a note (see Appendix II) which is a very useful one. He has dealt with the methods which he considers desirable and useful and which have been adopted in Bihar. Similarly other Registrars and other non-official co-operators may furnish schemes and the sub-committee may go into them. I have certainly no objection. I think this is a matter for co-relating information and circulating them to the various provinces. Then Sir Madhorao Deshpande from Nagpur referred to the mortgages of the provincial bank. There are two kinds of lands. One category is of lands of retained members which are brought within the scope of this rehabilitation scheme. After the debts are scaled down, these members are left with assets in the form of lands which they can pledge to the organisations concerned. The other kinds of lands are those which are now in the hands of banks which have purchased them in discharge of the loans due to them. In Berar, for instance, we have 60,000 acres roughly and the Provincial Government has been asked to lend 15 lakhs against all these assets. It is a safe business proposition for the Government and they can easily recover 15 lakhs on the security of these lands.

With regard to what the other members have said, I would like to say only this. We are not here dealing with the whole question of agricultural indebtedness. Relief measures are being undertaken by the Provincial Governments and they have taken various forms. For instance, where a debtor has paid more than the principal by way of interest, according to the law of dandupat, the entire debt has been wiped out. There are many other methods like that. The debt conciliation boards can scale down the debts. There are half a dozen other methods of tackling this problem and I do not propose to deal with them. We cannot give any concrete lead or go into details. The conditions in the provinces vary and what is suitable for one province may not be suitable for another. For instance, in the case of Berar, the provincial bank may give 6 lakhs, 10 lakhs may come from the common reserve and so on but in Bihar the position is different. Government may come in with a subsidy. In each province the quantum of relief to be given differs. I agree with most of Mr. Wace's remarks. I wish I could completely endorse his views but there are certain practical difficulties. He is right in placing emphasis on the second part of the Resolution which is the most important. With regard to the first part, I think it is essential that we should give some lead with regard to finding long-term money and also emphasize the fact that without long-term money rehabilitation will not succeed. It is unfortunate that we should resort to coercive measures. I entirely agree that the time has come for the co-operative societies to adopt many of the suggestions put forward by Mr. Wace. They are correct co-operative ideals but as things are we should come out with a concrete proposal. Both parts of the Resolution are therefore necessary. The Resolution is elastic and each province may deal with the situation as it thinks best. For that purpose, it has been made as comprehensive as possible. I think I have answered most of the points which have a bearing on this Resolution. Mr. Mullick has rightly drawn attention to the position in Bengal. I know that the Bengal Government is trying to meet the situation as best as possible and I think this Resolution will strengthen the hands of the Honourable Minister in approaching his Government for help and I hope he will support the Resolution.

Mr. T. M. Desai (Baroda): Before we conclude the discussion on this Resolution, I wish to point out a very important fact which has been left out. I said that recoveries are successful because of one thing and that is that the crops were pledged to the societies and the crops were sold either through the societies or through sales organisations. There were difficulties in some cases because they would not pledge the crops but in other cases the instalments were paid out of the proceeds of the crops. I wanted to bring this point to the notice of the Conference.

Rai Bahadur Pandit Radhe Lal Chaturvedi: I was anxious to evolve some formula for determining the repaying capacity which would apply more or less to all provinces. After discussion with friends I have come to the conclusion that there can be no one formula which can apply to all provinces. I should like to move an amendment and that is to add the following at the end of the Resolution.

“The Conference is of opinion that for the success of the scheme it is essential that members should obtain loans for crop cultivation from their society on the one hand and be under an obligation to sell the produce to or through it on the other.”

Unless this forms an integral part of the Resolution our scheme of recovery will not succeed and I think that in this connection this conference should give a general lead to all provinces.

Mr. Chatterjee: In Bengal we have got the awards of the Debt Conciliation Boards and I would suggest that we can float debentures against these awards.

Chairman: This is a very novel method of securing long-term loan. I think the time has come when the Conference should consider the Resolution more or less as it stands with such minor amendments as may be considered necessary.

Rai Bahadur S. N. Sahay: It has been suggested by many speakers here that each province has got different legislation. In order to rehabilitate the co-operative movement long-term credit must be made available. I would therefore suggest that the words 'on the lines indicated in this Resolution' be omitted.

The Honourable Mr. Pantulu: We agreed to the first two portions of the Resolution and I should like to retain them both. If you want to delete the words you mention I have no objection. I thought it will add to the utility of the Resolution if you give a lead as to how to do it—how to give relief to indebted members and also give them long periods for repayment.

Mr. N. Baksi: I want to know what exactly is meant by the word 'subsidy'. I will explain my difficulties. Subsidy might mean a contribution towards the loss which the re-constructed balance-sheets of banks might reveal and subsidy may also be an annual contribution on the part of the Government or the co-operative organisation for meeting the deficit in the cost of management of the reconstructed central banks. If the working capital has considerably diminished and if the income from interest charges has also gone down, there will not be sufficient money to enable the banks to meet the cost of management. It is for this reason that we in Bihar have proposed that after the reconstruction of these societies is completed, societies under different banks which are fit for reconstruction may have to be amalgamated with a view to bring down the cost of management as far as possible. Even then according to our calculation there will be a deficit for a number of years in the working of a number of banks. I should like to know whether in this Resolution it is intended that the subsidy should be made part of the loss which is revealed because ultimately we must have a proper balance-sheet in which there will be no fictitious assets. We should be given some enlightenment as to how the loss should be met.

The Honourable Mr. Pantulu: When I used the word 'subsidy' I had in my mind both kinds of help. In Bihar we recommended a sum of a lakh of rupees on account of the cost of management of the reconstructed central banks for a period of five years. Besides we wanted to make liberal provision for the payment of creditors and so on. If you do not like the word 'subsidy' you can use the word 'grant-in-aid'. I do not mind it. In some provinces there is a recurring grant and in some provision is made for a lump sum. I used the word 'subsidy' in a comprehensive way. If you prefer 'grant-in-aid' I have no objection.

Several Members: 'Subsidy' is a better word

Mr. P. M. Kharegat: It seems to me that in the course of the discussion on this Resolution several points of view have been brought forward which should be incorporated in the Resolution before we actually pass it and I would suggest for the consideration of the conference that in order that we may pass a suitable and comprehensive resolution we may now appoint a small sub-committee purely as a drafting sub-committee which would incorporate all the important points that have been brought out. This sub-committee can meet this evening after the conference is over, so that a suitable draft may be prepared and may be put up before the conference for discussion, if necessary, tomorrow but I hope that there will be no need for any further discussion on the subject. I would suggest that there might be one member from each province on this sub-committee and I would leave it to the provinces to decide as to who should come and who should not come. In this way we will be able to have a suitable draft which can be passed by us tomorrow. I take it that it will take the sub-committee a couple of hours to put the Resolution in a suitable form.

Mr. Chatterjee: There is not much difference of opinion on this subject. I suggest that the amendment suggested by Mr. Pantulu be accepted by the conference and a small sub-committee consisting of the Honourable Mr. Ramadas Pantulu, Mr. Bashir Ahmed Khan, the Registrars of Bengal, Bihar and Bombay and one or two more Registrars may be taken also to go into this question.

Mr. S. M. Ikram (Bombay): Mr. Pantulu's amendment may be accepted and if Mr. Pantulu agrees we might incorporate the suggestion from the U. P. about the lien on the crops. We have had this debt relief scheme in Bombay and as this matter is a very important one, I suggest that the amendment may be adopted.

Chairman: We are now considering only the question as to how long-term funds should be provided and we should confine ourselves to that single point, which is the only point dealt with by Mr. Pantulu's amendment to the original draft Resolution. I think it will perhaps be the view of the conference that we should pass that Resolution now and not discuss the matter further in any sub-committee.

At this stage the Chairman read out Mr. Pantulu's amendment.

It is now for the Conference to decide whether they will adopt the Resolution or they will drop it.

Rai Bahadur Pandit Radhe Lal Chaturvedi: I should like my amendment which I read out earlier to be added to the Resolution. It will come at the end.

Mr. E. C. Ansorge: I think it is impossible for this Conference to go into minor details. I myself would prefer to consider what can be said to be the fundamentally important point—that is, the preliminary classification of loans. At one time it was suggested that I should move an amendment on that. I have not done so because, although I think it to be of very fundamental importance, if we go on and try to make this resolution a self-contained resolution that is going to be a guide to all Provinces and States as to how to undertake this work of rehabilitation, we shall be sitting here till next year. I think we should make a general resolution pressing upon the movement in all provinces that it is an urgent matter

which should be taken up; it has been far too long delayed already: and we should leave it for them to decide on the exact lines on which they are going to take it up. I would deprecate going into too much detail, because the more we attempt to make the resolution complete, the more shall we mislead people.

Chairman: If Mr. Ansorge's proposal is adopted, it means that the resolution will deal with the following aspects of this question—the first point, which deals with rebates, the second which deals with the maximum period for the repayment of loans, and the third with the provision of long-term money. On the following points we should record no resolution, that is, whether lands should be pledged and, if so, how and how the repaying capacity should be ascertained and what rates of interest would be appropriate and the type of security that should be obtained. I think we cannot cover the whole ground and therefore I suggest that we leave the resolution as it stands and pass on the No. 10.

Mr. P. M. Kharegat: In that case I suggest that the whole of the resolution should be cut out except for the first sentence. We should not also make any reference to the point about the period of the loans, but simply leave the whole thing vague in general terms.

Chairman: To refresh your memories, I will read out the first part of this resolution as it was passed yesterday. (Reads out). It practically covers the same points.

The resolution, as adopted, is as follows:—

“The Conference recommends that Advantage should be taken of the present rise in prices to induce defaulters to pay up their dues and such repayments may be encouraged by granting rebates. The debts should be adjusted to the repaying capacity of the debtors and instalments fixed for a period not exceeding 20 years.

In order to rehabilitate the Co-operative Movement long term funds must be made available to the movement. The Governments of the Provinces and States should assist the credit institutions in their Provinces or States by providing the required long term funds either in the form of subsidy or loans or both, or by enabling the Provincial Co-operative Banks to raise such funds by floating debentures the principal and interest thereof being guaranteed by the Government concerned. Such debentures will, if possible, be backed by the mortgages of the lands of the members to whom the benefits of the rehabilitation scheme are extended.

The Governments of the Provinces and States are requested to take speedy action on the rehabilitation schemes now pending before them, for any further delay in dealing with the problem will lead to the rapid deterioration of the movement, making rehabilitation more and more difficult, if not impossible.”

Mr. E. C. Ansorge: No. 10 is very closely connected.

Mr. F. B. Wace: I have been asked to move this resolution No. 10. It reads:

DRAFT RESOLUTION NO. 10.

"This Conference recommends that in economically backward areas the possibility of encouraging and extending repayment in kind should be explored."

I myself, if I had drafted the resolution, should not have put the economically backward areas in so prominent a position. I should have drafted it,— "the possibility of encouraging and extending repayment in kind should be explored, especially in economically backward areas". It is not a step which need be taken merely in backward areas but in my opinion can be applied in all areas, perhaps more particularly to those in which marketing can be fairly closely supervised. There are certain details given in a note which you will find along with report showing the action taken on the resolutions of the last Registrars' Conference. I do not think I need say anything upon these. To any body who has knowledge of world conditions in reference to co-operative societies, the advantage of working some system of recoveries in kind is obvious.

Rai Bahadur Pandit Radhe Lal Chaturvedi: Sir, the scheme about the repayment of debts in grain in the United Provinces owes its origin to Mr. Kharegat, who introduced it in Moradabad in 1931-32 in his time as Registrar. Two more districts, viz., Bijnor and Kotdwar, came in subsequently and Etawah has recently followed suit. There are two outstanding advantages in following this scheme. One is that collections considerably improve, and the other is that we give a death blow to fictitious repayments. Moradabad has undertaken this work on a very big scale and I will give some details about the work undertaken there. What happens is that the Bank appoints an *artia* who takes custody of the grain and gets a small commission on the sale of the produce. The member takes his grain to the *artia*, gets his receipt and that receipt he carries to the society and the amount is credited to his account. In order to give an incentive to the members to take all the available stock to the *artia* for sale, the Bank purchases the grain at a rate slightly higher than the one prevailing in the market. For instance, if the rate is nine seers, we purchase it at 8 seers and 12 chattaks or the like, and the result has been surprisingly good. For instance, when the scheme was started the percentage of collections in Moradabad was something like 40 per cent. It is now nearly cent. per cent., and it has been so for the last three years or more. Similarly, collections considerably improved in Kotdwar and in Bijnor and Etawah also shows a good promise that way, but there are two or three difficulties which must not be lightly passed over. One is that there is a temptation to hold on the stock in expectation of better prices. Now if work of this kind is to succeed, speculation must be studiously avoided. There is such a season known as the glut season and such another as the peak season. Anybody who wants to wait for the peak prices must prepare himself for great disappointment, but if the grain is sold as the harvest season comes to a close, I think there is very little risk. One difficulty is that it is not always easy to get hold of a reliable *artia*. His operations will have to be watched very thoroughly from start to finish, otherwise our members will suffer in more respects than one. If these precautions are taken, namely, if grain is sold as the harvest season comes to a close, and if the operations are watched very carefully from start to finish, there is little risk and this scheme deserves to be given a much wider trial. Wherever Banks are in

a position to invest money and to find their *artias*, we propose to go ahead with the scheme in other districts as well.

Mr. Fazlullah: May I inquire as to how the loss incurred in purchasing grain at a higher price is to be met?

Rai Bahadur Pandit Radhe Lal Chaturvedi: That loss is nothing compared with the advantage to Banks in improving its collections, and after all it is only a matter of chattaks and that loss ultimately does not come to much.

Mr. F. B. Wace: It amounts to an additional rebate of interest.

Sir M. Deshpande: Supposing the prices go up, will the Bank or the society pay that advantage to the member?

Rai Bahadur Pandit Radhe Lal Chaturvedi: No. The member sells his produce outright to the Bank and thereafter the Bank makes a profit or suffers a loss.

Sir M. Deshpande: In our part they have got a godown and the crop or grain purchased by the Bank is stored there and the advantage is distributed to all the members. Here, the Bank is doing a business.

Rai Bahadur Pandit Radhe Lal Chaturvedi: The Bank distributes bonus at times.

Mr. A. M. Livingstone (Agricultural Marketing Adviser to the Government of India): I agree with Mr. Wace that this resolution should not apply only to backward areas but to all areas. I had it in mind to quote the example of the Moradabad central bank union in regard to marketing on draft resolution No. 28(3) but now I have learnt that this 28(3) is not general resolution at all but merely a war-time resolution. So I would suggest that 28(3) should be tacked on to No. 10, it is a matter closely allied to item No. 10.

Chairman: I have no objection to this being done, we can take it up after No. 10.

Mr. Livingstone: I would very strongly support Mr. Chaturvedi's idea of the establishment of a central union bank and in handling the produce through proper business channels, and if you add on 28 (3) to No. 10 then at the foot of it, I think it would be helpful to add that central union organizations under business management should be established where possible.

Mr. Kale: That should be a separate resolution; here, we are concerned with dealings in kind,—to stop malpractices.

Chairman: I think we should take the resolution No. 10 as re-drafted by Mr. Wace. It will run therefore thus. (Reads). "This Conference recommends that the possibility of encouraging and extending repayment in kind should be explored, especially in economically backward areas".

Mr. P. I. Belliappa (Coorg): It may be said that this movement has touched practically all the classes in the province. The population of my province is 1,60,000. Out of that, one lakh has been touched, if one member represents a family of five. The balance of the population of sixty thousand consists of a floating population coming from the neighbouring districts of Malabar and Mysore. Practically it deals with the seasonal traders lending money to the villagers and recovering the debts in kind, etc., and leaving no balance to the societies to collect their dues. In some of the societies we tried this method and we were able to raise the collections from twenty to thirty per cent., in some cases cent. per cent. and the working of the societies has thereby improved a good deal. I think this resolution is a very important one as regards collection and I wholeheartedly support this resolution.

Chairman: I think the resolution is now passed? It has been suggested that draft resolution 28(3) might be moved as a separate resolution. Mr. Ambegaonkar, would you move the resolution? I suggest that Mr. Ambegaonkar might move his resolution and then it can be amended in the course of discussion

Mr. K. G. Ambegaonkar (Reserve Bank): The resolution which I would move would read like this:

“This conference recommends that every effort should be made to organize co-operative marketing to secure to the cultivator the full effect of the rise in prices”

Mr. Wace: I would re-draft it thus, that “every effort should be made to organise co-operative marketing, especially in view of the present rise in prices, in order to secure to the cultivator the advantage of the present rise in prices”.

Chairman: That would do very well.

Mr. K. G. Ambegaonkar: In the preliminary committee which was discussed the agenda which had been suggested for this Conference we realized the great important omission in respect of co-operative marketing and when we had finished deliberating on all the matters, the necessity of organizing co-operative marketing and also emphasizing thrift was brought out and we felt that in connection with the war both these aspects should be considered. As it is, this resolution is now being discussed as a substantive resolution and I hope it will therefore receive proper attention now. So far as co-operative marketing is concerned, various attempts have been made by various Provinces at different times and yet till very recently the question was considered to be so difficult that, generally speaking, the co-operative movement was not particularly keen on making experiments on these lines. However during this depression when it became extremely difficult to realize the great amounts outstanding against the borrowers, it became increasingly clear that unless you could also organize the marketing of the crop co-operatively in order to secure the maximum share to the cultivator of the price which his commodity fetches in the market, you would not be able to make a success even of your credit activities, and it is for this reason that the question has received a good deal of attention. Now co-operative marketing is certainly an extremely difficult matter and in the very beginning we were deterred from making any experiments because of the difficulties regarding grading in the first place and secondly regarding the facilities for storing of the produce. So far as grading is concerned, it is a very

important matter indeed but it has been found that if your endeavour is to organize co-operative marketing in a very small way, it need not necessarily deter us from undertaking that task. This has been shown by various small primary societies which have made a small beginning by undertaking the joint sale of produce. It has been found that, generally speaking, in a small tract, on the whole the people grow the same quality of crop and, as the quality of the crop grown in a particular locality is generally understood the question of grading does not arise when you are organizing co-operative marketing in a very small way. All the same, if you want to get a higher price, grading is most essential. In that respect we have had the advantage of investigations made by the marketing officers and not only investigations but the further steps that they have taken in actually organizing the grading of certain commodities. With the facilities which have now been made available, it should be easier to undertake co-operative marketing. The second question was regarding the provision of warehousing facilities. On that point also considerable progress has been made in recent years in various Provinces. You are probably all aware of the special measures taken in Madras by the Provincial Government by the provision of a subsidy, by the provision of a grant as well as a loan for the building of warehouses both by the sale and purchase societies as well as by the primary societies. As a result of that, co-operative marketing has received a special fillip in that province and I understand that in various provinces and States also this matter is receiving increasing attention. It will thus be clear that both the ground has been cleared to a great extent as well as the necessity for it has been realized. Coming to the last part of the resolution, *viz.*, the special necessity for organizing co-operative marketing at the present time, it will be obvious to you that though prices may rise on account of the war, the fullest benefit of it may not reach the agriculturist unless he is co-operatively organized. Prices may rise considerably and yet most of this increment might go into the pockets of the middleman. It is therefore all the more necessary at the present moment that special efforts should be made to organize co-operative marketing. I presume that the importance of the subject is so well understood by all the delegates to this Conference that it is hardly worth while to rub in the matter further and I commend the Resolution. The Resolution reads:

“Every effort should be made to organize co-operative marketing, especially at the present moment, in order to secure to the agriculturist the full effect of the rise in prices.”

Mr. F. B. Wace: I would say—

“Every effort should be made to organize co-operative marketing, especially to secure to the cultivator the full effect of the rise in prices.”

Khan Bahadur A. M. Arshad Ali (Bengal): Will you please enlighten us as to how far the Reserve Bank will be prepared to help the marketing societies consistently with the provisions of the Act?

Mr. K. G. Ambegaonkar: I should think, if this could be organized, it would certainly enable the Reserve Bank to finance you and the Reserve Bank will be certainly glad that it will have a more practical way of assisting the co-operative Banks. The difficulty about it is that so far as section 17(4)(d) is concerned, the advantage under that head will not be

available on account of a legal difficulty. The position under that section is this, that it enables the Reserve Bank to advance loans against documents of title to the goods transferred to the Bank by a party taking an advance against any particular commodity. The documents of title consist of, in the case of the marketing of commodities, warehouse receipts where there is a separate warehouse company. Where the warehouses itself belongs to the Bank making the advance, it cannot legally create documents of title to the goods because the Bank itself cannot give any more right on the goods than what it itself has got. So if the goods are pledged to the Bank for a particular advance, the Bank is legally unable to create documents of title to the goods. That is the reason why it is necessary before that particular section can be utilised to have independent warehouses which can issue a receipt. But that will not necessarily prevent the Reserve Bank from helping the co-operative societies for the purpose of this kind of business. It will only mean that the Reserve Bank instead of advancing loans under that particular section will be advancing loans against the promissory notes of the Provincial Co-operative Bank supported by an additional good signature which may be that of the marketing society. I think it is possible to get over this particular difficulty.

Mr. E. C. Ansorge (Orissa): I suggest that before we go into the details whether we can get the money, we had better decide whether it is advisable to support this Resolution. The mover of the resolution has spoken of an experiment and conveyed the impression that this is something new. I have just been reading my own report as Registrar in 1930 when the last of these purchase and sale societies were being wound up because of their failure. So this is nothing new and I personally could not support this resolution unless it is accompanied by the words 'where conditions are suitable'. I am perfectly prepared to admit and I know that it is a fact that there are many parts in India where such societies could be started, but this is not a new idea that is being experimented upon. These societies were started very many years ago and they have in many areas been a complete failure. All of them have been failures in Bihar and Orissa without a single exception. The reasons for these failures have been discussed by the Royal Commission on Agriculture. The Bihar Banking Committee examined the question and recommended that for a number of years to come no such societies should be constituted. These societies have been tried and for reasons which have been fully examined they have been found to be failures in certain areas. I know there are some parts of India where they can be started but there are other parts of India where they have been tried and found wanting.

Mr. N. Baksi: I support the amendment of Mr. Ansorge.

Mr. Satyanarayana: I should like to know from the representative of Bihar why these societies have failed in Bihar. Our experience in Madras is just the reverse.

Mr. Ansorge: The reasons are fully discussed in the report of the Royal Commission on Agriculture.

Mr. Wace: I would suggest a further qualification that the co-operative marketing societies should be made to run "with or without Government assistance and supervision". My reason for this is that my own experience

of co-operative marketing has led me to believe that it is quite impossible of success except in very exceptional areas unless you have very much closer Government supervision than we have had in the past. I am aware of certain societies which have succeeded exceedingly well. I have had the privilege of seeing some of these societies in other parts of India but our own experience in the Punjab is that pure co-operative marketing without very close Government supervision has been a failure and I will not be prepared to support the resolution unless this qualification was added to it.

Mr. Ansonge: What has happened in the case of the commission shops in the Punjab? I believe they were a great success.

Mr. Wace: They were never a great success. They have been a partial success. Nearly every shop has had its ups and downs. Their history has been told from time to time in our annual reports of the societies. I do not think they were an unqualified success. The reason has been that they do require very much closer Government supervision and the marketing organisation in general requires a great deal of further control by Government, I therefore suggest the addition of the words "with or without Government assistance and supervision" and I think that it would cover the case of all the provinces.

Mr. Ramachandra Rao (Travancore): We have succeeded in marketing the agricultural produce in respect of cocoanut, figs, butter, cotton and several other commodities. Our experience has been that without State supervision no marketing society has succeeded. At the outset a provision has been made for the working expenses. Our apex bank has given a backing to several marketing societies so that they may be able to give 50 per cent. of value immediately. Our experience has been quite happy so far.

Mr. A. M. Livingstone: As Mr. Ansonge has said, this is not a new thing by any means. But what I feel is—I hope I am not wrong—that he has taken a defeatist attitude. We are against this defeatist attitude. There is a lot to be done in regard to marketing and the circumstances are suitable in a large number of places and in connection with a large number of commodities. We have the cotton ginning pressing and sales societies of Bombay and some other such societies which are quite successful. We have the recent case of Moradabad which is also quite successful. I think it is perfectly easy to explain the causes of failure of so many of these societies. Some of them have got a ridiculous turnover. Their turnover is so small that they can ill afford to pay for their management. In one of the commission shops they had no less than 4 managers in succession who embezzled the funds. What we want in connection with these marketing societies is business management. It is for that reason that I suggest that it would be better if we could put in the resolution that attention should be paid to the establishment of Central Unions under business management. I know of three good marketing societies in England and they actually bought out ordinary firms of dealers and then kept on the Directors as managers. Now, I suggest that following up the idea of Moradabad the Co-operative moving until such time as it can establish its own business organisation, should make full use of the existing trade. The small co-operative village societies and small local societies are not making much headway. But if you want to sell your produce throughout India in the best possible markets, then you must

make larger use of the bigger merchants. There is a large number of very good big firms in this country who can be depended upon and who I am sure would regard this as a form of social service and would be quite willing to take part in it. So far as the marketing side is concerned, you really must get business management in it. You have raised the question of finance and the question of grading. All these various things would come into the question of actual running, but I do not think we need discuss them in detail on this particular resolution. I would like some sort of reference to the desirability of considering the steps for Central Unions for promoting marketing.

Mr. E. C. Anson: I have been accused of defeatism. If defeatism is to try to face the facts on behalf of a movement which has got into such difficulties that we have to spend most of our time in considering its rehabilitation, then I confess to being a defeatist; and might retaliate by saying that many of us consider that the most ruinous thing for the co-operative movement of the present time is wishful thinking. If we had good business management, most certainly these societies would flourish. The trouble is we have no business management.

Mr. A. M. Livingstone: There is plenty of business management in this country that can be obtained.

Mr. Satyanarayana: I want to put my views on this subject. As a villager, I have been working in villages for the last 20 years. We have neglected this part of the co-operative work. Only recently the Co-operative Department have taken up the marketing problem and we have been able to do it successfully. In several villages we have been successfully marketing oranges and last year alone we could market one lakh worth of these oranges. The same is the case with respect to other commodities. What we want is business capacity and that is why the Madras Government have lent a number of Inspectors to help these marketing societies and the Provincial Bank has also given a large subsidy to all these marketing societies so that they may be able to put their management on a proper basis. The Provincial Bank has given Rs. 500 to each society to appoint experts and managing people who can study the markets and help these societies. Let us not, therefore, sit down with a defeatist mentality. Apart from these perishable articles in the villages, we have taken up recently the question of marketing paddy. We are having godowns for this purpose. It is by holding up the produce at the time of the harvest and keeping it for three or four months that we are able to put in the pockets of the agriculturists at least Rs. 2 more for every bag. If we do not help the agriculturist in marketing his produce, then what is the use of our movement. We must do something for him. He is often an illiterate man and he cannot think for himself. He can only produce and produce and it is up to the intelligentsia of the country to see that the products of the country are better marketed. That is why this organisation is required. It is your business to see that marketing centres are organised. Therefore, I appeal to the co-operators here that this is the most essential thing you have to carry out. The marketing of the produce is the first problem to be tackled.

Khan Mohd. Bashir Ahmad Khan: As has already been mentioned, this is not a new subject. You will have observed from the proceedings of the last Conference that two resolutions on marketing were passed.

These two resolutions show the importance which the co-operators have always attached to co-operative marketing. This experiment has been tried in various provinces. Somewhere it has met with some success. For example, the sale societies of Gujrat have been very successful. Similarly for the last two or three years this system has been tried in the United Provinces with cane societies and they have found it to be a very useful experiment. In the Punjab also they have experimented with this scheme. They had there co-operative commission shops. They were organised as late as 1921. In the beginning these societies were very successful but later on due to certain conditions and difficulties they met with some obstacles and they were not as successful as they were in the beginning. The object of these shops was and still is to sell the produce of the members and also to supply them seeds. There are at present 20 co-operative commission shops and last year they handled goods worth about 6½ lakhs of rupees. The difficulty of these shops has been that from the very beginning they have been dealing with what we call kacha ahrat. They have not taken up the system of pakka ahrat. But the greatest difficulty has been the disloyalty of the members themselves. For example, out of the produce which has been handled by these societies last year, only half of it came from the members and the other half came from non-members. The reasons for this are not far to seek. Members who belong to these societies and commission shops have their dealings with the money-lenders and the produce has to be sold in advance on account of the accommodation which the members have enjoyed through these money-lenders. Also, the money-lender or the local market dealer supplies the agriculturists with some apparent concessions which cannot be supplied by these commission shops because they are not legitimate. But this difficulty can be solved by the adoption of various methods.

The second difficulty which was experienced and is still being experienced by these shops and societies has been a long series of embezzlements. There is hardly any shop in which embezzlements have not occurred. This has been due to many causes which need not be related here.

The third difficulty which was experienced by practically every shop was its boycott by the local dealers. Those shops which began to work successfully were boycotted by the whole Mandi. They had their difficulties and they had to deal with this boycott in different ways. It has been suggested by Mr. Wace that unless the additional Government assistance and supervision comes to the help of these shops and the sale societies, they cannot be made successful. I agree with that remark. I suggest therefore that the resolution, as amended, should be adopted by the Conference.

Khan Bahadur A. M. Arshad Ali: Perhaps no province has a sadder experience of marketing than Bengal. We have lost a very large sum of money in our jute societies. But that has, after all, given us some experience about marketing. All the difficulties that have been explained by Mr. Bashir Ahmad can be surmounted very easily, but there is one difficulty which we have found to be very troublesome at the present moment. It is the Committee of management. I do not think a big Committee of management can work very smoothly. It must be very small if it is to function properly or the manager should be given more extended powers to deal with the commodities. Now, we have got some very big paddy sale societies, the membership of which is about 8 to 10 thousand. We are dealing with lakhs of maunds of paddy in these

societies and we have found that one officer of the Co-operative Department appointed as the manager has done much better work than the whole Committee of management. In this way up till now about 4 or 5 societies have been formed. But what we have found is that the entire trade in the villages was in the hands of the Baniyas who used to advance money and take back the produce. It is simply disgraceful that the co-operative societies should not be able to tackle this problem but must leave the agriculturists to their fate in the clutches of the Baniyas. If these Baniyas who are Marwaris in our part of the country can make this business successful, I do not understand why the intelligent people who are in the co-operative movement cannot make the marketing societies successful. So, we are now appointing our own officers to these sales societies and we are getting very good results. We have tackled not only paddy but also oranges and eggs and of course, you must have heard about our milk. The milk societies are making very good profit and for the last several years they are running their business excellently. So, I believe that if an honest attempt is made and if a Government officer is there to guide and manage the show, I do not think any marketing society can be unsuccessful. I agree with Mr. Wace that these societies should be helped by Government not only by giving them financial assistance but also by giving suitable officers who should be trained in the special line of marketing. If that is done, I believe almost all the co-operative marketing societies will be successful.

Chairman: In the light of the discussion that has taken place, I think the following Resolution may be adopted:

"This conference recommends that every effort should be made, where suitable conditions exist to organise co-operative marketing with Government assistance and supervision especially with a view to securing to the cultivator the full effect of the rise in prices and for this purpose attention should be paid to the creation of central marketing Unions under business management."

DRAFT RESOLUTION NO. 11.

Mr. K. G. Ambegaonkar: I move the following Resolution:

"This conference recommends that Provinces should experiment with multiple purpose societies to ascertain more clearly the conditions under which they are likely to thrive and the form which they should take with special reference to their area of operation, liability and purposes".

In view of the vigour and ardour with which the Reserve Bank has advocated the formation of multiple purpose societies, it may seem to you rather strange that I should be advocating only the making of experiments and suggesting a Resolution of a rather colourless form like this. But here I am acting as the mouthpiece of the preliminary committee where the matter was discussed and the resolution as it stands before you is the resolution which the preliminary committee thought would be most acceptable to this conference. What it asks you to do is to experiment with multiple purposes societies in order to find out under what conditions they are likely to be most successful and the form which they should take.

The subject of multiple purposes societies has now been brought very clearly before most co-operators not only through the publications of the Reserve Bank but through the various schemes which several provinces like Bombay, Madras, U. P. and Behar have put forward. The idea itself is not new and in fact before the co-operative movement was started in this country, the report which Sir Frederic Nicholson made envisaged an organisation of co-operative societies as multiple purpose societies. Actually however when the co-operative movement was started it was found that the question of credit was the most important and the one which had first to be tackled and the first societies were naturally confined to agricultural credit. Later on when the co-operative societies were considered necessary for other purposes, it was found more convenient to organise separate societies and after a time the general opinion seemed to be that separate societies should be formed for each purpose. This general attitude also has been undergoing a change when the subject of rural reconstruction came into prominence and various experiments were made for rural reconstruction led by Mr. Brayne's work in the Punjab and then it was more and more realised that rural reconstruction involved not only the grant of cheap credit but the improvement of the conditions of agriculturists from several other points of view. The co-operative societies were also affected by this change in public opinion and the societies which were organised about that period did tend to become more and more multiple purpose societies, though they did not take up credit and marketing. The better living societies and the village reconstruction societies were for all practical purposes multiple purpose societies.

Then during recent years when credit societies have come into difficulties in most places, it is more and more realised that the main reason why they have failed is that they attack only one part of the important problem of rural life. It was also realised that if the credit part of the movement is to be made a success, it has got to be allied with certain other important functions like marketing, the improvement of crop itself, that is better farming and supply, as well as improvement in social customs. It is for this reason that it has been found necessary that co-operative societies should encompass the whole life of the agriculturist, and not merely any particular activity. So far as I am personally concerned, I am strongly in favour of the idea that all co-operative societies, I mean primary village co-operative societies should be of the multiple purpose type and that they should take up various other functions. This resolution however asks you only to make experiments in that line. The reason underlying the second portion of the resolution is that though the idea of multiple purpose societies has been approved in several provinces, yet the form in which it has been approved differs considerably. In the first place in some of the provinces like Madras, and Bombay the idea is that the area of operation of multiple purpose societies should be larger than one village and that ordinarily it should be four or five villages. This idea of course is one which I would not personally advocate and in other provinces like Behar I understand they would rather favour one village, one society. Then there is the question of liability also and it has been urged that in the case of multiple purpose societies, unlimited liability is unsuitable and therefore these societies should be organised on a limited liability basis. With this suggestion also, I do not agree and I consider that so long as multiple purpose societies are confined to villages and so long as the economic conditions of our agriculturists is as backward as it is, it is not possible to do away with unlimited liability. This question we will discuss in the next

resolution more fully, but in any case there is no uniformity of opinion at present as to whether the multiple purpose societies should be of limited liability or unlimited liability.

Lastly there is also considerable difference of opinion regarding the functions which the multiple purpose societies should undertake. In one province, they go so far as to advocate that it should be, for all purposes, the local authority, that is to say, it should be a local body and it should undertake all the work which village panchayats would undertake. I am only mentioning how ideas in regard to the functions of multiple purpose societies differ in most provinces. In most other provinces they consider this would be going too far. Here also there is a point which has got to be decided by experiment and discussion. Therefore we have specially brought to your attention these various matters which will require consideration when you are thinking of organising multiple purpose societies. I should consider the form in which the resolution has been proposed is quite innocuous and it could be passed without much discussion.

Mr. S. K. Chatterjee: Will my friend please explain what are the objects of these multiple purpose societies? Will they include any system of supplying pure drinking water, good roads, lighting, slaughter house, parks, recreation grounds, even sending representatives to the legislature. What is the object of multiple purpose societies? Within what limits will they work?

Chairman: The intention of the Resolution is that experiments should be made so that the most suitable objects be ascertained. It is difficult at present to answer the questions put by Mr. Chatterjee.

The conference then adjourned for lunch till half past two of the clock

(AFTER LUNCH.)

Khan Mohammad Bashir Ahmed Khan: I support this Resolution which is happily worded and does not commit anybody to anything but only requires an experiment to be made as regards area, liability and objects. Personally I am not in favour of a multipurpose society and opinion about it differs widely. This has been discussed all over India and particularly in the Punjab, and the Punjab opinion is definitely against it. The idea is not new. The model bye-laws of every such society provide for everything that has been suggested by the Reserve Bank for a multipurpose society. According to these bye-laws the objects are to promote the economic interests of its members, more particularly the creation of funds to be lent to its members for necessary purposes. The second object is the purchase and sale of agricultural implements, seeds and produce; the third is the provision of educational assistance to its members; and the fourth includes other measures designed to encourage in the members the spirit and practice of thrift, mutual help and self-help. Therefore the bye-laws provide for better living and better farming and we must see why, in spite of that, multiple purpose societies have not been started in this country. When this scheme was put forward by the Reserve Bank it was pointed out that in practice where conditions were not favourable the multipurpose society would not be successful. Many objections were raised, *viz.*, that it would complicate the working of the society, and the agricultural members living in the village would not be able to manage it and so it will lose its co-operative character. Another objection was the difficulty of defining the

area of operation because in a credit society the area may be very small and in a multipurpose society, as originally suggested by the Reserve Bank, the area may be very large. Another objection was that one branch of the society may be very successful while some other branch may fail, thus resulting in the failure of the whole society. Another objection was as regards liability. The liability of a credit society is unlimited but for a marketing and better living and better farming society it may have to be limited. Similarly, it was felt that it would be difficult to find out whether a society was working at a profit or not and members dealing with one branch of the society may have to pay for the activities of the other branches of the society. These objections were all forcefully brought to the notice of the Reserve Bank, but I was astonished to read a note in which they changed their whole position. They said they never recommended a society with such a big area of operation but a credit society only; they said they did not mean it to be a regular bank or to have a shop of its own for the sale of the produce of the members but that the sale was to be arranged through some other bigger organisation. I was disappointed to read this because their previous bulletins said something else. The position of a multipurpose society, on the recommendation of the Reserve Bank, has always been understood to be that it will deal with the whole economic life of a member, but we find it is not so. It is to be only a credit society, taking up other work as circumstances permit. That is just what we have been advocating for the last so many years and the credit societies have not taken up this work because circumstances have not permitted them. Following the recommendation of the Reserve Bank it has been thought that a multipurpose society would operate in a very big area. My friend Mr. Satyanarayana organised a multipurpose society with an area of operation of three miles and about 350 members and there are ten villages in the area of operation of that particular society. So now the Reserve Bank wants us to go back on what they said in their old bulletins and take up simple credit societies, with other work as circumstances permit. That is not the position which should be taken up on this question. As I said, I am opposed to a multipurpose society but there is no harm in making an experiment as to its area of operation, liability and purposes. Therefore the Resolution has my support.

Sir Malcolm Darling: Perhaps it would facilitate our work if I fix a time-limit of 10 minutes for the Mover of a Resolution and 5 minutes for other members.

Mr. Satyanarayana: I am also going to support this with some reservations. In my area I am making an experiment with a multipurpose society but I call it a rural bank to avoid misunderstanding. There are bye-laws but we are not able to carry them out. All these years we have explained them to our members but even in credit we have failed and in non-credit some provinces have failed miserably. I am the President of a co-operative union and of a co-operative credit society and I know that from 1919 to 1930 the societies worked well but after the depression the co-operative societies started on the unlimited liability basis came to grief. We failed to collect money and new members were not joining. Therefore to create confidence the first thing was to eliminate unlimited liability. My societies failed because of competition in the co-operative movement. But with limited liability I could bring in both rich and poor. The poor people I am not giving money but they wanted other materials and I supplied them with rice and other articles of food and gave them

work in the society. I organised joint farming. I gave them money for their cultivation expenses and I realised more money by taking charge of all their produce. I sold away the produce through this rural bank. In this way I was able to keep the poor people. As to the rich people also. I take their produce and give them credit. So both the rich and the poor people joined my institution. So the confidence in the co-operative movement which was rudely shaken by unlimited liability was revived and I gave money to the agriculturist on the tangible security of the land. I gave only working expenses in cash, and manure and seed if they wanted them. Through this rural bank or multipurpose society I can attract people. I could not do it hitherto because small societies could not appoint efficient paid workers; now I can do so because my transactions are large. Therefore a multipurpose society will do very good work in a limited area, namely, within a radius of three miles in good villages.

Mr. Wace (Punjab): I wish to support the Resolution but I wish to draw attention to the relation of these multipurpose societies with the village panchayats. The policy of the Punjab Government has been to encourage the growth of panchayats. And a Bill is now before the Assembly there under which the panchayats are to carry out a great many of the work normally done by the multi-purpose society, and there is a distinct possibility of conflict between the panchayat and this society. I wish to point out the danger of extending the work of co-operative societies too much where you have a statutory body like the panchayat already working.

Mr. Ambegaonkar (Reserve Bank): I wish to reply to some of the criticisms made. With regard to Mr. Bashir Ahmad's remarks, I have read and re-read the bulletins and statutory reports and fail to see any justification for the statement that we are going back on our proposals. The second bulletin entitled "Village Co-operative Banks" nowhere suggests that the area of operation should be extended or that it should be anything more than one village. We have from beginning to end made the same recommendation, only some people have interpreted it from their own points of view and then said that we have given wrong advice. I must say that there has been absolutely no doubt regarding the recommendations we were making. We have always said that the objects of a village co-operative society should not be confined merely to credit but should encompass the whole of the economic life of the agriculturist. We have never said that the operation of the society should extend to more than one village nor that the liability should be anything other than unlimited. The objections which Mr. Bashir Ahmad quoted to multipurpose societies and which are practically taken from what Mr. Campbell has said in his book on Co-operation for economically undeveloped countries have been actually noted upon in the note which the Reserve Bank has circulated and have been answered. On the basis of the suggestions which the Reserve Bank has always made, the difficulty about the area of operations, *viz.*, credit requiring a small area and other activities requiring a larger area will not arise because the other activities which are to be taken up are such as can be managed by the primary village societies with the assistance of a bigger organisation. What I am afraid has happened is that our recommendations in regard to banking unions have been confused with those in regard to primary multi-purpose societies. Similarly the objection that it will lead to complexity of work and unco-operative working does not arise in the case of a society in a small area, which has been the suggestion of the

Reserve Bank. The third objection is that lack of success in one branch might lead to the failure of the whole society. There again if you read the very first bulletin you will find that nowhere has the Reserve Bank said that the primary village society should undertake trading on its own account, that is, either buying or selling. It has always said that it has to be worked through some other agency and it is obvious that a small village Society cannot do it. You may organise marketing on a large scale and you require central agencies. We have suggested banking unions; you may have big central marketing unions. That is a matter of convenience. But we have never suggested that primary societies should undertake any operations of a complicated nature. And because the recommendations of the Reserve Bank are interpreted differently by different people, it has been thought necessary to frame a Resolution on these lines. If you do not agree with the suggestions of the Reserve Bank you are at liberty not to accept them.

Prof. Kale (Bombay and Gwalior): In the light of this discussion I think it would be better to avoid the use of the words "multipurpose society". I suggest that provinces should experiment with extending the operations of primary credit societies with a view to taking up purchase and sale in order to improve conditions, etc. The words "multipurpose societies" have created difficulties and may be avoided.

Rai Bahadur S. N. Sahay (Bihar): It is a very good term and we should not avoid it.

Rai Bahadur Pandit Radhelal Chaturvedi: I am also opposed to Prof. Kale's suggestion.

The Resolution was adopted by the Conference without any change.

DRAFT RESOLUTION NO. 12.

Mr. Ambegaonkar: Sir, I beg to move this Resolution:

"This Conference recommends that agricultural credit societies, other than multi-purpose societies which are the subject of a separate resolution, should ordinarily continue to have unlimited liability but scope may be given for experiments with such societies with limited liability."

In view of the previous discussion this does not require any elaborate explanation. There is some demand at present for primary societies being organised on limited liability basis and some provinces go so far as to say that unlimited liability should be an exception. This Resolution is a sort of reply to this kind of demand. It in effect reiterates the principle that primary societies should be ordinarily based on unlimited liability and limited liability should be tried only as an experiment. The Committee thought it necessary to reiterate it because in our opinion a primary society is essentially based on mutual knowledge and control and that will be lost if unlimited liability is given up. Secondly, co-operative societies are intended for men of small means and if unlimited liability is given up each member can get credit up to the extent of his property, or up to the extent of any other small liability that may be attached to a

share; but that would necessarily eliminate all the people who have not got any land of their own, and thus the main object of providing credit to the small man will be frustrated. From all points of view it seems desirable that the old principle should be continued and limited liability should be only tried as an experiment.

The Honourable Mr. V. Ramadas Pantulu: Sir, I beg to move an amendment: That for the original Resolution the following be substituted, namely:—

“This conference recommends that agricultural credit societies need not necessarily continue to have unlimited liability and the provisions of section 4 of the Co-operative Societies Act (II of 1912) and the corresponding provisions of the Provincial Co-operative Societies Acts should be suitably amended so as to give freedom for registration of societies, the majority of whose members are agriculturists, either on unlimited or limited liability basis according to local co-operative opinion.”

Section 4 of the All-India Act says that the liability of a society the object of which is the creation of funds to be lent to its members, the majority of whom are agriculturists, shall be unlimited. It is mandatory. It is open to the Provincial Government to exempt certain societies from the operation of this section if they like. Bombay, Madras, Bihar and Burma have followed the All-India model, and perhaps liberalised it a little. But the time has come to relax the rigour of it now. I am not advocating any change which local co-operative opinion does not favour. I want to make the law more elastic. In regard to many of the old societies we may have to keep the law as it stands with unlimited liability, but thinking in terms of the new orientation we wish to give the movement and to comprehend within it all the economic needs of the villager, the original idea of unlimited liability based on the assumption of mutual knowledge and trust cannot hold good any longer. The individualistic character of the present-day rural economy has changed all that. Speaking for myself, I cannot say that I know anything of the financial conditions of my fellow villagers. We have departed from the old ideal of mutual trust and mutual knowledge which could be utilised as an asset before. Now tangible material is demanded for securities for loans and there is very little of this moral asset now. The example of Germany has been quoted. I have read some of the literature of Prof. Raiffeisen and I was told while in Germany that Raiffeisen owed his success to the full use he made of the one intelligent power in rural districts, the parish priest or pastor. That is hardly possible now. In order to equate this material caution in the shape of mortgages and sureties we have introduced many conditions which are anomalous such as share capital withdrawal. Moreover after the report of the Maclagan Committee doubt was thrown on the position—Mr. Calvert has said that the law contemplates only ultimate contributory liability arising in liquidation. Different High Courts have given different opinions in the matter and therefore holding this unlimited liability in terror over all the members and saying it will not stimulate deposits and so on—all this does not appeal to me. There are various ways in which we can serve the villager and it is not right that we should cut up his life into various compartments. The enforcement of this unlimited liability will certainly stand in the way of the expansion of the movement and will be a deterrent to people joining it. Here I would like to refer to

Vol. II of Dr. C. R. Fay's Co-operation at Home and Abroad (1939): Dr. Fay is a co-operator of international fame. He says:

"The detail of Indian co-operation will reveal an intensive effort to acclimatise the co-operative village bank, carrying unlimited liability. The necessity was the scourge of money-lending, which is as widespread and endemic as malaria. The deputies of Raiffeisen were the provincial Registrars of Co-operative Societies, who specialised in co-operation as a contribution to good Government The nominal indebtedness of the Indian peasant is astronomical; and since India took over from Germany the rule of unlimited liability without the more fundamental attribute of deposits derived from the same social stratum as that to which credits are issued, co-operative credit tended to become a channel for the loan of money by substantial to indigent persons—a subdued form of money-lending."

Whatever strong feelings I may hold, I do not wish to bring up any resolution which may not commend itself to those who take a different view. All I plead for is a relaxation from the rigorous rule embodied in section 4 and the corresponding provisions of the Provincial Acts. Taking this with the next resolution, No. 13, I may say that I am not against introducing some element of compulsion if it is for the benefit of the people if those people observe the discipline of the co-operative societies but so long as unlimited liability stands, I can not be a party to any element of compulsion being introduced. The resolutions are interrelated and I appeal to members of this conference to take a broad outlook and give us some freedom.

Rai Bahadur S. N. Sahay (Bihar): I think the resolution as amended is a very good one and should be passed.

Mr. F. B. Wace (Punjab): I am in favour of the original Resolution. If Madras wishes to amend its Act it is free to do so and it is not hampered in any way. Personally I think nobody in the Punjab wishes to depart from the principle of unlimited liability except perhaps as an experiment at present.

Mr. M. R. Bhidev (Secretary): I agree with Mr. Wace: the experiment has been tried and not proved much of a success.

Mr. N. Baksi (Bihar): I support Mr. Pantulu's resolution. There are about 6,000 societies in Bihar with more than a lakh of members in them. After discussion with members of more than 100 societies, I have found that the original aims and objects of unlimited liability have been completely frustrated—at least in Bihar and Orissa. This unlimited liability has not kept out undesirable members, nor has it given courage or power to the few solvent members in keeping down reckless financing. The result was that a number of the more solvent villagers were kept away from these societies. Reconstruction of co-operative societies is not possible if unlimited liability be enforced. Opinion in Bihar is that instead of idealising the moral virtue of mutual help and co-operation, we must test the co-operative character by business ability over a period of time and attract the more solvent members of the village by starting future societies on the basis of limited liability.

Khan Bahadur A. M. Arshad Ali (Bengal): I do not think we can do away with unlimited liability, because I feel that it will be impossible for the central banks to raise any money if societies are formed on the limited liability basis, particularly in places where there is crop failure once in three years. No outside creditor will put in any money because it will not be possible for him to realise his money without enforcing the unlimited liability. I think Mr. Pantulu's resolution will weaken the movement in Bengal and I am in favour of passing the original resolution.

Mr. S. Hasan (U. P.): I am strongly in favour of the substitute resolution. The reasons given in favour of having unlimited liability have not been convincing. It has been said that if you give up unlimited liability in the primary societies, they will not remain truly co-operative. If that is to be the only criterion, may I know whether the better-living and consolidation of holdings societies with limited liability in villages are truly co-operative? It is also said that unless you have unlimited liability these primary societies will not be able to deal with central banks and people with no property or assets will not get loans. I visited the Punjab lately and I found, as in my province, that the practice is that the assets of every member are ascertained and a maximum credit limit is then fixed beyond which no loans are granted. If that is considered adequate, then the question of financing such people does not arise. My friend from Bihar has already said that unlimited liability has definitely scared away solvent and intelligent people from joining the society. In support of that view I may say that while I was touring in the Punjab I was told by two well-placed officers of the department that they themselves had resigned from the societies because they were afraid of this unlimited liability. This conference has to consider whether in lending money to cultivators who have no other source of credit, we are to tell them that we must have our pound of flesh. Again, after the different provinces have passed these Acts to relieve the agricultural debtor—we have to leave him his pair of bullocks, seed for the next harvest and grain for his family and himself till the next harvest,—what is left which the supporters of unlimited liability want to lay their hands upon? I therefore say that we must be permitted to have this limited liability and thereby attract those who have so far kept away from these village societies.

K. B. Malik Nur Muhammad (Punjab): I am surprised to find the United Provinces, after supporting unlimited liability in the note that has been circulated, officially opposing it now. I venture to think that the last speaker has not scientifically examined the point. In the Punjab we have got 24,000 societies, with 10 lakhs of members and a working capital of 18 crores. As regards the resignations mentioned by the last speaker, they must have been from membership, as the departmental rules do not allow officers to be members of credit societies. When these officers entered the department they were faced with the question of unlimited liability—they were thoroughly conversant with the working of the principle in the province and they could not resign on that account. Therefore my submission is that this argument is not supported by facts and reasons. As the time of this Conference is very valuable, I would not try to reiterate all the seven good reasons advanced by the Reserve Bank and it is not necessary for us to oppose everything, however good, which comes from the Reserve Bank. In this case at least the arguments advanced are very cogent and have neither been scientifically examined nor efficiently replied. The crux of the success of the movement is unlimited liability, and I am

sure we shall lose credit with the depositors if we do not keep the unlimited liability. My friend has just mentioned that the borrowing capacity which we call the maximum credit limit of a member in the Punjab is based upon his earnings, ownings and property that he has. Undoubtedly this is one of the ways in which those things are determined, but that does not go to show that those people who have got no property, those people who have got no stock are not permitted to take advantage of the co-operative societies. My respectful submission is that poor people are taking greater advantage from the co-operative movement than the richer people. The richer people do not want our assistance, and in most cases they come for the assistance of other people and for taking advantage themselves whenever circumstances force them to do so or whenever they think it necessary. Therefore, my submission is, from the point of view of the borrower, from the point of view of the lender, and from the point of view of your depositor, unlimited liability so far at least is the best guarantee and the best security that you can offer in the movement. Madras support in the note unlimited liability, but I find that Mr. Ramadas Pantulu is taking a different view. There may be some reason. In any case I whole heartedly support the original resolution and not the substitute one.

Mr. S. M. Ikram (Bombay): I wish to make a few observations. We have not examined the question in very great detail so far as it affects societies in general, but with regard to multipurpose societies Bombay has come to the conclusion that they should have limited liability. With regard to other societies I do not know the experience in other provinces, but in Bombay since the beginning of the movement we have had only three occasions to enforce unlimited liability. I have been associated with the movement for the last three years and there has been no occasion to enforce unlimited liability. Therefore, in actual practice, unlimited liability is not such a help to the financing agencies or the banks as is generally imagined. In addition to this, previous speakers have pointed out that the advantages which were expected from unlimited liability have not accrued. Members do not exercise the same interest which one is expected to do in view of the unlimited liability. In view of all this, as you may have noticed from the note circulated by Bombay, Bombay seems to be in favour of relaxing the condition of unlimited liability and has suggested limited liability and reserve liability. But after this note was circulated, we have been tackling the problem of providing adequate finance for the multipurpose societies and I must say that we are finding it somewhat difficult to get adequate finance from the financing agencies. In spite of the fact that unlimited liability has not been enforced in practice and we think they need not fear, they are hesitating to give sufficient finance to the societies with limited liability. As I pointed out at the beginning, we have not come to any definite conclusion in Bombay, but on the whole I am in agreement with Mr. Pantulu that we should experiment and that the advantages which are expected from unlimited liability are largely illusory.

Prof. V. G. Kale (Bombay and Gwalior): What my friend has pointed out with regard to the position in Bombay comes to this that there is no harm in experiments being made but that Bombay has not yet decided as to the advantage of limited liability because we are afraid that with the change from unlimited to limited liability it will be difficult to raise the funds required for running co-operative societies. So we require

further time to examine the question and that is why we would rather support the original resolution than the substitute one.

Chairman (Sir Malcolm Darling): What about Central Provinces?

Sir Madhoroa Deshpande (C. P.): I have not studied this question of unlimited liability and limited liability, but I find from my own experience that depositors will clearly feel that by changing the unlimited into limited liability there will be a breach of faith, because they have deposited their monies only on this ground that the liability is unlimited and there is no danger to their deposits. In future there may be limited liability but as regards the present societies they should not be converted into limited liability.

Mr. T. M. Desai (Baroda): A number of provinces have supported the original resolution rather than the amended form,—I still call it an amendment—the substitute amendment of Mr. Pantulu. I should like to know how by passing the original resolution the Registrars are going to make experiments by giving scope to such societies with limited liability. As the Act stands, it is impossible for us to make the experiment or to give scope to limited liability in our village co-operative society. Mr. Pantulu's resolution does not make it obligatory on the Punjab or Bombay if they do not want to make the experiment and there is nothing for them to fear from this substitute resolution. But those who want to make an experiment—for them it is necessary that they should have the Act amended to permit their Registrars to make this experiment. The original resolution expresses only a pious wish but the Registrars' hands are tied and they would not be able to make any experiment. On the merits, we have been hearing both yesterday and this morning harrowing tales of frozen credits, no recoveries, losses and so on. We have come to that stage after 25 or 30 years of unlimited liability. If unlimited liability is of any service, why not utilise it now and save the movement from all frozen credits about which we have been talking? Unlimited liability has not saved the societies or the central banks and in some instances even the provincial bank from the plight in which they find themselves after 7 or 8 years of depression, and unlimited liability is not going to save them in future from any such plight. In all the provinces and all the States the societies are in a moribund condition. The banks find it very difficult to meet the depositors. Unlimited liability does not help us. Let us try an experiment with limited liability. The original resolution is a pious wish and no Registrar will be in a position to make any experiments whatsoever.

Mr. Satyanarayana: I just want to mention one or two points. I have myself started a limited liability society and I have got Rs. 20,000 from the depositors. The central bank has given me a loan to the extent of Rs. 40,000. I could get Rs. 20,000 straight because I have got tangible securities to give. I gave my money on pledge of produce, on mortgage of land, on jewels. These are my tangible securities, instead of depending on something, on unreal unlimited liability. The village society is not only for the ordinary poor and middle class people but also for the labourer. The co-operative society is not only a credit society, but it should also be for other purposes. I have taken the labourer and given him work—created work for him. Though it is a limited liability society, I can attract parties because we create confidence among the public that it is

working efficiently under good management. I want to read a quotation from Mr. R. G. Kale (?). (Here reads).

One Member: You talk of India.

Mr. Satyanarayana: Yes, I am talking of India. I have made an experiment in my own place. I could get Rs. 20,000 in deposits and credit from the central bank for another Rs. 40,000. As regards my mortgages I could transfer them to the bank. My gold securities etc., are re-assigned to the central bank and my produce pledges I have given to the central bank. These are tangible securities and I could get Rs. 40,000 in one year and Rs. 20,000 from the depositors. But this unlimited liability will not save us. Therefore, let us insist on solid securities and also create work for the labourer and let us not build on unreal foundations.

The Honourable Mr. V. Ramadas Pantulu: My task is fairly easy. With regard to what has fallen from Khan Bahadur Arshad Ali and also from my friend Khan Bahadur Nur Muhammad, it is not intended to affect them if they in Bengal or the Punjab favour unlimited liability. There is nothing to prevent them from continuing to have unlimited liability. I know that conditions may differ, and if you think that you can work better with unlimited liability, there is nothing in my resolution which compels them to do contrary wise.

With regard to my friend Khan Bahadur Nur Muhammad, he has raised unlimited liability to the dignity of a principle. He has got a living faith in it and I have all respect for him for that living faith and he has attained great success in the Punjab. But those who have thought and written about unlimited liability have expressed the opinion that it is a matter of expediency and not a principle, and whatever is expedient may be adopted. As regards my friend Sir Madhorao Deshpande, I never intended to affect existing societies. The resolution asks for a relaxation of the law to give freedom to the registration of societies in future. There is nothing in my resolution which affects the existing societies. I am speaking of the expansion of the movement in future. I am thankful to Mr. Baksi, Mr. Hasan, Sir Madhorao Deshpande and Mr. T. M. Desai for giving support to my resolution in which we only ask for freedom. A very good point was made by Mr. Desai that the original resolution can really be of no use unless the law is amended. That is a point which deserves the consideration of this Conference. How can you make an experiment when the law says it should be unlimited. Therefore, the resolution itself cannot be worked and no real experiment on an appreciable scale can be made unless there is a relaxation of the law and all I ask is a relaxation of the law with complete liberty to my friend Mr. Arshad Ali and Mr. Nur Muhammad.

Mr. K. G. Ambegaonkar (Reserve Bank): In regard to the wording of the resolution it has been urged that the original resolution will be useless in view of the fact that the law ties the hands of the Registrars. I should like to read to you the actual section in the law in order to revive the memory of my friends as to what exactly the law says. It starts ". . . . unless the Provincial Government by general or special order otherwise directs" and goes on to say "the liability of a society of which the object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists, and of which

no member is a registered society, shall be unlimited." The words are, unless the Provincial Government by general or special order otherwise directs. Where in a province it is decided to make an experiment it is certainly possible for the Registrar to get sanction from the Government—it may be an experiment in any particular area of the province or in the whole of the province. I do not think the law as it stands is going to make it difficult for the Registrar to make experiments. On the other hand, if you change the wording as is proposed in the substitute resolution, it will amount to not merely making it easy for the Registrar to make experiments but putting your approval on the change from unlimited to limited liability, because it definitely says, "Agricultural credit societies need not necessarily continue to have unlimited liability." That really implies that in your opinion unlimited liability is not necessary, and in order to caution those who may vote for the substitute resolution under the impression that it does not go any further than what the original resolution intends, I should make it quite clear that the two resolutions are entirely opposite and they mean two different things altogether. On the merits of the thing, I think most of the speakers have cancelled each other and there is very little for me to say, but so far as the question of unlimited liability not being effective has been urged, I should like to say that in regard to the present societies Mr. Pantulu himself has agreed that unlimited liability cannot be given up. Of course he said it should not be given up because of the fact that people who deposited their monies did so on the understanding that there was unlimited liability in the primary societies. But that shows that that is going also to help you to realise something more than you might otherwise have realised, as is actually being shown in the provinces where unlimited liability has been enforced. So, it will be clear that if you give up unlimited liability it is going to land you in very great losses in several provinces, and it is not merely because you have given a promise beforehand that you should not give up unlimited liability but if you do give it up you are going to involve yourself in losses and that is why several central banks are afraid that if you give up unlimited liability, not in the case of old societies but even in the case of societies to be organised in future they will find it difficult to finance the societies. I therefore strongly urge that the original resolution should be approved.

Chairman (Sir Malcolm Darling): I am not sure whether as occupying the Chair for the time being I am entitled really to express an opinion on this question, but it is of such importance and has been debated with such interest and from so many points of view that I feel, in view of my long connection with the co-operative movement, I should say something on these two resolutions before the Conference makes up its mind as to which to adopt or whether either should be adopted. Mr. Ambegaonkar has very rightly pointed out, and Mr. Pantulu agrees, that the two resolutions are very different in character. For myself I confess to being in sympathy with the original resolution for one reason above all others. This reason is this, that our whole movement in India which now, as we were told by the Honourable Member-in-charge (Sir Jagdish Prasad), extends over 1,00,000 societies, has been built up, so far as agricultural credit is concerned, on the basis of unlimited liability and that represents the wisdom and experience of over 30 years. As one who has now reached the age of caution rather than of romance, I feel an instinctive necessity to approach this question in a spirit of great caution. Undoubtedly the question of liability is a fundamental one and before we propose or decide

to make any drastic change in any of our fundamental principles I feel myself that we should have a period of experiment during which we can make up our minds whether and under what conditions one form of liability is better than another but I myself am open to conviction on the subject and am prepared to believe that in a certain type of village, to be found and perhaps more in one province than in another, the form of limited liability may be preferable to that of unlimited liability. But I think he would be a bold man who would say that we have sufficient experience to say what those conditions should be which are specially favourable to the unlimited liability and specially unfavourable to limited liability. I am therefore myself in favour of passing a resolution which commits us to experiments but which does not, at the present moment, commit us to anything more. I am sorry that I have to differ from my friend Mr. Pantulu because his experience probably goes back longer than mine—mine is a matter of 24 years and I dare say his is a matter of 30 years or more—but I do feel that we should be wise, before committing ourselves to definite approval of the principle of limited liability for agricultural credit societies—which is involved in the substitute resolution to have a period of experiment. Therefore, what I would suggest is that we should adopt the original resolution, and perhaps at the next Conference we may be in a position to commit ourselves more specifically.

Mr. P. M. Kharegat: May I suggest a compromise resolution which would I think satisfy both sets of opinions. The first part of the resolution would be as proposed by Mr. Ambegaonkar, namely, "Agricultural credit societies, other than multipurpose societies which are the subject of a separate resolution, should ordinarily continue to have unlimited liability". Then the rest would be deleted and it would go on, ". . . . but freedom should be given for the registration of societies with limited liability with the sanction of the Registrar, and for this purpose, the existing statutes should be suitably amended where necessary." I may explain this amendment that I have suggested. This brings out the point that freedom should be given wherever it is required for the registration of societies with limited liability—that is the main point for which Mr. Pantulu has been pressing. But the experiment part is safeguarded by putting in the provision that it should be with the sanction of the Registrar and the point about which Mr. Pantulu is keen, that the existing statutes should be amended if necessary—that also comes in. Therefore it satisfies all the requirements of Mr. Pantulu, I think it also satisfies the requirements of experiment and caution and we may piously reaffirm our belief in unlimited liability at the same time. I suggest that this may be accepted by all.

The Honourable Mr. Ramadas Pantulu: As I see, in Mr. Kharegat's amendment my resolution will be the operative part of it because I want a change in the law to give freedom. But speaking for myself, I cannot subscribe to the preamble of the resolution, namely, that agricultural credit societies should continue to have unlimited liability because it is a principle on which I differ. May I suggest for Mr. Kharegat's consideration another amendment which should probably meet his point also. In my resolution for the last words, namely, "according to local co-operative opinion with the sanction of the Registrar" may be substituted. It will meet Mr. Kharegat's point of view.

Chairman (Sir Malcolm Darling): Say, "express opinion".

The Honourable Ramadas Pantulu: Yes,—“with the express opinion of the Registrar.” I do not object.

Chairman: I think the sense of the Conference is that we should decide between the original and the substitute resolutions.

Chairman: Will those in favour of the Honourable Mr. Pantulu's substitute resolution stand up?

(17 stood up.)

Will those against stand up?

(17 stood up.)

The casting vote of the Chair is against the substitute resolution. The substitute resolution is lost and the original resolution (page 63) is carried.

Mr. Wace will now move draft resolution No. 13.

DRAFT RESOLUTION NO. 13.

This Conference recommends that persons should not be compelled to join co-operative society nor should the decision of such society be binding on non-members.

Mr. F. B. Wace (Punjab): This resolution has been fathered upon me. I am not responsible for it. At the same time, as I have just assisted in rescuing from drowning one precious principle of co-operation, I think it right that I should defend another one. I did not think that anybody would have proposed compulsory membership of co-operative societies. I find from looking at the notes supplied to the conference that it has been proposed for two reasons. One reason apparently is that co-operation has so far reached such a small proportion of the agricultural population that it is now necessary to extend it to the remainder by force. Another is that some of the Agrarian Acts relating to indebtedness make it obligatory on persons who desire relief to be members of co-operative societies and, therefore, it is apparently argued that in order to allow as many people as possible to take advantage of this provision, you must have also a provision which should compel them to become members of a society by force. I do not think it is really necessary to argue seriously against that. I cannot really believe that anybody, in the interests of extending the co-operative movement among as many people as possible, should for that sake, abandon the co-operative principle. After all, co-operative societies do rest on voluntary membership and if, after careful selection of membership, you are going to extend it by force, you are abandoning one of the main principles of co-operation. You are, for the sake of life, abandoning what makes life worth living. The second part of the resolution also mentions that the decision of a co-operative society should not be binding on non-members. I am not quite clear as to what is referred to in this clause. I must, however, say that I am certainly inclined to support the principle of compulsory marketing which binds non-members where a majority of producers have combined for co-operative organisation, to market their produce through the co-operative societies. The practice is prevalent in several dominions and partly also in England as well. With that exception, I do very heartily commend this resolution to the good sense of the House.

Prof. D. L. Dubey (U. P.): I rise to oppose the resolution in its present form and I would point out some of the difficulties in the way of

accepting the resolution as it stands. Take the question of the consolidation of holdings. Suppose, in a village, there are 60 or 70 people who are willing to join a society and they come to an agreement for the exchange of lands but there is a certain number of recalcitrant people who would not join the majority owing to party faction or family rivalries or any other reasons. Again, take the case of a motor society. The motor society controls the buses running between Delhi and Meerut. Now, the majority of people have joined our motor society but the minority has not joined. The result is that whatever discipline the majority want to enforce is ridiculed by the minority people. It is proposed to introduce return tickets between Meerut and Delhi in the case of buses but the minority people do not like to join and, therefore, the ordinary public is not in a position to take advantage of the proposal. Take the case of the cane marketing society. Suppose in a particular village there are 100 growers and out of these 100 growers 90 people are willing to supply their cane through the Cane Society but there are 10 persons who try to make the whole thing a failure because the mill people patronise them to a larger extent. Thereby the whole scheme of cane selling becomes a failure. Again I had occasion in a particular village to deal with an irrigation society for the purpose of setting up a tube-well. The people generally were agreed but there are some people who tried to put obstruction in the way of others. In all these cases it is absolutely necessary to compel the people to join a particular society for the purpose of promoting the good of all. In these circumstances, we cannot make any progress without forcing a certain section of the people to come into line with the majority. If this resolution is confined to societies with unlimited liability, I should not have any objection but, in its present form, I would like the proposition to be dropped.

Mr. S. M. Ikram (Bombay): In Bombay we started societies for the purpose of protecting the crops of all the villagers against damage by wild animals. Some of these societies engaged watchmen and others put up fencing. In practice, we find that it is impossible to have a successful society or do anything unless all the villagers co-operate. In order to provide for that, the Bombay Co-operative Societies Act was amended and it was provided that where a specified percentage of the population of a village agrees to a certain measure then others may also be compelled to fall in line with the rest. If the resolution in its present form is adopted, such co-operative action will become difficult. I therefore, propose that the second part of the resolution may be either deleted completely or amended in such a way that will be non-committal.

Mr. Chatterjee (Bengal): In Bengal, we are organising certain societies known as irrigation societies. There are tanks from which water is taken for irrigation. In the new Bengal Act, provision has been made that, if in any particular area the members of the irrigation societies put in an application to the Collector that they want irrigation facilities and if the following condition be satisfied, namely, that the lands to be cultivated cover not less than 60 per cent. of the cultivable land in the area such society may, subject to rules made in this behalf, levy a water rate upon any non-member of the society possessing cultivable land which has benefited by the irrigational facilities referred to. Therefore, so far as the first part is concerned, I have no objection but the decision under such circumstances should be binding on non-members also. As all persons are

benefited by the action of the irrigation society, I do not see any reason why every one should not be brought into and join in the general scheme.

Mr. P. C. Rao (Kashmir): I suggest that, at the end of the resolution, the following words be added.

“Except in the case of a society for consolidation of holdings which includes not less than 75 per cent. of the land holders of the village holding not less than 75 per cent. of the land of the village.”.

I come from Kashmir where experience has shown that without the introduction of some small measure of compulsion it is not practicable to make any headway. In the absence of this compulsion one or two villagers may frustrate the whole scheme. I, therefore, propose that the resolution may be passed with the amendment I have suggested.

Mr. M. R. Bhide: I think the second part of the resolution should be kept as it is for the following reasons. In the Punjab we have 1400 consolidation societies and we have not found any difficulty except in very few cases. Recently the Government of the Punjab passed an Act called the Punjab Consolidation of Holdings Act. There is a provision there that if two-thirds of the land holders owning more than three-fourths of the land agree to consolidate the village, the other villagers must agree but the Co-operative Department has scrupulously avoided approaching Government to apply this Act to them. In spite of this, we find applications pouring in and even if we increase our staff four or five times we would still be short of the men that are required. My main objection to the deletion of this clause is that these are days when we are fighting to save democracy. I quite realise that a certain number of people will get the advantages of irrigation or of consolidation without becoming subject to the discipline of the rules and regulations of the society. On the other hand, we must realise that we cannot and we must not force even a single man to do anything against his will or to force him to agree to what he does not like to do. Practical difficulties there will be but the question is to be judged from a broader aspect. We have found no difficulty in the work that we have taken up and we have been able to start 1400 consolidation societies without enforcing our decision on non-members. Therefore, I see no reason for the proposal to delete the second clause.

The Honourable Mr. Pantulu: All I wish to say on this resolution is that it embodies a general principle which has been the well accepted principle of co-operation. It is not intended to have the force of a statute. Cases may arise where certain utility services may suffer by reason of obstruction by a few people. Such cases should be dealt with as they arise but the primary duty of a co-operative institution is to induce those who have not joined to come and join the movement. If they find that they get tangible benefits by joining the movement they will do so. Then there is the question of moral persuasion. That ought to be the normal procedure. If an irrigation society or a transport society or an electric light society is really beneficial to the residents of a village and all residents of a village benefit by the enterprise then I think no intelligent man will refuse to join. We should not endeavour to bring into the co-operative fold many things which have really nothing to do with it. Voluntary basis is the foundation of co-operative societies. Co-operative organisations must be such that their benefits can be availed of by all people in the

village. In Madras we have the village panchayats constituted on a statutory basis. There is, for instance, the irrigation panchayat. In Madras, we have a statute dealing with that. The irrigation panchayat has got statutory powers to enforce its decisions on people who are served by the same irrigation source. Similarly, if a village gets the benefit of electricity, then there is no question of a few individuals saying "I won't have light and I won't pay for it." Whether he likes to have its use or not he will have to pay for it. Similarly, there is the sanitation society, societies for lighting roads, drinking water, conservancy, public health, medical relief and even education. You have got to pay a cess for education. These are powers which can be statutorily imposed by a statutory body. In these cases there is compulsory payment whether you take advantage of the service or not. That ought to be the line of rural development in our country. We ought to form village republics on a statutory basis but here I am definitely against any element of compulsion at all at any stage. If you cannot persuade a villager to appreciate the benefits of your irrigation system or transport system then you should not force it upon him. We have not agreed to unlimited liability and I am, therefore, very reluctant to bring in the element of compulsion.

Mr. A. M. Livingstone: I would suggest that this resolution be dropped altogether because there seems to be some doubt as to the extent to which it applies. I would be agreeable to the resolution if it said that persons should not be compelled to join a co-operative society with unlimited liability and stopped at that. The last speaker has referred to the high ideals of co-operation and to moral persuasion. There are limits to moral persuasion and I think the Co-operative Department should become a little more realistic and attempt a little bit of compulsion. Last week we had here a conference and there we heard something about soil erosion in the Punjab. Various methods have been tried to tackle this problem and in the Punjab they came to the conclusion that the best way was to tackle it through the co-operative societies but unfortunately there were one or two obstructionists who would not come in and work with the others and the gentlemen from the Punjab appealed for some compulsory measures in order that these co-operative associations, which deal with soil erosion, may be more effective.

Mr. F. B. Wace (Punjab): There was no representative of the Co-operative Department on that.

Mr. A. M. Livingstone: There was a representative of the Forest Department. We were told at that conference how the hillside is ravished by torrents and people hundreds of miles down below were great sufferers on account of the floods which carried away their dwellings and buried their land in sand. That sort of thing is happening and surely something must be done to compel those who would not come in and join the majority in preventing this sort of havoc. I think we should recognise the actual facts of the situation. There are some ill-disposed people who simply do not want to do anything at all to help. On the other hand, they will deliberately go out of their way to prevent their neighbours helping themselves and I think we must in this world face realities and resort to compulsion wherever necessary. I referred to soil erosion. The question of marketing is very much the same. If you are going to do it on a large

scale properly it means that you have to control prices so that poor people are not ruined. I would strongly urge on this conference that there are occasions when you do need this element of compulsion and you have to apply it. For that purpose although one must keep before one's mind the ideals of co-operation and of the co-operative movement I think we should recognise the actual facts that we have got to deal with and I think that it will be better if this resolution is dropped altogether.

Khan Mohammad Bashir Ahmed Khan: The resolution, as it stands, should not be dropped because this is a fundamental principle of co-operation as we have understood it for the last 40 years. Co-operative association is defined as an association of individuals on a voluntary basis for the promotion of their economic interests. If you are going to introduce compulsion it may be anything but it is not co-operation. No one should be compelled to join a society. If a man is compelled to join a society against his wishes then you are abandoning the co-operative principle. I do not doubt the utility of compulsion in certain circumstances such as Mr. Bhide has mentioned regarding the consolidation law, but so far as co-operation is concerned, the statutory provision has not been given effect to. Rules are being framed by the Revenue Department through which this work is being conducted. Compulsory consolidation has not yet been acted upon in principle. This is a new law.

Mr. M. R. Bhide: Under the Punjab Consolidation of Holdings Act the work is being done by the Revenue Department but the Local Government has the right to give the co-operative societies doing this work the same powers as are possessed by the Revenue Department. The choice has more or less been left to us. We find it much better to do our work without the operation of this Act. The Revenue Department is doing it under the Act.

Khan Mohammad Bashir Ahmed Khan: There is a provision in the bye-laws of the consolidation society that if 75 per cent. of the members agree to a scheme of repartition of fields that decision will be binding on the remaining members, but actually in practice this has also not been enforced unless all agree to the scheme of partition. I quite agree that in certain circumstances, such as those mentioned by Prof. Dubey, there may be necessity to resort to compulsion but generally I think that the co-operative society should not resort to compulsion of any kind. Therefore, so far as the resolution here is concerned, I am in full agreement with it.

Mr. Ansonge: I agree entirely with the last speaker (Mr. Livingstone) that it is obviously necessary in a great many cases to use compulsion, but in that case call them soviet societies or any other kind of society if you like but not co-operative societies. We have not I think in many parts of India after thirty years been so successful in co-operation that we can force it upon those persons who do not want it. Let us first by voluntary effort get co-operation to work sufficiently well to attract people. If people in certain parts in India have no wish or desire to join local co-operative societies, can you compel them? For the rest I entirely agree with Mr. Pantulu except in his last remark. He says if we give up unlimited liability, we might be able to bring in compulsion. I can only say that that is another reason for not giving up the principle of unlimited liability.

Rai Bahadur S. N. Sahay (Bihar): Sir, the resolution really has two parts—the first being that a person should not be compelled to join a co-operative society and the second being that the decision of such societies should not be binding on non-members. With the first most people are in agreement; but with regard to the second there has been a good deal of controversy. In fact I was tempted to rise and speak on the subject when I saw the Honourable Mr. Pantulu rising to speak and naturally kept my views to myself till I heard him. He knows in what esteem his views are held by me but for once I feel I cannot agree with him. It is the same position with Mr. Anson. He knows how we have been associated together with the co-operative movement in Bihar but in this case I feel I cannot agree with him. The position is that the principles of co-operation have been clear to most of us and perhaps dear to others who have been long connected with the movement. But the circumstances are changing and I entirely agree with Mr. Livingstone that the ideals have to be more real than visionary or idealistic. We may be fighting for democracy, as a friend pointed out, but may I remind him how we are trying to save democracy. We are trying to save democracy by conscription, and that is all we want to do so far as the co-operative movement is concerned. It should not be possible at all for some people to stand in the way of something good that a large number of villages in a particular society are willing to do. A friend from Bombay just now pointed out that the whole scheme of crop-saving societies will probably fail if he eliminates the element of compulsion in the societies. Then again we know that in Provinces like Bihar, Bengal and the Punjab they have all been passing legislation in which a certain element of compulsion is being introduced. In Bihar recently we passed a minor irrigation works Act and it is proposed that if a certain number of people in a particular village want to have irrigation facilities, others will have to contribute. Then again it has been found by experience also—and I have been associated with a municipality in Bihar which suffered during the last earthquake and I tried my best to have road-widening operations in that town, and in that municipality—although the death-roll was very high, as Mr. Anson is aware, when I really started my scheme I do not know what shower of abuses I had for full three years during my time there as chairman. Some people were losing perhaps only one-hundredth of a decimal acre or some other man was losing one-tenth of an acre—and we were all paying for these acquisitions—but ultimately when one or two roads were passed, they saw the utility of the scheme and the scheme is almost complete, so that it is essential at some stage to introduce the element of compulsion and I think that this latter part of the resolution should be deleted.

Khan Bahadur Malik Nur Mohammad: The last speaker thinks that democracy is very good and must be acceptable to those who do not even agree with it. That is, I say, my difficulty. I only want that the democracy of which I am convinced is useful for me and not the one which is being forced upon me. Our movement is too innocent to be capable of any compulsion. We find that compulsion, even independence, is being resisted in this country. Why should compulsion come and enter our innocent movement? It so happens that the basic principle is persuasion, moral force, and not statutory force. Two or three instances that were given could be attempted to be very easily explained away, for instance the competition between bus drivers. I submit that the existence of that competition is in the interest of the public. If you join all the bus

drivers, you will naturally raise fares. but as there are one or two competitors, the fares will come down.

Khan Mohd. Bashir Ahmed Khan: I submit that it was not a question of competition with regard to the rates; it was a question of affording return journey facilities and healthy competition. In the Punjab we have been able to do very extensive work with respect to conciliation of debts in societies by persuasion. I would submit that the principles underlying this resolution are very innocent and must be accepted.

Mr. Kharegat: I think we are generally agreed that as far as possible the principle of compulsion should not be introduced. On the other hand I think the general consensus of opinion would also be that in special cases it may be necessary to apply compulsion and I would therefore suggest the addition at the end of the proposed resolution of the following words:

“except in cases involving the provision of some utility service which at least two-thirds majority of those concerned desire.”

Then it means that if two-thirds of the people concerned desired a thing, the decision of the Society could be made binding on the whole. That would prevent one or two recalcitrant or evil-minded persons from holding out the development of the whole village or group of villages. I therefore commend this addition for general acceptance.

Mr. Chatterjee (Bengal): I support this amendment.

Mr. F. B. Wace (Punjab): I support it with some reluctance. Is it really wise for you to give up the principle of the absence of compulsion? In connection with the question of legislation about consolidation which was before the Punjab, it was proposed that we should introduce definitely the element of compulsion and we decided very definitely that we should not, and as a result the co-operative consolidation has remained and has done good work. I think if we find that co-operation cannot do it, we should frankly confess it and the State should then introduce compulsion on its own account, but the tendency is to organize or call upon a co-operative society to cope with a particular service or a particular thing and then when it is found that it cannot altogether do so, to blame the co-operative society that it does not exercise compulsion. For that reason we should keep them apart. We should affirm the principle of voluntary co-operation and the absence of compulsion.

Mr. E. G. Desai (Baroda): In our State we have two Acts. After two or three years we found compulsion did not succeed in acquiring all these holdings. Our experience is that compulsion should be omitted and that we should leave voluntary effort to grow later on.

Mr. Kharegat: I may again read out the amendment proposed. It is the addition at the end of the Resolution of the words:

“except in cases involving the provision of some utility service which at least two-thirds majority of those concerned desire.”

Chairman (Sir Malcolm Darling): The amendment is carried by seventeen to thirteen.

DRAFT RESOLUTION No. 14.

Mr. S. A. Venkataraman (Madras): The next resolution that I move runs thus:

"This conference recommends that a small sub-committee consisting of Messrs. Puntulu and Gandhi and the Registrars of the Punjab, United Provinces and Bengal be appointed to examine the question of multi-unit societies and suggest suitable measures."

We have some societies under the jurisdiction of the Registrar under the old All-India Act which are now deemed to be registered under the new provincial Act. Some Banks, e.g., the M. & S. M. Railway Co-operative Bank which is really a good Bank, the Postal Insurance Society and the South Indian Co-operative Insurance Society—have dealings both in Madras and throughout the whole of India. But in Madras section 12 of the Madras Act says that societies registered under that Act shall have jurisdiction over the province of Madras, whereas as a matter of fact these societies are having jurisdiction outside also. Another point is that supposing any difficulty in execution or arbitration arises in view of some defaulter outside—for instance, in Madras the South Indian Co-operative Insurance Society has branches in other provinces of India—what sort of control is to be exercised by the Registrar of the province in which the branch is situated, etc.? All these are matters of some difficulty and perplexity involving rival jurisdiction. I may say that the matter was considered by the Registrars' Conference in 1934 but it broke up on this identical rock, viz., the clash of the Registrars' jurisdiction. It is a matter of delicacy and it is proposed now that the matter may be thoroughly thrashed out by a small sub-committee and that they should be asked to report and suggest suitable measures.

Agreed to.

DRAFT RESOLUTION No. 15.

Mr. S. A. Venkataraman (Madras): Sir, I move:

"This conference recommends that the area of operation of land mortgage banks should not be larger than a district and may preferably be smaller."

I may as well state that these Resolutions incorporate matters on which experience has been gained by the Banks in Madras. Madras has advanced fairly satisfactorily along the way of successful banking. It is ten years now since land mortgage banks have been established there. The total loans exceed two crores and we find that for the successful working of a primary land mortgage bank a suitable area is about a taluk. Cases arise where every individual application has to be personally inspected by the Co-operative Sub-Registrar but the inspection in practice seems to be nominal and perfunctory. To make it very elastic, we now propose as a general principle for guidance that the area of operation of a land mortgage bank should not be larger than a district and may preferably be smaller. I commend this to the acceptance of the House.

Mr. N. Baksi (Bihar): I should like to know what are the reasons for which the area is proposed to be restricted. We have no experience of land mortgage Banks. Two years ago an officer was sent to make a study and he submitted a report. On that report my predecessor recommended that there should be a land mortgage bank on an experimental basis one in each division. It comprised about five districts and some of them are of small area.

Mr. S. A. Venkataraman (Madras): The point of importance is that the necessary scrutiny of the nature, etc., of the mortgage cannot properly and thoroughly be done unless the area is manageable.

Agreed to.

DRAFT RESOLUTION No. 16.

This conference recommends that Land Mortgage banks should encourage and help schemes for the consolidation of holdings especially where land is badly fragmented.

Mr. S. A. Venkataraman (Madras): Resolution No. 16 states the principle that land mortgage Banks should encourage and help in schemes of consolidation of holdings where land is badly fragmented.

Agreed to.

DRAFT RESOLUTION No. 17.

Mr. S. A. Venkataraman (Madras): I move:

"This conference recommends that loans for land improvement should be advanced at a lower rate than loans for other purposes and should ordinarily be given after consultation with the agricultural and other departments concerned."

At present we find that although the land mortgage Acts provide for land mortgage banks financing land improvements generally, almost the entire amount of loan hitherto given has been for liquidation of debt. We have been stirring up the banks to do more for the improvement of lands but it has been a pious wish and we want to see some tangible result achieved by a co-operative mortgage agency, and to induce that being done we also say that the interest on those loans should certainly carry a lower rate because they should have priority over other types of loan. I think this is fairly self-evident. Because we want to know whether an alleged improvement is really necessary or useful, we should like to have the opinion of the Agricultural Department on the nature of the crop, etc.

Prof. Kale: I think the reference to the rate of interest should be dropped. Our experience in Bombay is that we have been able to advance loans for the improvement of land; so there is no difficulty on our side, but at what rate the loan should be granted will depend upon the condition of the money market prevailing at the time and I do not think it is necessary that a reference to the rate of interest should be made.

Chairman: It is possible to differentiate in your rate of interest.

Prof. Kale: I should not favour even that. The primary object is to enable the cultivator to redeem his old debts.

This resolution is inspired by a desire to encourage cultivators. Our experience is that people are not discouraged from borrowing for improvements because the rates are high.

Chairman: The object is to stimulate them.

Mr. T. M. Desai (Baroda): I protest against a reference to lower rates being charged. If we are to charge a lower rate, it only means that we will have to raise the rate for loans given for the liquidation of old debts, which we do not propose to do, and we cannot possibly charge a lower rate as otherwise we cannot meet the expenses of management.

Chairman: Will it affect your profits if you give a somewhat lower rate?

Mr. Desai: In that case we are charging now the lowest rate; we cannot go any lower.

Khan Bahadur Malik Nur Mohammad: How much?

Mr. Desai: Six per cent.

Khan Bahadur Malik Nur Mohammad: That is very high.

Mr. Lakhe: The whole thing depends upon the fact—at what rate we get money from the Bank. If the Bank reduces the rate of interest, we have absolutely no objection. The question is—at what rate shall we get our debentures. We cannot get debentures for lower rates; that is a question which has got to be considered.

The Honourable Mr. Puntulu: To meet the requirements of the case, if we insert the words "wherever possible", that might do. In the western countries the land improvement loans are so amortised as to fix the instalments at a much smaller figure than equated instalments because in the initial stages the land does not yield as much as later on. In other countries the loan for the discharge of a primary debt is discharged at a higher rate than for improvement loans and in order to encourage this form of mortgage we might enunciate the principle that "wherever possible" loans should differentiate between two forms of loans and we should advance loans at a lower rate for a particular purpose. If we add the words "wherever possible", I will withdraw my opposition.

Sir Madhorao Deshpande: In the case of improvement, the rate must be higher because from the loan which we are going to advance to the borrower he is going to make an improvement and get more profit. Therefore, why should we not charge a higher rate instead of charging a lower rate?

Khan Bahadur Malik Nur Mohammad: Because you want to encourage improvements?

Sir Madhorao Deshpande: The agriculturist knows what sort of improvement he wants. At present our experience is that whenever a loan application goes to the land mortgage bank, generally it takes two to three months for sanction. It will first go to the Bank, then to the valuer and then to the directors. By this process it takes two to three months' time to sanction an application and the final sanction takes two months more. If an application is to be sent to the Director of Agriculture, it will take more time. You should do away with this agency of the Director of Agriculture.

Chairman: The sense of the Conference is in favour of adopting the words "wherever possible"? (Yes, yes.)

The following resolution was adopted:—

"This conference recommends that loans for land improvement should be advanced wherever possible at a lower rate than loans for other purposes and should ordinarily be given after consultation with the agricultural and other departments concerned."

DRAFT RESOLUTION No. 18.

Mr. S. A. Venkataraman (Madras): I move that:

"This conference recommends that if a person is a member of both a primary credit society and a land mortgage bank, the former should have the first charge on the crops (and not the land mortgage bank)."

Sir Madhorao Deshpande: Sir, if a person is a member of both a primary credit society and a land mortgage bank, the former should have the first charge on the crop. We know that the borrower first becomes a member of a land mortgage bank and then for a crop loan he goes to the society and arranges for his crop loan. We all know that the Government is responsible to the debenture holders for paying off the amount of the debenture holder. Supposing a charge of a member of a society is kept on the crop, then there will be dual control. The central bank or society will try to recover his dues first because the crop will be in his charge. Where the land mortgage banks will have a second rate the land mortgage bank will not be in a position to recover his dues and the difficulty will be that the whole burden will increase. Therefore if a member wants a separate loan for his crop, he should be allowed to have a second loan from the land mortgage Bank instead of asking him to join a society. Therefore, I say, if you remove the words "charge on the crop", then I agree. Otherwise I am not in favour of this resolution.

Rai Bahadur S. N. Sahay: Let us visualize the case of a member who was first a member of a primary society and then becomes a member of a land mortgage society and then he goes to the primary society. Let us visualize the case of a member who has previously been a member of a primary society and then becomes a member of a land mortgage bank.

The Honourable Mr. Puntulu: It is not intended that the charge of the land mortgage banks should be postponed in favour of other creditors. All that is intended is that the credit societies should have priority in

respect of the past charge and the charge which the land mortgage banks levy on the crop to that extent will be postponed. As between the credit society and the land mortgage bank, the credit society will have priority and as regards other creditors the land mortgage bank will have priority. In order to bring out this idea I propose the following amendment:

“The former should have a priority in respect of the first charge on the crops and the charge of the land mortgage bank on the crop should be postponed to that extent.”

Mr. Lakhe: Supposing he does not pay, how long is the land mortgage bank to wait?

The Honourable Mr. Puntulu: The land mortgage bank's charge will be postponed to that extent. The idea is this. The Reserve Bank has recommended that there should be co-ordination between credit societies and land mortgage banks and that it is the primary duty of the credit societies to advance loans. If we link up the work of the credit societies and the land mortgage banks, some arrangement is necessary. So far as crop is concerned, the primary credit societies will have priority. If each institution goes its own way, co-operative finance will become a very difficult question and we ought to help the agriculturist through co-operative societies. The co-operative credit societies are the only source and unless you create a first charge in their favour, the system will not work.

Chairman (Sir Malcolm Darling): Resolution, as amended by Mr. Puntulu is accepted in the following form:—

“This conference recommends that if a person is a member of both a primary credit society and a land mortgage bank the former should have a priority in respect of the first charge on the crop and the charge of the mortgage bank on the crop should be postponed to that extent.”

The Conference then adjourned till 10-30 A.M. on Wednesday, the 13th December, 1939.

The Conference met at 10-30 A.M. on Wednesday, the 13th December 1939; Sir Malcolm Darling in the Chair.

Chairman (Sir Malcolm Darling): The Honourable Member (Sir Jagdish Prasad) has asked me to express his great regret to the Conference that he is unable to preside over to-day's deliberations of the Conference as he is confined to his bed.

The second point about which I wish to speak is in regard to the Sub-Committee that we agreed to appoint in connection with draft Resolution No. 14 yesterday. I suggest that if it is convenient to all the members of the Sub-Committee, they should meet this afternoon before we all scatter to our various destinations.

Mr. F. B. Wace: I do not think we shall be able to do anything useful this afternoon. We have got to collect certain papers first. We should meet later on

It was decided that the Sub-Committee should meet later on and the date should be fixed by the Punjab Registrar as convenor with mutual consultation.

DRAFT RESOLUTION No. 19.

Mr. S. A. Venkataraman (Madras): I move that:

"This conference recommends that Debentures should be made irredeemable for a period of ten years."

By this resolution it is intended to make debentures more popular and more marketable. If debentures are likely to be redeemed at any moment, they are likely to be much less popular than at present.

Mr. N. Baksi (Bihar): I would suggest that resolution No. 19 may be dropped, because it should be left to the Provincial Government, it depending on particular factors.

Mr. Satyanarayana: We are not receiving any money from debentures now. If debentures are redeemable at the end of every year, then there will be no response from the public. Therefore, we must create confidence in the public and I say that debentures ought not to be redeemed until ten years. If that confidence is created, we shall get a lot of money. Other provinces must follow our example.

Mr. N. Baksi: If it is proposed to lay down a minimum period of ten years, those words may be added, and also the word "ordinarily".

Mr. K. G. Ambegaonkar (Reserve Bank): I think Mr. Venkataraman has already explained the position; when the Madras land mortgage bank was making its debentures redeemable every year by annual drawing, that led to the result that people who invested for the purpose of long-term investment found that they got back their money at times when they did not want it, with the result that land mortgage debentures certainly lost in popularity. The land mortgage debentures are really intended for those who want to invest money for a long time. People do hope that they will not get back their money much too early. Therefore there should be some minimum period laid down during which debentures should not be redeemable. Then again in suggesting ten years we have taken into consideration the fact that though it is necessary for the satisfaction of the debenture holder that debentures should be irredeemable for a certain time, on the other hand from the point of view of the land mortgage bank it is not desirable that they should be made irredeemable for a very long period. Ten years is as long a period as is desirable for a land mortgage bank debenture because during ten years the long-term rate might change very considerably. Therefore, from both points of view this is very suitable.

Prof. D. L. Dubey (U. P.): May I know what the practice in Europe is?

Mr. Ambegaonkar: It differs in different places. In certain countries they are certainly redeemable by drawing. I have recently visited Denmark; evidently it depends on the money market in the various countries but redeemable debentures are not popular. This particular

suggestion is in view of the money market and the opinion of investors in India as judged from the experience of the debentures of the Madras land mortgage bank.

The Honourable Mr. Pantulu: The Reserve Bank's advice is that the debenture holders must be assured of some definite period for the debenture. If it is merely drawing by lots and redeeming, that is inconvenient. Therefore, the idea is a definite period; but in view of our recommendation we need not commit ourselves to ten years I think. Therefore I propose this amendment:

"This conference recommends that debentures should be made redeemable for a definite period not exceeding ten years."

Mr. Venkataraman: I think the amendment may be accepted.

DRAFT RESOLUTION No. 20.

Mr. S. A. Venkataraman (Madras): Sir, I move the following resolution:

"This conference recommends that the Reserve Bank should purchase a limited amount of the debentures of approved Central Land Mortgage Banks and should advance money against such debentures."

The resolution, as it stands, is self-explanatory. What we want is that the Reserve Bank should give its help to land mortgage banks. In Madras we have been finding some difficulty. We floated a series of debentures for 20 lakhs of rupees about 2½ months ago at 3½ per cent. at par. Only about 11 lakhs of rupees have been subscribed so far. That is, perhaps, not very discouraging, but if the Reserve Bank comes to our rescue by buying debentures worth 5 lakhs of rupees, that will give a fillip to the whole thing. These 5 lakhs will be a mere flea-bite to the Reserve Bank. If Mr. Ambegaonkar says that the Reserve Bank will view this thing sympathetically, we will be satisfied.

Mr. K. G. Ambegaonkar (Reserve Bank): I may say at once that the Reserve Bank will deal with this matter sympathetically.

The Honourable Mr. V. Ramadas Puntulu: I would propose the following addition after the words "Land Mortgage Bank":

"And such Provincial Banks as raise debentures, the principal and interest of which is guaranteed by the Government."

The resolution, as amended, was adopted.

Prof. D. L. Dubey (U. P.): In my opinion the resolution (No. 20) does not go far enough and I would suggest the following resolution in its place:

"In the opinion of this Conference the time has come when the Reserve Bank of India should take steps for the formulation of a scheme for the allocation of a definite amount of money say 10 crores to begin with, out of its resources for re-discount of co-operative paper of Provincial and Central Banks as they work under existing conditions."

Chairman: That goes very much beyond this resolution. If the Conference agrees, it can be taken up at the end. It must be considered as a separate Resolution and should be taken up at the end of the proceedings of the Conference.

DRAFT RESOLUTION No. 21.

Mr. S. A. Venkataraman (Madras): Sir, I move:

"This conference recommends that loans should not be given for more than 20 years, and the margin between the maximum period of the loan and the period of the debenture should not exceed 5 years."

The present practice in most of the provinces is for the period of debentures to be exactly the same as the period of loans. The result is that if some untoward circumstances do occur, like a famine, there is a cry from the members of the primary banks of those areas for a little extension of time. The Central Land Mortgage Bank finds its hands tied in order to meet the debenture—payments when they fall due and it is practically unable to sanction any extension whatsoever. It is to meet this difficulty that this resolution has been drafted. I think the principle is a sound one and it should commend itself to the acceptance of the Conference.

Mr. B. G. Desai (Baroda): I accept the principle of the resolution but I do not agree to the period of 20 years. Our practice in Baroda is to give loans for 25 years. The result is that not a single man has failed to pay his instalment during a single year. There is not a single rupee which is due. I attribute this to our policy of giving as long a term as possible for the loan to be recovered. Our practice is 25 years and yet we find that in some cases it is not enough. The limit of 20 is certainly not long enough: it should be made at least 25 years.

Mr. Satyanarayana: I support this proposition. In Madras we began with 10 years but after 5 years we came to the conclusion that 10 years loans are not useful because the man who takes the loan has not the capacity to repay it within that short period. Therefore, 10 years were converted to 20 years. During these days of depression the agriculturists have not got sufficient repaying capacity. Therefore we must increase the period to 30 years. In Finland, for instance, the maximum period allowed for re-paying such loans is 30 years; in Italy it is 33 years; in New Zealand it is 36½ years; in Australia it is 42 years; in France it is 75 years and in England it is 60 years. Therefore, with a view to help the ordinary agriculturist so that he may be able to pay the amount we have to increase the period from 20 to 30 years. If money is not available, we will be satisfied with 25 years but the maximum period must be fixed at 30 years. In every province there is a Reserve Fund which can be easily diverted and could be invested for a period of 30 years. Therefore, if the Registrars' Conference now bless this period, they will be able to find the ways and means of putting it into practice. In the previous Registrars' Conference they suggested even a period of 40 years. Therefore, let us have 30 years as the maximum period and if money is not available we shall adjust it ourselves.

Mr. K. V. Anantaraman (Mysore): In Mysore we have got the maximum limit of 30 years. The longer the period the easier it is for the poor cultivator to repay it. I think 30 years will be the proper period.

Khan Bahadur A. M. Arshad Ali (Bengal): We have provided for 30 years and we are giving loans for 20 years. I think the gap is for 10 years. We want that the gap should be widened and the debentures should be floated for a period of 30 years. That would be most convenient to us.

The Hon. Mr. V. Ramadas Puntulu: I suggest a small amendment to suit the requirements of the various provinces. We had better insert the word 'ordinarily' after the words 'should not' in the first line and the last line of the resolution. I personally think that 20 years is the maximum period that we should have in India. I base it on the consideration that the rate of interest charged to borrowers in this country is much higher than what it is in other countries. When you quote the example of other countries where they go up to 60 years, you should remember that the rate of interest there is 2 per cent. or $1\frac{1}{2}$ per cent. So, the economic benefit of the agriculturists requires that we should look into the question of the interest as well. Loans given at 6 per cent. or 7 per cent. will not be economically beneficial to the borrower if they are for a long period. We should not go beyond a generation in this country. The other point that I wish to mention is that the longer the period the higher seems to be the rate of interest. In that way, additional burden is being thrust on the agriculturist. Taking everything into consideration, I think the lead given by the Conference that the period should be 20 years should stand but we may say that this should be the case 'ordinarily' to suit the requirements of the provinces which may like to go to 30 years.

With regard to the period of margin between the maximum period of the loan and the period of the debenture, I think we need not necessarily say 5 years. Ordinarily, it should not exceed 5 years, but if they want to exceed it, as in Bengal, we will give sufficient latitude. In many cases it is not necessary to make the period of debentures longer than the period of the loan. I am personally of the view that we should not commit ourselves to our creditors to a period longer than the period of the loan.

Rai Bahadur Pt. Radhe Lal Chaturvedi (U. P.): In Europe there is no such margin as is proposed here. The two periods coincide and as Mr. Puntulu has himself admitted, it is a point of fundamental importance. It is a point of principle and the reason is obvious. They spread the repayment of the loan over a longer period in Europe and the necessity of keeping this margin has not been felt. In the Conference of the Registrars held in 1934 we unanimously came to the conclusion that the period should be raised from 20 to 40 years. Of course, I am speaking subject to correction. I do not see any reason why this Conference should take a different view. All that we should do now is to extend the period to 25 years or even to 30 years and drop this idea of keeping a margin between the maximum period of the loan and the period of the maturity of the debenture.

Prof. V. G. Kale (Bombay and Gwalior): I agree with what has fallen from my friend opposite. I do not think it is desirable that this Conference should pin us down to a particular period. The most important question involved in this whole problem is the success of land mortgage banking.

We are all aware that the paying capacity of our cultivators in this country is so limited that it would be desirable to make it possible for him to make his payments over as long a period as possible. Other advantages might probably be offset by this fundamental principle, namely, that we must enable the borrower to make his payments regularly within the margin that is left to him. I therefore should like that this Conference should not pass any judgment upon the particular period.

There is another consideration. In some of the provinces the debt legislation that has been undertaken provides for a period of 25 years. In certain other provinces it may be 30 years. Therefore, it would not be desirable to put down any particular period here. If any period is to be put down at all, it should be 30 years.

Mr. T. M. Desai (Baroda): I am afraid I cannot accept the amendment moved by Mr. Puntulu because when a recommendation goes from a body of this status, the directorate of the land mortgage bank would be inclined to stick to that period and not to make any exception. With regard to the gap between the period of the loan and the period of the debentures, I may just mention the device that we have adopted. We do not issue debentures. What we do is that we take deposits for a year or two at the outset. When that amount has been lent out, we issue the debentures. So, there is always a gap of two years between the period of the loan and the period of the debentures. But if we introduce the word 'ordinarily' then the directors of most of the land mortgage banks will try to stick to the period of 20 years and will not be inclined to make exceptions.

Mr. K. G. Ambegaonkar: The object of this Resolution seems to me to be to review the Resolution of 1934 extending the period of loans to 40 years in the light of experience during these few years. And experience has shown, in Madras at any rate so far as I know, that a period of 20 years is most suitable, both from the point of view of the land mortgage bank as well the cultivator himself. It has been said that without a longer period the annual repaying capacity of the borrower will not be equal to the instalments to be paid. But it must be remembered that there is a limitation on the amount which can be advanced to a borrower. It is usually 50 per cent. of the value of the land although many sound land mortgage banks keep within a larger margin and in Madras I understand they do not usually go beyond 33 per cent. So when you remember that the number of agriculturists whom you can help on sound business lines is limited and that it is only those agriculturists whose indebtedness as it stands or as it is scaled down comes to about 40 per cent. of the value of the land who can be extended loans, you will see that a large number of cultivators are automatically ruled out from the sphere of land mortgage banks. The sentiment that we should help as many agriculturists as possible is a commendable one but experience has shown that it is not possible. So if the amount itself is limited I do not think extension of the period is necessary. Another point is that if it is a longer period than 20 years the amount of the instalment to be paid is not appreciably reduced, because the longer the period the difference between the equated instalments is less. On the other hand it decreases your safety. So from both these points of view I do not think extension of the period would be very beneficial.

As regards the practice in European countries I wish to draw attention to the great difference in the average expectation of life in those countries and in India. We have to limit loans for one generation but in India that does not mean as long 60 or 70 years. Also, in those countries agriculture is better and more economically organised than here. We have to remember these two vital distinctions regarding the Indian agriculturists' expectation of life and his economic condition when we try to compare the period for which loans are given in other countries. So from both these points of view I think 20 years is the proper limit to be observed by land mortgage banks in this country and I think the Resolution should be passed even though it amends the previous Resolution of 1934.

Prof. D. L. Dubey (U. P.): This question raises many difficulties. These are long term loans and the requirements of big farming are many, *e.g.*, tractors, tube-well, channels, roads, etc. All this requires money and improvements are always required to be made. The period of 20 years was recommended by the Royal Commission on Agriculture, but if you really want to encourage long-period loans for the purpose of agricultural improvements it is necessary that such loans should be extended to 30 or 40 years. Circumstances have not changed since the last Resolution on the subject was passed and the period should remain as was decided in 1934.

Mr. S. M. Ikram (Bombay): I suggest that the Resolution with the amendment of Mr. Puntulu may be adopted. From our experience in Bombay we are not convinced that the period of 20 years is the best and we find that there are quite a number of people who have got adequate security to offer but whose repaying capacity according to 20 instalments does not come up to the standard and who have to be refused these loans. Normally I would prefer 20 years but there should be provision at least up to 25 years.

As regards the expectation of life and the loans being paid back within the generation in which they are borrowed, I may say that the debts redeemed by these loans are of more than one generation. So I suggest that Mr. Puntulu's amendment which makes the Resolution elastic should be adopted.

Mr. P. M. Kharegat: I should like to suggest another amendment. Mr. Dubey's point about a longer term in case of agricultural improvements has considerable importance. I take it the period of 20 years has been found to be suitable for debt redemption. So I think after the word "Loan" the words "for debt redemption" may be added. That allows loans for land improvement to be given for a longer period.

Mr. K. G. Ambegaonkar: That might exclude other kinds of loans. So we may add "except in the case of loans for land improvement".

Mr. S. A. Venkataraman: If you have different periods for loans, would it not complicate the raising of debentures?

Mr. K. G. Ambegaonkar: I do not think so. In the case of land mortgage banks the original idea was that the term of debentures and the term of loans should be exactly equal. But this is unlikely to be so and as land mortgage banks give loans even for a lesser number of years than 20 it may be possible for them to give for a larger number of years too.

Mr. S. A. Venkataraman: If it is the general feeling that it would not complicate the issue of debentures I have no objection.

The Resolution was adopted in the following form:

“This conference recommends that ordinarily mortgage loans, other than those for land improvement, should not be given for more than 20 years, and the margin between the maximum period of the loan and the period of the debenture should not exceed five years.”

DRAFT RESOLUTION NO. 22.

Mr. S. A. Venkataraman (Madras): I beg to move this Resolution as follows:

“This conference recommends that in any agrarian legislation undertaken in future nothing should be done to prejudice the co-operative movement.”

The Resolution is carefully worded and gives a negative direction, and I will confine myself to one aspect only. We had it from Mr. Wace the other day that his experience of debt conciliation boards in the Punjab had revealed to him a very general uncertainty on the part of creditors as to the amount of the debt that will be left for repayment, after the scaling down, etc., and there is a widespread fear that there is a tendency more and more to default in respect of obligations to primary societies. If that fear is real it will be a catastrophe for the co-operative movement. There must be a moral obligation of willingness to meet one's dues. The repaying capacity is, of course, very important in our investigations, but the repaying intention of the borrower is equally important; and this Resolution only says that no legislation should induce a feeling among borrowers in primary societies that their obligations need not be repaid. I think the Resolution is innocuous and should be accepted.

Raj Bahadur Pandit Radhe Lal Chaturvedi (U. P.): Does agrarian legislation include debt legislation?

Sir Malcolm Darling: Yes, it does.

After some discussion the Resolution was passed in the following form:

“This conference recommends that in all future agrarian legislation and enactments for relief of indebtedness and regulation of money-lending, nothing should be done to impair the financial stability of the co-operative movement or to affect it adversely in any other way.”

DRAFT RESOLUTION NO. 23.

Mr. S. A. Venkataraman (Madras): Sir, I move that:

“This conference recommends that the attention of the Central Government be invited to the fact that co-operative societies are likely to incur heavy losses due to the amendment of section 60 of the Civil Procedure Code and it should be requested that the code should be amended and the limit for attachment of salaries be reduced from Rs. 100 to Rs. 50 in respect of debts incurred before the amendment came into force.”

This question has reached somewhat acute proportions in Madras. We have 300 societies consisting of employees and the number of members is over 80,000, of whom 88 per cent. draw salaries below Rs. 100. In these societies nearly one crore of rupees is the outstanding amount. They owe to the depositors about 72 lakhs and the reserve fund is only 12 lakhs. And we find that employees drawing Rs. 100 and below have no assets except salary, and the question is, what should be done about this enormous amount outstanding. The Resolution is narrowly worded and will not affect future loans. We only want that the limit for attachment of salaries be reduced from Rs. 100 to Rs. 50 in the case of debts incurred before the amendment came into force.

Khan Mohd. Bashir Ahmed Khan: What is the percentage of recoveries in these societies during the last three years, before the Act came into force and after?

Mr. S. A. Venkataraman: I have not got the figures but everywhere the complaint is unanimous that the outstandings are going up.

Mr. S. M. Ikram (Bombay): We in Bombay had complaints from the societies, but now at the time of advancing the loan they obtain an authority from the borrower addressed to the authority who distributes the pay to make deductions from his salary. After that we have not heard any complaints. I do not know if that would be possible in Madras.

Mr. S. A. Venkataraman: Our experience in Madras has been just the opposite and attempts to introduce that practice have been a failure.

Mr. W. B. Lakhe (C. P.): The question is if such an agreement were made, would it be legal?

Mr. S. A. Venkataraman: In regard to railways, recent legislation has made it legal, and if these people also agree, we can pass legislation making it compulsory.

Mr. S. M. Ikram (Bombay): The question has never been taken to a court of law and no decision is available. In practice, however, there has been no difficulty.

Mr. F. B. Wace (Punjab and N.-W. F. P.): We have a great number of societies in the Secretariat here and elsewhere, and a large number of departments have declined to accept any such agreements or to make collections through paybills.

Mr. M. R. Bhide: In the case of the N.-W. Ry. society, the point was that under the Workmen's Compensation Act they had to take the permission of the Government of India to authorise deductions at source. The trouble arose because a large number of people who have given letters of authority withdrew those letters of authority. Then the Act came in, and we had to go to the Government of India to exempt the N. W. R. Society from the operation of the Act. This difficulty arises in other societies also. We have written very often to heads of depts. but they don't agree to accept any responsibility. All that we want by this resolution is at least to have the right to attach salaries in regard to loans which were advanced before the new amendment came in. We don't want the right to attach salaries in regard to loans given since the Act came into force.

Mr. S. M. Ikram (Bombay): I don't object to this Resolution, but I personally think that those members who withdrew their letters of authority are evidently educated people and I think it might be possible to persuade them to realise their responsibilities.

Khan Bahadur A. M. Arshad Ali (Bengal): We have provided that if a letter of authority is given by a wage earner to the head of the office, it should be irrevocable, and secondly the law gives power to the head of the office to make a deduction from the salary of the wage earner. That provision has been made in the Bengal Co-operative Societies Bill.

Khan Mohd. Bashir Ahmed Khan (Punjab): In the Punjab there are about 750 urban societies with 50,000 members and with a working capital of about Rs. 1 crore. Out of these there are at least 35 societies in the Govt. of India offices. So far as these societies are concerned, their reserve funds and their owned capital amount to 99 per cent. of the working capital. Last year the total demand was 105.5 per cent. of the total amount of the loan, and the recovery was 109.2 per cent. This shows that there has been no difficulty in regard to recoveries. Mr. Bhide has referred to the N. W. R. Society. That was a special case, because the people withdrew their letters of authority on account of some outside agitators who were dealing with Trade Unions and they wanted to have their influence exerted on the N. W. R. society also. But the situation was wisely handled by the departmental officers and also by the management of the society. Therefore, in practice no difficulty has been felt in regard to recoveries, not even in respect of those debts which were taken before the Act came into force. In these societies there are educated people, and if they are properly dealt with, there can be no difficulty. In Bombay too, as my friend opposite just said, they have felt no difficulties.

The Hon. Mr. V. Ramadas Puntulu: This resolution does not raise any question of principle. They want the right to attach salaries up to Rs. 50 and not up to Rs. 100. If legislation was undertaken mainly in pursuance of recommendation of the Whitley Commission on Labour, it could be limited to Rs. 300. They were very particular that salaries of Rs. 300 should not be attached. I am in entire agreement with the Whitley Commission's recommendations. In my own province the Provincial Co-operative Union has fixed Rs. 100. I followed the debate in the Central Legislature with keen interest, and the tendency of the legislators there was to keep the limit as high as possible. Rs. 100 was ultimately agreed to. It seems to me that any limit which is set in the money-lender's right to attach salaries or wages should not be relaxed in the case of Co-operative Societies. Therefore, I think we may support this Resolution without raising any questions of principle. We must take power for the employers and employees to come to agreement, and no civil court should render such a contract invalid. Co-operative societies ought to be worked on a voluntary basis, and the remedy is to register societies only where the employers and employees come to an agreement. I am opposed on principle to relaxing this, except where there is an agreement between the employers and employees.

Prof. D. L. Dubey (U. P.): In our province no difficulty has been felt in regard to recoveries. I support this resolution.

Sir Malcolm Darling (Chairman): I think the conference will agree that this resolution should be accepted as it stands.

THE RESOLUTION WAS ACCEPTED.

DRAFT RESOLUTION No. 24.

Mr. K. G. Ambegaonkar (Reserve Bank): The Resolution reads—

“This conference recommends that Provincial and Central Banks should give a bonus to such members of their staff as pass the examinations of the Institute of Bankers.”

The importance of training the staff of co-operative banks in banking principles and practices is now generally recognised. As you all know, the Indian Institute of Bankers hold examinations after a course of study in banking and allied subjects, and it will be helpful to co-operative banks if their staff is encouraged to pass these examinations, and towards this end it is suggested bonuses should be given by Provincial and Central Banks to such members who pass these examinations. This practice is followed by most commercial banks, and we want by this Resolution that central and provincial banks should also follow the same practice.

Khan Mohd. Bashir Ahmed Khan: I fully support this Resolution. In the Punjab this sort of encouragement is already given. The Punjab Provincial Co-operative Bank is a member of the Institute of Bankers; it pays annually Rs. 500 as subscription, with the result that it gives a right to employees of the Co-operative Banks of the province to appear in the examination of the Institute of Bankers. But I feel that we should mention here something about our people getting training in the Reserve Bank. The Imperial Bank declines to give training to our men in banking. The Institute of Bankers is not a practical body, it is only an examining body and it grants certificates and diplomas. The Central Co-operative Bank in Lahore gives some sort of training, but we have some difficulty in giving advanced training to our employees. Therefore, I suggest that the Reserve Bank should arrange to give training to employees of our Provincial Co-operative Banks.

Professor V. G. Kale: I don't want that this should be restricted to the Institute of Bankers only. In Bombay we have the Government Diploma examination in Accountancy and banking and regular training is given. Therefore, freedom should be left to the various provinces to make their own arrangements, and we should not insist on merely passing the examination of the Institute of Bankers. I would say that encouragement should be given by promotion or otherwise to employees of banks to get the necessary qualifications in banking and also practical training in banks. The Resolution as worded makes it very restricted in a way. I don't know why only the Institute of Bankers examns. should be stipulated, because we have other examinations also in accountancy and banking in other provinces.

The Hon. Mr. V. Ramadas Puntulu: The object of this is that employees of provincial and central banks must acquire some technical knowledge in banking, and the Institute of Bankers' examination is the only recognised standard by which a man's knowledge of banking can be understood, and bonus is given for that purpose. This is a general recommendation to encourage employees of provincial and co-operative banks to pass the examinations of the Institute of Bankers.

Mr. F. B. Wace (Punjab): I am in favour of passing this Resolution. It merely refers to a specific examination and it does not preclude any bank from encouraging their employees from passing other examinations. At the same time I would not certainly add any recommendation about training in the Reserve Bank, because it is an entirely different subject. I think the conference should adopt the resolution as it stands.

Mr. N. Baksi (Bihar): May I move a slight amendment? I would add the words "or the examination held for registered accountants". We in Bihar have taken particular interest in improving our audit, and there is a considerable dearth of properly qualified accountants. Recently I twice advertised for a registered accountant with a starting pay of Rs. 125 to serve as an assistant to me, but as he had to be a native of Bihar and no man from Bihar was available, that post has been kept in abeyance. I think the examination held for registered accountants is a standard examination, I hope the conference will accept this amendment.

Mr. S. M. Ikram (Bombay): I think if the names of different degrees and diplomas are omitted it will be all right. All courses which exist in the different provinces should be taken into consideration.

Mr. K. G. Ambegaonkar: In regard to the suggestion made by Mr. Baksi I think there is a little confusion. My impression is that the examinations of the Board of Accountancy can be taken only by those who are articled clerks of registered accountants. There is no objection to the staff taking the examination for Registered Accountants if this is possible but in this resolution we are concerned with the training for banking and it is all right so far as it goes.

Dewan Bahadur C. M. Gandhi: I can not understand why officers alone should be sent up for the examination of the Institute of Bankers; clerks also should be encouraged to take these examinations. No useful purpose will be served by restricting the resolution in the manner suggested.

Sir Malcolm Darling (Chairman): Probably the conference will agree that this restricted form does no harm and the original resolution may be accepted.

DRAFT RESOLUTION NO. 25.

Mr. M. R. Bhide: The Resolution reads—

"This conference recommends that classes should be held and continued steps taken for the education of members of co-operative societies in the principles and practice of co-operation."

This deals with the question of the education of the staff and non-official members. Different provinces have different practices in this respect. In Bombay contributions are given by banks for training the staff as well as non-officials,—presidents, secretaries and other office holders. Besides this, there is the question of the education of members of co-operative societies. How can we tackle it? Sir Malcolm Darling in 1934 made an all-India tour, and as a result of his recommendations the Govt. of India gave a grant of about 15 lakhs. Different provinces got different amounts. That grant however is not going to be repeated now and it is likely to be finished in a year or two. The reason why Punjab was asked to move this Resolution was, that we are supposed to have done a lot of work. I am not going into details, but would just mention that at the

moment we have an Educational Assistant Registrar, 6 inspectors and 6 educational assistants who do this work. We have also added an educational industrial assistant and an educational subinspector. The latter deals with the members of women's societies. We have also been running a co-operative drama party in the Punjab for the past 2 years, but owing to financial stringency we had to stop it. But next year we hope to revive it. Last year we gave 72 shows in different villages. These shows are not free. In the rural areas we charge Rs. 60 per show, and in urban areas we charge Rs. 120. In spite of our making these charges the demand from the people is much greater than we are able to cope with. We are always trying to go to areas which are backward. This is one step which is very essential and it may be copied by other provinces also if funds permit. We also exhibit cinema films, use gramophone records and so on. In this our Rural Reconstruction Department has taken the lead and we have been trying to supplement their work. Now that the grant of the Government of India is about to be finished, the provinces should move their Governments to retain the present staff and not to cut it down.

Khan Mohd. Bashir Ahmed Khan: I support this Resolution. As was once remarked by His Excellency Lord Linlithgow, the greatest enemy of the co-operative movement in this and in any other country is the unformed enthusiast and people who think that enthusiasm and zeal can take the place of careful study and exact knowledge. If the co-operative movement is to be successful, we must lay stress on the training both of the staff and members of societies. Before the Government of India made their grant as a result of the recommendation of Sir Malcolm Darling, the Punjab Co-operative Union was spending annually Rs. 10,000 on the training of the Secretaries and members of the societies. The work was continued for 5 years. By the time the Government of India grant was received we had already trained about 8,000 secretaries of village societies. But after the grant from the Centre came in, we extended this scheme, and last year we trained about 1,500 secretaries in 108 classes. We held about 130 classes for office-holders, and we trained about 6,000 members as office-holders of these societies. We have also held separate classes for members of women's societies as well as for members of industrial societies. Training classes were also held for execution agents, liquidators, managers and so on. We also gave several talks on co-operative movement, and in addition there were songs sung by members on co-operative topics, which were broadcast once a week from the All-India Radio in Lahore. Lectures were delivered and gramophone records on rural reconstruction and co-operation were also released. We also run our own films, but in these days of talkies they are not so successful. Pamphlets have also been issued. While I am in full agreement with the resolution, I would suggest the addition of a few words at the end of the resolution as follows:—"and for this purpose the Government of India may be requested to continue its grant of Rs. 15 lakhs for a further period of five years."

If it is thought that this amendment will not be acceptable to the Government of India, then I would suggest another amendment, to add the words "and for this purpose provincial Governments may be requested to continue the staff given by the Government of India for the purpose of training", at the end of the present resolution.

Mr. N. Baksi (Bihar): It seems to me that the scope of our proposals is not sufficiently comprehensive—it does not cover training in higher co-operative principles and education. Nothing is said about the training of

bank managers, inspectors, assistant registrars and others. In Bihar, we got the old Pusa buildings and there we were able to give training for higher co-operative education: we had also batches of educational instructors, going about in the villages and from district to district, for training village people; but there is a dearth of suitably trained men. We are trying a novel experiment at Pusa so as to give a comprehensive training, theoretical and practical, not only in the usual subjects, but also in rural economics, economic geography, social psychology, first aid and bandaging, vegetable gardening, riding, cycling, etc. We have been able to get a lump sum grant from the legislature to pay nominal honoraria and travelling expenses to distinguished co-operators, like Mr. Puntulu and Dewan Bahadur Kaji and others who have kindly delivered lectures on different subjects. We selected 40 graduates out of 600 and sent them for training for a year: they had to live in the villages doing rehabilitation work and there was a final examination including a *viva voce*. We got about 25 fully qualified men. It appears to me that a comprehensive system of training, particularly, higher co-operative training, is necessary. But having regard to our limited resources co-operation on an all-India basis is essential for organizing an adequate comprehensive scheme of education.

Chairman (Sir Malcolm Darling): This resolution deals with the education of members rather than with the training of the staff.

Mr. N. Baksi (Bihar): My suggestion is that we cannot give this education without having a properly trained staff.

Mr. Belliappa (Coorg): Ignorance of co-operative principles has been a stumbling block in the progress of this movement and where illiteracy is predominant, we cannot derive much benefit. In order to keep up the progress we have made in our province, which, though small, has a higher percentage of literacy than most provinces, it is necessary that this practice of training the staff should continue for some time. I do not know how far provinces will be able to finance this—at any rate we cannot and so I think we should approach the Government of India and impress upon them the necessity of giving this grant once more and I therefore support the first amendment of Mr. Bashir Ahmad Khan.

Prof. D. L. Dubey (U. P.): In the last three years this scheme has been in force and we have trained some 2,500 secretaries and out of these 2,000 can work independently. Dramas and posters are used and the classes are also attended by those who are not strictly connected with the movement sometimes. A great deal of leeway has to be made up and unless people learn to stand on their own legs it will be impossible for them to imbibe the fundamental ideas and the movement might collapse. I, therefore, think that facilities for training teachers in the movement should be given and extended; and unless the Government of India comes to their rescue it may not be possible for the provincial governments to do anything.

The Hon. Mr. V. Ramadas Puntulu suggested that in view of the important points raised by Mr. Baksi, the resolution as on the paper might be adopted and that a small sub-committee of the conference should be set up which would adopt a comprehensive scheme of co-operative education which could be circulated to the various provinces and be considered at the next conference of Registrars.

Chairman: Mr. Baksi's proposal involves a very wide extension of the resolution and it might be taken up as a separate resolution at the end of our proceedings.

Mr. P. S. Mehta (Gwalior): As regards Gwalior, we are giving co-operative education in three districts to the staff, official and non-official, in co-operative technique. We have a comprehensive scheme for co-operative education approved by the Durbar on the lines devised by Prof. Kale. Classes are held for training inspectors, sub-inspectors and others, not only in co-operation but also in rural reconstruction, under a comprehensive syllabus. Lectures are given as also magic lantern shows, radio, etc., etc. It is also proposed to introduce co-operation in village schools and also for teaching patwaris and others. I support the resolution.

Khan Bahadur A. M. Arshad Ali (Bengal): The resolution should not be limited to the education of members of primary societies only: staff of central banks and others should be included in the training.

Chairman (Sir Malcolm Darling): Regarding the last point, when the grant was made nearly five years ago, I emphasised that part of the grant should be used for giving education to members: training of the staff was an accepted principle in most provinces but I thought there was a great deal of scope in most provinces for the training of members of primary societies. I was very much concerned to hear recently that in one province nothing had been done in this direction and it was for that reason that I drafted this resolution and that nothing was said about training the staff. As for approaching the Government of India for a grant, I doubt whether this is an appropriate moment and we might possibly be courting refusal in present circumstances: especially as the original grant has not been fully expended yet in some provinces. My information is not derived from any inside information but simply from the general information we see in the newspapers.

The Hon. Mr. V. Ramadas Puntulu: I agree this is not an opportune moment for approaching the Government of India as co-operation is primarily the responsibility of the Provincial Governments, especially after the advent of provincial autonomy three years ago. We may leave it to each Provincial Government to approach the Government of India if it thinks fit. Or we may defer the matter to the next conference of Registrars who may be in a better position to assess the financial position.

Chairman (Sir Malcolm Darling): I suggest that we pass the resolution with the second amendment of Mr. Bashir Ahmad—i.e., with the addition of the words "and Provincial and State Governments be requested to provide funds for the same."

The Resolution, as amended, was adopted.

DRAFT RESOLUTION NO. 26.

The Hon. Mr. V. Ramadas Puntulu: No. 26 reads as follows:

"This conference recommends that further experiments should be made with cattle insurance societies. In any area where it is proposed to make such experiments, a preliminary survey should be made of the incidence of diseases and mortality among cattle."

This resolution is intended to draw the attention of Provincial Governments and the movement in the provinces to the necessity of examining the question of cattle insurance. Before I move this resolution I should like to add a few words at the end, "and adequate veterinary aid be made available." The question of cattle insurance is not new to India. Many provinces have made certain attempts to start cattle insurance societies, but I do not know how many of them are working to-day. They are very few and many of them have failed. The main reason for the failure of these societies is the non-availability of mortality statistics to assess the exact incidence of mortality and to make a forecast of the claims and assess the premium. In one place, which I know, an attempt was made to start a cattle insurance society and mortality statistics were compiled. It was there found that the incidence of mortality was 1 to 16, that is, out of sixteen cattle insured one died, taking a period of five or ten years. That means to say that the premium should at least be one anna in the rupee if you are to cover the risk to pay claims. So, in a small village if cattle to the value of Rs. 16,000 were insured, then the villagers must pay a premium Rs. 1,000 annually. It was found impossible to levy such a large amount of premium from that area and therefore the scheme was abandoned. Moreover, statistical information covering a small area cannot be a right criterion for assessing risks and also for fixing the premium rates. What one would like is a general and widespread scheme of cattle census in India to be undertaken in the whole of India, but it would obviously be an impossible claim to put forward now at the present time. We must try and see whether we can do anything in small areas. That is one of the difficulties. I feel that no private concern or co-operative society can undertake this kind of work. It must be mainly a State concern or an enterprise conducted with the aid of the State. One of the difficulties with regard to cattle insurance is the system of cattle feeding in this country, namely, communal grazing on lands and each feeding his cattle on anything that he can find. That is a great source of disease and once the disease comes it spreads like wild fire and results in the death of many cattle. Therefore, we must have a system of proper feeding of the cattle which are brought under the scheme. In Europe they have the system of stall-feeding. All the animals of the village which are insured are fed at a stall on standardised foods to prevent the cattle contracting disease and also for the prevention of disease. Some such regulation of feeding must also be undertaken. Another thing is that unless we persuade almost every farmer in the village to join the scheme of insurance, it will be very costly and if only a few people join, it will not be possible to work it. We yesterday passed a resolution against compulsion and so I cannot vote for any compulsory scheme of cattle insurance, compelling every villager to join it, but I believe in the efficacy of persuasion and when the villagers feel the benefits of cattle insurance and when they realise the ready payment of claims, then many people will join the scheme in course of time. Another difficulty which has been noticed is the difficulty of proper identification of cattle. It is very difficult to identify men and we have known of bogus claims being put forward saying that the insured is dead while he is alive and putting forward somebody else who had died as the insured person. When it is difficult in the case of men, how much more difficult should it be in the case of cattle. I myself cannot identify my own cows, though the farmers can identify their cows when they stray away. Therefore, there is scope for fraudulent claims and bogus claims being put forward under this system, unless some system of branding or marking of cattle

with some mark of the insurance company is also adopted in this country. Lastly, I come to the veterinary services. They are very important. There are veterinary doctors here and there but they are very distantly situated and their services are not readily available and there is also the prejudice in the case of villagers to avail themselves of even the services that are at present available. Therefore we must get over this prejudice. These are some of the difficulties. All these must be got over and enthusiastic co-operators who want to help the agriculturists of the country may explore the possibility of starting cattle insurance. One thing more and I have done. After the Government of India Act was passed legislation on insurance of any type could only be undertaken by the Federal Legislature. The provincial legislatures are absolutely debarred from passing any legislation with regard to insurance because that subject is not in the concurrent list or the provincial list but only in the federal list. I took the opportunity of the revision of the insurance law in the Central Legislature and after the Bill emerged from the Assembly and came to the Council of State I moved an amendment for an addition to the Bill whereby provincial Governments can empower the Registrars to register cattle insurance societies without satisfying the requirements of the insurance law with regard to initial deposits and furnishing of securities which are very stringent provisions. Now, this difficulty has been got over as the Government accepted my amendment. Therefore the legal obstacle also has been removed. I know the present Viceroy is keenly interested in the welfare of cattle in this country and any scheme that we may put forward will, I am sure, get considerable assistance from His Excellency and His Excellency's influence will greatly help us in starting a scheme like that. I commend my resolution.

Dewan Bahadur C. M. Gandhi (Bombay): I should like to ask whether it would not be better to modify the resolution by requesting the Government of India to hold the preliminary survey on an all-India basis with regard to insurance of cattle life and human life. Therefore, my suggestion is that the enquiry should not be confined to any province where the experiments are to be made, but a general enquiry for the whole of India should be undertaken by the Government of India. I would like the resolution to be so modified.

Chairman (Sir Malcolm Darling): Anybody to second the amendment?

(None seconding)

The resolution as it originally stood was adopted.

DRAFT RESOLUTION NO. 27.

Khan Bahadur A. M. Arshad Ali (Bengal): The next resolution runs as follows:

"This conference recommends that the improvement of health conditions in villages may form part of the normal activities of co-operative societies and in areas where medical facilities are not easily available, special health co-operative societies should be organised."

We in Bengal have got 1,000 anti-malarial co-operative societies. Their functions, as outlined in the by-laws of the societies, are many, but on account of the paucity of funds at the disposal of these societies their activities are at present limited only to clearance of jungle, distribution of quinine and some other minor steps for the improvement of health of the locality. However, mention may be made of some of the societies which have been brought into existence by the Viswabharati Rural Co-operative organisation in Bolpur. These societies are doing really useful work. They have established small village dispensaries and are rendering medical assistance to the villagers. They are also advising the villagers as regards the sanitary conditions that have to be maintained in the villages. The working of these committees is generally done by a village committee of management and they raise funds from voluntary subscriptions at the time of harvesting of the crop. Every member of the society has to give voluntarily half a maund or one maund of paddy for the funds of the society and when all the paddy is collected it is sold and out of the monies realised they maintain dispensaries where there is a qualified doctor who has expert knowledge as regards sanitation. This man is to go round a certain number of villages and give instruction as to how to live in a healthy condition. He also examines the drinking water in the village and gives them advice as to how to keep it pure and as to how to keep the tanks reserved for pure drinking water. There are a number of societies of this type. These societies are doing very good work; as a matter of fact they have minimised considerably malaria in that quarter. We have about 1,000 societies of that type but the chief difficulty is that they are not getting substantial grants from the Government for extending their activities in all directions. So, in commending this resolution to the Conference I would like to add that such societies should be subsidised by Government adequately. Otherwise it is not possible to continue the beneficial activities of these societies with voluntary subscriptions only. Some sort of subsidy from the Government Public Health Department has to come to these societies. Of course some subsidies are at present given, but they come from union boards, district boards and so on. That help is generally not adequate and does not come at the time when it is necessary. So, I think this resolution may be amended by adding that Governments may be requested to give some sort of subsidy to these societies. With these remarks I commend the resolution to the Conference.

Mr. Satyanarayana: I strongly support this resolution. In Madras also, a year back, the Ministry in our province announced that health co-operative societies should be organised in six centres in the province but there was an agitation among the public and they came to the decision that it was the work of the village panchayats and local boards and not of the co-operative societies. Therefore we were waiting for a lead in this matter. Bengal has taken the lead, it has already organised 1,000 societies and the Viswabharati societies are working very efficiently. Therefore, this Conference by passing this resolution will give an impetus and a lead to the provinces. The village panchayats and local boards may not be able to spend a lot of money immediately in every village and if health centres are organised on a co-operative basis members may join these institutions voluntarily. Such societies may be helped by Government by giving a subsidy. In that way we can effect an improvement in the health of the rural area.

Prof. V. G. Kale: Should not these questions of rural health be left to panchayats, local boards and the rural development boards that are being started in some of the provinces? In Bombay, Government have formulated a very comprehensive scheme under which there is a rural development board, and one of the functions of this board is to look after public health in rural areas. I wonder whether the co-operative movement will gain by extending its activities and frittering away whatever energies it has got and its funds in this manner by multiplying hundreds of types of societies for purposes for which they are not really and properly suited and for which other agencies are better suited. I have no objection to co-operative societies looking after the health of their members and taking steps but to organise health societies I do not think that it would be a practicable proposition.

Mr. F. B. Wace (Punjab): We strongly support this resolution. We are already doing something on these lines in the Punjab and I do not think that it is a valid argument that we should leave it entirely to the Governments and rural boards, for the simple reason that it is quite impossible for the Government to cover the whole field and it is only where the Government cannot provide the necessary facilities that co-operative societies can legitimately and certainly step in and try to organise health services primarily for their own members but secondarily for the benefit of the area in general.

Rai Bahadur Pandit Radhe Lal Chaturvedi (U. P.): I support this resolution. We are sending one Assistant Registrar from our province to study the condition of these societies established in Bengal and we propose to organise societies on that model after he has reported.

Chairman: I think it might be sufficient if we add the following words after "available" "and not under provision" and the words "with, if necessary, financial assistance from Government" at the end. That will meet the point raised.

Mr. P. I. Belliappa: We have some anti-malarial societies but for want of finance they have not been able to continue their work and as such it has become necessary to ask for Government assistance in this matter. Without Government assistance it is not possible for the societies to continue their work.

Chairman (Sir Malcolm Darling): I suggest that we pass this resolution as amended, namely:—

"This conference recommends that the improvement of health conditions in villages may form part of the normal activities of co-operative societies and in areas where medical facilities are not easily available and not under provision, special health co-operative societies should be organised with, if necessary, financial assistance from Government."

The Conference agreed.

DRAFT RESOLUTION NO. 28.

Mr. K. G. Ambegaonkar: I now rise to move the last resolution. It has come to be known as the war resolution but is of a very different character from what are known as war resolutions. It deals with the effect

of the war on the co-operative movement and the steps that the movement should take at the present moment. The Resolution reads:—

“This Conference recommends that—

- “(i) Advantage should be taken of the prevailing high prices to encourage co-operators to discharge their existing liabilities to societies.*
- (ii) Systematic efforts should be made to encourage saving particularly on the money-box system and among children.*
- (iii) Every effort should be made to restore the economic position of the cultivators in so far as it has been impaired by the fall in prices and to organise co-operative marketing to secure to them the full effect of the rise in prices.”*

The first effect of the war which is being realised in this country is a rise in the prices of agricultural commodities, and the first reaction among most of us would be one of relief at the possibility of getting the present difficulties about the recovery of dues being solved. It has to be, however, remembered that the rise in prices which has occurred or may occur is really temporary caused as a result of abnormal conditions and is likely to go away when those conditions are removed, and in fact, ultimately prices may reach even a lower level than what they were before. So, it is with this fundamental consideration, namely, that this is a temporary rise, that we must plan the co-operative movement. The first thing of course, is that the rise is there and the fullest benefit of it must be given to the agriculturist. On that point we have already passed a resolution yesterday regarding the organisation of co-operative marketing. The second point is that this increased income should not be frittered away by the agriculturist in extravagant expenditure. As you know, our agriculturists are generally used to living from hand to mouth and they have not got their opportunities or chances of learning the value of thrift to provide for the future. Therefore, when a temporary prosperity like this comes, the agriculturist naturally does not realise that it is of a temporary nature and is inclined to indulge in lavish expenditure. I am not saying this as a criticism of the cultivator, but most of you may remember that during the last boom period there was a considerable expenditure by the agriculturist on various empty shows. It would be a pity if the same thing were to happen again this time. It is obvious that left to himself he is likely to repeat the same mistake and he must be taught through the co-operative movement to utilise his increased income first for discharging his prior liabilities and thus freeing himself from debt, secondly, for making permanent improvements in land so that the temporary surplus is converted into a permanent source of additional income, and thirdly by laying it up to provide for the future. It is for the co-operative societies to induce their members to utilise this opportunity of getting rid of their old debts, make it possible for them to undertake permanent land improvement and lay increased stress on thrift. One of the principal objects of the co-operative movement is to improve the economic condition of its members and these are the most effective ways in which it can be done. The question of thrift, as you know, has not received sufficient attention even though it is one of the most important principles in the co-operative movement. During the last few years of depression it was difficult to talk about thrift simply because there was no margin of

profit for the agriculturist to exercise thrift. It is therefore all the more necessary for us to realise now that the time has come when we can lay emphasis on this particular aspect. It has also been said that the cultivator does not save even in good times because he has no facilities for safe investment and it is the co-operative movement which is supposed to give these facilities. One of the ways in which the co-operative movement tried to do this was by introducing compulsory deposits. This particular system has been very often abused, compulsory deposit not being real savings but being deducted out of the loans, but at the present moment it is certainly possible to insist on this principle and try to get the additional income deposited by the member in the co-operative society. That is one way of enforcing thrift. Another way is to link marketing with credit and to see that the crop is sold through a co-operative organisation so that the money is kept in the society. The third way is to introduce home savings boxes and particularly to enlist the aid of the children. These are all the points which have been mentioned in this particular resolution. There is a fourth aspect which has not been included in this resolution but to which I may refer. The experience of the last war and the boom period shows that during a time of high prices it is very difficult both for the cultivator as well as the financing institutions to keep a proper sense of proportion and very often excessive credits are granted on the basis of the prevailing prices without realising that they are abnormal. Some of you will know that in some provinces at least, the reason for the present difficulties is the reckless financing which was indulged in during the last boom period. This is an important point which will have to be particularly taken care of. It is a very elementary principle of co-operation, namely, that it differs from ordinary financing institutions in this respect that it does not like other agencies, simply look to its security. It not only sees that the borrower is able to repay the money but also tries to see that what it lends to the borrower is in the interests of the borrower and that he does not borrow more than what is required. That particular caution is likely to be forgotten in periods of high prices as was the experience during the last war. So, I should like to emphasise the necessity of caution against being led into granting excessive credits. I should be glad if something can be added to the resolution on these lines.

The Honourable Mr. V. Ramadas Puntulu: To cut short the discussion I would submit that the first part of this resolution is identical with the first sentence of resolution No. 9. So, it need not be discussed again. With regard to item (iii) it is more or less in the nature of a preamble to what follows in regard to co-operative marketing. To me, standing as it is, it does not convey much sense by itself. And I think it opens up a highly controversial subject. I can talk at some length on the various aspects of the question of the economic position of the cultivator and I can controvert what Mr. Ambegaonkar said with regard to the extravagance of the cultivator. I am one of those who hold that poverty is the cause of indebtedness and not the result. Apart from that I think we have dealt with item (iii) and I should like it to be cut out. So far as (ii) is concerned, it is not controversial and we can adopt it. I would like to emphasise the point about thrift certificates. In Madras we have got Hundi boxes and thrift certificates.

Khan Mohd. Bashir Ahmed Khan: This resolution has really one important part. As every one knows, the greatest weakness of the co-operative movement has been the lack of thrift on the part of the members.

In the Punjab the total deposits of the members so far has been only Rs. 35 lakhs and the working capital is Rs. 18 crores and more than half of this deposit money comes from only two districts. So, in my opinion this is the most important part of the Resolution. As for children there are now about 20 societies in the Punjab and they have got 300 members and they have collected about Rs. 4,000. We must teach co-operation to children at a stage when it will be most effective. Therefore I support the Resolution.

Mr. Fazlullah (Hyderabad): In Hyderabad during the last two years we have succeeded in starting a number of grain shops. This system is more popular and more effective in the matter of teaching thrift to the villager and is better than saving in cash. So, I think this aspect of the subject might also be included in the Resolution.

Mr. Zaman (Bengal): In Bengal we could not take advantage of the rise in prices. This time also there has been a rise in the price of jute. The price of jute has gone up from Rs. 3 to Rs. 15 or Rs. 16 in some cases. In view of the rise in price of jute and other agricultural products in Bengal, the Bengal Co-operative Department has already decided to issue thrift certificates for five years. The denominations are of Re. 1, Rs. 2, 3, 5, 20 and 50 and they carry interest at 2 and 3 per cent. These thrift certificates are not redeemable in the first year because some initial cost is incurred in the issue of these certificates. I think the Resolution as amended by Mr. Puntulu might be accepted by the Conference.

Mr. F. B. Wace (Punjab): I support this Resolution. I think each province should be allowed to follow its own method of encouraging thrift and I think it would be better to make the Resolution more comprehensive by saying—'by any method which is found suited to local conditions'.

Chairman (Sir Malcolm Darling): I should like to explain what we had in mind when we used the words 'restore the economic position of the cultivator'. In the Punjab, and I dare say in regard to other provinces as well, that the fall in prices has made it difficult for the cultivator to replace his cattle on a full scale. Sometimes he has been able to replace a bullock by a buffalo. Sometimes he has not been able to purchase either. What we had in mind was that the cultivator should not only use his surplus to repay his existing liabilities but he should be encouraged to save and he must also be allowed a certain amount of money to restore the position he had before the fall in prices. For many years I have been impressed with the vital importance of thrift and it does seem to me that if we are going to have a good credit system we must link it either with marketing or with thrift. The possibility of linking it with marketing has been discussed and the discussion has shown that it is not easy. We must therefore consider to the possibility of linking it more closely with thrift and this is perhaps the easier of the two.

As regards the question of saving, I was particularly struck with what has been done in Bulgaria and with what I saw there when I went through the country last year. It is a small peasant country with about 6 million inhabitants. It is much smaller than any major province here and yet they have accumulated a sum of one crore of rupees from children under 15 years of age. I may explain to you on very general lines what is done. When a child is born, the representatives of the bank concerned go to

the family and present the child, or rather the parents on behalf of the child, with a sum of Rs. 2 or Rs. 3 and they urge the parents to open an account on behalf of the child. When Christmas comes round, the representative of the bank presents the child with a toy and when the children whose parents have not opened accounts see this, they urge their parents to open accounts in the bank on their behalf. They have in addition published a lot of very well-written and well-illustrated propaganda literature. All this is done in a country which is poor and a peasant country. When I saw that, I felt that the time had come when we should make a start in India. In regard to thrift for the adult, even during the period of low prices from which we are just emerging I feel that much more could have been done by systematic effort to encourage thrift in village societies and I base this remark not merely on my experience in the Punjab. In many villages there are two or three well to do villagers who might usefully become depositors in the local bank but who do not join it. It seems to me that we should make a systematic effort to bring in men of this type into our societies, so that we may have more depositing members. That would be a source of strength and a counterpoise to the much larger number who are for ever borrowing. Most members plead that they have not got enough to make both ends meet but many could save something if saving began on a small scale. The Secretary of a society in one of the poorest districts in the Punjab told me last year that he was proposing to introduce a scheme by which every member should put aside two or three seers of wheat every spring harvest season by way of saving and that was the case of a very poor society. I therefore, commend this Resolution to the Conference and I would suggest that throughout India we should make a really systematic effort to encourage thrift in all societies and I consider that the present moment is particularly opportune for the purpose.

Kai Bahadur Pandit Radhe Lal Chaturvedi (U. P.): I attach very great importance to this Resolution. I think it is necessary to tell co-operators in clear cut terms as to how they can take advantage of the present rise in prices. I think we should do this by means of a comprehensive Resolution. Part (iii) is vague and it does not give a clear lead. I think we must say something about the importance of adopting better farming practices and agricultural improvements. I would propose that the first two clauses should remain as they are and in place of the third clause we should have a new proposition which should read as follows: "Earnest efforts should be made to induce the members of societies to adopt better farming practices and make agricultural improvements to this end". I propose that the Resolution should be accepted in this form.

Mr. P. M. Kharegat: It is to be very much regretted that this important Resolution has come at the end and we have not got the time to discuss it fully. There are two points which I would like to emphasize. The first point is the one just now emphasized by Mr. Radhelal Chaturvedi. Throughout our Resolutions in the past two or three days there has been practically no reference to the improvement of agricultural conditions. I think that this is one of the most important things to which we must pay attention and I am particularly impelled to make this remark because I am concerned with agricultural research. The third part of the Resolution says that every effort should be made to restore the economic position of the cultivators. That economic position has been impaired in many ways. They have not been able to purchase new cattle, to put it in the necessary manure, to improve their irrigation, to attend to the drainage

channels where necessary, etc. I think that this part of the Resolution must remain and I would suggest that it may be made clearer as to what we are referring to. We might perhaps add 'to improve the productive capacity of the lands of the members'. That would cover the point raised by Mr. Chaturvedi and also bring out the necessity for agricultural improvement. The other point which appears to be left out of this Resolution has been referred to by Mr. Ambegaonkar and that is that there will be surplus income owing to the war. The price of land is likely to go up and there is a very serious danger, as happened in the last war, that borrowings will also go up as the price of land goes up and I do think that we should put in a caveat against that in our Resolution and emphasize the fact that this temporary increase in prices should not be taken advantage of for high or unnecessary borrowings. The wording might be 'not to allow any undue expansion of credit'.

The Honourable Mr. Puntulu: With regard to the part about the expansion of credit I certainly cannot subscribe to the wording suggested, because it might lead to very serious complications. I am opposed to it. Loans may be required for productive purposes. All cases are of course scrutinised. I would suggest that that portion might be left out.

Mr. Ambegaonkar: What I wanted was caution against 'unnecessary expansion of credit'.

Prof. Kale: I think it is worth while giving a warning against the expansion of credit as a result of the increase in prices.

The Honourable Mr. Puntulu: I think any general injunction on these lines might lead to serious consequences. Moreover prices have not risen to such an extent as to make this warning necessary. The margin of profit arising from the rise in prices is taken away by the middlemen and it does not go to the cultivators at all. Those who are acquainted with rural conditions must be familiar with this. An injunction such as the one suggested might do more harm than good. I would like to expand credit in agricultural produce when outside credit is cut off. There is a definite proposal from my bank in respect to advances against the produce of the agriculturists. It is difficult to say for what purpose a loan is wanted. When tangible security in the form of produce is being brought to us and we are trying to expand credit, we should not say that there should be no expansion of credit. The expansion of credit does not necessarily result from the rise in prices. It may be that outside credit is cut off. Debt relief measures may also have a good deal to do with this. It is difficult to say what are the reasons in every case and I do not think we should do any harm to the co-operative movement.

Chairman (Sir Malcolm Darling): I will then put it in this way:

'due caution should be exercised in allowing any considerable expansion of credit directly arising from the rise in prices'.

The Honourable Mr. Puntulu: I dissent from that proposition and I want my dissent to be noted.

Chairman (Sir Malcolm Darling): I take it that the Resolution as amended in this way meets with the approval of the Conference. Mr. Puntulu dissents.

Resolution as passed.

This conference recommends that in view of the recent rise in prices:—

- (i) *Systematic efforts should be made to encourage saving in ways suited to local conditions and particularly on the money-box system and among children.*
- (ii) *Every effort should be made to restore the economic position of the cultivators and to improve the productive capacity of their lands in so far as they have been impaired by the fall in prices.*
- (iii) *Rule caution should be exercised in allowing any considerable expansion in credit directly arising from the rise in prices.*

I am asked to say that Registrars should send to the Central Government a note dealing with the rehabilitation of societies in their province and then the information which is received will be circulated to all the provinces and States. I take it that the States also would like to be supplied with the information received from the provinces.

(Voices : Yes).

The business on the Agenda having been disposed of, Mr. Puntulu proposed a hearty vote of thanks to Sir Malcolm Darling and to Sir Jagdish Prasad. The proposal was seconded by Professor Kale. Sir Malcolm Darling thanked Mr. Puntulu for the kind way in which his work was referred to and also Mr. Bhide, Secretary of the Conference, for the able way in which he discharged his duties.

The Conference then terminated.

APPENDIX I.

Resolutions passed at the Conference.

[The numbers in square brackets refer to the pages of the proceedings on which the discussions pertaining to the resolution are to be found.]

(The numbers at the end of the resolutions refer to the numbers of draft resolutions framed by the Preliminary Committee).

(1) This Conference recommends that the scale of fluid resources fixed for each province should be reviewed in the light of the distribution of working capital as suggested by the Reserve Bank and the results to be put before the next Conference. In any case the scale of fluid resources prescribed by the appropriate authority should be strictly adhered to. (1) [6-12].

(2) This Conference recommends that primary agricultural societies other than land mortgage banks should only give short and intermediate term loans repayable in a fixed period ordinarily not exceeding three years and with due regard to the purposes of the loans. (2) [12-16].

(3) This Conference recommends that provincial and central banks should in their balance sheets show the amounts advanced for more than one year and the amounts outstanding for more than one year. Bad and doubtful debts should be carefully estimated and shown in the balance sheets. (3) [16-17].

(4) This Conference recommends that in the balance sheet all unrealised interest should be shown under the following heads:—

(i) Interest recoverable from D class societies (and also E class societies where this class exists).

(ii) Interest recoverable from societies under liquidation.

(iii) Interest recoverable on other bad and doubtful debts.

(iv) Other interest recoverable:—

(a) Interest earned on accounts on which no interest is overdue.

(b) Interest on accounts on which interest is already overdue. (4) [17-18].

(5) This Conference recommends that the Reserve Funds of Provincial and Central Banks should be constituted out of realised net profits and should either directly or through the Provincial Bank concerned be invested outside the movement in unencumbered trustee securities, approved by the Registrar, other than mortgages of immoveable property. (5) [19-20].

(6) This Conference recommends that loans should be advanced in the form of seed, fertilisers and implements where practicable after a survey of requirements. (7) [23].

(7) This Conference recommends that as regards the guidance, supervision and control by the Provincial Banks over the financial policy of Central Banks:—

(i) All co-operative banks should send a monthly statement of their financial position to the provincial bank or in the case of Bombay to the central banks' association.

(ii) The provincial bank may act as an investment agency for the affiliated central banks. Those central banks which want to invest their funds in securities direct should consult the provincial banks or the Financial Adviser, if any, before doing so.

(iii) The rate of interest in co-operative banks on deposits should, not, without the sanction of the Provincial Bank or Registrar, exceed the lending rates of provincial banks on loans given for similar periods.

(iv) The Provincial Bank should have a right to inspect central banks and to bring to the notice of the Registrar any serious defects in their working. (8). [23-31].

(8) This Conference expresses its sense of sorrow and loss at the death of Sir Daniel Hamilton and places on record its high appreciation of the eminent services rendered by him to the Co-operative Movement and further resolves that a copy of this resolution be forwarded to Lady Hamilton. [40].

(9) This Conference recommends that advantage should be taken of the present rise in prices to induce defaulters to pay up their dues and such repayments may be encouraged by granting rebates. The debts should be adjusted to the repaying capacity of the debtors and instalments fixed for a period not exceeding 20 years.

In order to rehabilitate the Co-operative Movement long term funds must be made available to the movement. The Governments of the Provinces and States should assist the credit institutions in their Provinces or States by providing the required long term funds either in the form of subsidy or loans or both, or by enabling the Provincial Co-operative Banks to raise such funds by floating debentures the principal and interest thereof being guaranteed by the Government concerned. Such debentures will, if possible, be backed by the mortgages of the lands of the members to whom the benefits of the rehabilitation scheme are extended.

The Governments of the Provinces and States are requested to take speedy action on the rehabilitation schemes now pending before them, for any further delay in dealing with the problem will lead to the rapid deterioration of the movement, making rehabilitation more and more difficult, if not impossible. (9) [32-40 & 41-51].

(10) This Conference recommends that the possibility of encouraging and extending repayment in kind should be explored especially in economically backward areas. (10). [52-54].

(11) This Conference recommends that every effort should be made, where suitable conditions exist, to organize co-operative marketing with the necessary Government assistance and supervision especially with a view to securing to the cultivator the full effect of the rise in prices and for this purpose attention should be paid to creation of marketing unions under business management, [28 (iii)] [54-60].

(12) This Conference recommends that provinces should experiment with multiple purpose societies to ascertain more clearly the conditions under which they are likely to thrive and the form which they should take with special reference to their area of operation, liability and purposes. (11) [60-65].

(13) This Conference recommends that agricultural credit societies, other than multipurpose societies which are the subject of a separate resolution, should ordinarily continue to have unlimited liability but scope may be given for experiments with such societies with limited liability. (12). [65-74].

(14) This Conference recommends that persons should not be compelled to join a co-operative society; nor should the decision of such society be binding on non-members except in cases involving the provision of some utility service which at least two-thirds majority of those concerned desire. (13). [74-81].

(15) This Conference recommends that a small sub-committee consisting of Messrs. Pantulu and Gandhi and the Registrars of the Punjab, United Provinces and Bengal be appointed to examine the question of multi-unit societies and suggest suitable measures. (14)[81].

(16) This Conference recommends that the area of operation of land mortgage banks should not be larger than a district and may preferably be smaller. (15). [81-82].

(17) This Conference recommends that land mortgage banks should encourage and help schemes for the consolidation of holdings especially where land is badly fragmented. (16). [82].

(18) This Conference recommends that loans for land improvement should be advanced wherever possible at a lower rate than loans for other purposes and should ordinarily be given after consultation with the agricultural and other departments concerned. (17). [82-84].

(19) This Conference recommends that if a person is a member of both a primary credit society and a land mortgage bank the former should have a priority in respect of the first charge on the crop and the charge of the mortgage bank on the crop should be postponed to that extent. (18). [84-86].

(20) This Conference recommends that debentures should be made irredeemable for a definite period not exceeding 10 years. (19). [86-87].

(21) This Conference recommends that the Reserve Bank should purchase a limited amount of the debentures of approved central land mortgage banks and such provincial banks as raise debentures the principal and interest of which is guaranteed by Government and should advance money against such debentures. (20). [87-88].

(22) This Conference recommends that ordinarily mortgage loans other than those for land improvement should not be given for more than 20 years, and the margin between the maximum period of the loan and the period of the debenture should not exceed 5 years. (21). [88-92].

(23) This Conference recommends that in all future agrarian legislation and enactments for relief of indebtedness and regulation of money lending, nothing should be done to impair the financial stability of the co-operative movement or to affect it adversely in any other way. (22) [92].

(24) This Conference recommends that the attention of the Central Government be invited to the fact that co-operative societies are likely to incur heavy losses due to the amendment of section 60 of the Civil Procedure Code and it should be requested that the Code should be amended and the limit for attachment of salaries be reduced from Rs. 100 to Rs. 50 in respect of debts incurred before the amendment came into force. (23). [92-94].

(25) This Conference recommends that provincial and central banks should give a bonus to such members of their staff as pass the examinations of the Institute of Bankers. (24). [95-96].

(26) This Conference recommends that classes should be held and continued steps taken for the education of members of co-operative societies in the principles and practice of co-operation, and Provincial and State Governments be requested to provide funds for the same. (25). [96-99].

(27) This Conference recommends that further experiments should be made with cattle insurance societies. In any area where it is proposed to make such experiments, a preliminary survey should be made of the incidence of diseases and mortality among cattle. (26). [99-101].

(28) This Conference recommends that the improvement of health conditions in villages may form part of the normal activities of co-operative societies and in areas where medical facilities are not easily available and not under provision, special health co-operative societies should be organised with, if necessary, financial assistance from Government. (27). [101-103].

(29) This Conference recommends that in view of the recent rise in prices :—

- (i) Systematic efforts should be made to encourage saving in ways suited to local conditions and particularly on the money-box system and among children.
- (ii) Every effort should be made to restore the economic position of the cultivators and to improve the productive capacity of their lands in so far as they have been impaired by the fall in prices.
- (iii) Due caution should be exercised in allowing any considerable expansion in credit directly arising from the rise in prices. (28). [103-109].

APPENDIX II

Rehabilitation Schemes.

BENGAL

PROPOSALS BY THE REGISTRAR OF CO-OPERATIVE SOCIETIES, BENGAL, FOR REHABILITATION OF THE POSITION OF THE CO-OPERATIVE AGRICULTURAL CREDIT MOVEMENT AS WELL AS FOR PROVIDING FURTHER CREDIT FACILITIES TO THE AGRICULTURISTS.

Present position of the Agricultural Credit movement.

It would be worth while to preface the proposals with a brief review of the present position of the agricultural credit movement. A reference to statement A will show that the movement consists of 1 Provincial Bank, 116 Central Banks, 5 Land Mortgage Banks and 19,896 primary agricultural societies with a membership of 4.46 lakhs in the primary agricultural societies.

(a) *Capital*.—The working capital of the Provincial Bank is Rs. 2.33 crores, that of the Central Banks Rs. 5.15 crores and of the primary agricultural societies Rs. 5.94 crores, out of which, the borrowed capital of the Provincial Bank is Rs. 1.93 crores, that of the Central Banks Rs. 4.00 crores and of the primary agricultural societies Rs. 3.53 crores. Of the borrowed capital of the Provincial Bank Rs. 57.29 lakhs is deposits from banks and societies and Rs. 1.35 crores deposits from individuals, of that of the Central Banks Rs. 8.98 lakhs is deposits from banks and societies, Rs. 2.69 crores deposits from individuals and Rs. 1.22 crores loans from the Provincial and other banks and in the primary societies, Rs. 19.31 lakhs is members' deposits, Rs. 14.49 lakhs non-members' deposits and Rs. 3.19 crores loans from Central and other banks.

(b) *Fluid cover*.—The fluid cover maintained by the Provincial Bank on 30th June 1938, amounted to Rs. 59.72 lakhs against deposits of Rs. 41.75 lakhs maturing on that date, that maintained by the Central Banks on 30th June 1937, was Rs. 43.09 lakhs against deposits of Rs. 84.90 lakhs maturing during the following 12 months. The fluid cover maintained by the agricultural societies is insignificant as they derive the bulk of their capital from loans from the Central Banks.

(c) *Reserves*.—The statutory reserve and other special reserves of the Provincial Bank amount to (Rs. 6.46 lakhs plus Rs. 17.25 lakhs) Rs. 23.71 lakhs the entire amount of which is separately invested. The total statutory reserve and other special reserves of the Central Banks amount to (Rs. 32.51 plus 31.21 lakhs) Rs. 63.72 lakhs of which a sum of Rs. 12.58 lakhs is separately invested in the Provincial Bank. The total statutory and other reserves of the agricultural societies amount to Rs. 187.39 lakhs. Almost the whole of this amount is used in the business of the societies excepting a sum of Rs. 7.23 lakhs invested in the Provincial Bank and the Central Banks.

(d) *Investments*.—The investments of the Provincial Bank in the Central and other banks amount to Rs. 118.04 lakhs and its other main investments including gilt-edged securities amount to Rs. 86.80 lakhs. The investments of the Central Banks in societies including non-agricultural societies amount to Rs. 338.34 lakhs and their other main investments are Rs. 33.58 lakhs. The investments of the agricultural societies to their members amount to Rs. 399.12 lakhs and their other main investments are Rs. 5.86 lakhs.

(e) *Issue of recovery of loan*.—Statement B (Parts I, II and III) enclosed will show the issue and recovery of loans of the Provincial Bank, the Central Banks and the agricultural societies respectively for the last 12 years. It will appear from these statements that from 1925-26 to 1929-30 the annual circulation of money in these credit institutions was fairly satisfactory. But since the depression commenced in 1930-31 there has been a gradual reduction in the issue and recovery of loans. The issue of loans by the Provincial Bank fell from Rs. 41.10 lakhs in 1925-26 to Rs. 20.25 lakhs in 1936-37. Similarly, the recovery fell from Rs. 32.76 lakhs in 1925-26 to Rs. 18.49 lakhs in 1936-37. In the case of Central Banks the issue of loans in 1925-26 was Rs. 1.72 crores. It came down to only Rs. 19 lakhs in 1936-37. The recovery also came down from Rs. 137.94 lakhs in 1925-26 to Rs. 24.37 lakhs in 1936-37. The issue of loans by the village societies was Rs. 1.19 crores in 1925-26 which was reduced to

24 lakhs in 1936-37. The recovery from these societies in 1925-26 was Rs. 80 lakhs which works up to 45 per cent, and this came down to Rs. 31 lakhs in 1936-37 or 7.6 per cent. of the outstanding dues. It may be noted in this connection that a large portion of the issues in recent years is but renewals of old loans as the financing banks are at present rarely issuing fresh loan to their members. Similarly renewals have also been included in the collection figures stated above. The cash collection figures shown in this statement will however, indicate the actual position. It will be evident from these figures that the cash collection of loans by the Provincial Bank from the Central Banks, by the Central Banks from their affiliated societies and by the societies from their members has been 2, 4 and 8 per cent. respectively.

(f) *Interest.*—The interest collection of the Provincial Bank from the Central Banks and of the Central Banks from the agricultural societies during the last 5 years (from 1932-33 to 1936-37) is shown in statement C. These are all depression years and the average annual interest collection by the Provincial Bank from the Central Banks was 5.71 lakhs or 51 per cent, while the average annual interest collection of the Central Banks from the societies was Rs. 25 lakhs or 67 per cent. calculated at 8 and 10 per cent. respectively. The interest accruing in rural societies from their members was about Rs. 50 lakhs a year as will appear from the statement C containing figures for the last two years and the average annual collection has been Rs. 30 lakhs or 60 per cent. The average borrowing rate of the Provincial Bank is now $3\frac{1}{2}$ per cent. and its average lending rate is $3\frac{3}{8}$ per cent. The average borrowing rate of the Central Banks is generally 5 per cent. now. The rate of interest usually charged by the Central Banks from their affiliated societies before the depression years was 10 15/16 per cent. which has now been generally reduced to $9\frac{3}{8}$ per cent. and in some cases 8 per cent. The rate of interest charged by the societies from the members has also been reduced from $15\frac{5}{8}$ per cent. to $12\frac{1}{2}$ or 10 15/16 per cent. The interest outstanding from individual members of societies on 30th June 1937, was Rs. 241.39 lakhs of which Rs. 221.19 lakhs was overdue. The overdue interest to the Provincial Bank from the Central Banks rose to Rs. 18 lakhs in 1935 but this has been reduced to Rs. 8.48 lakhs in 1937 as a result of rebate being granted to the Central Banks on payment of arrear interest due from them. The rebate was possible on account of the annual subvention of Rs. 2 lakhs granted to the Provincial Bank by Government. The interest due to the Central Banks by the societies was Rs. 106.69 lakhs of which Rs. 92.07 lakhs was overdue.

(g) *Profit and Loss Account.*—On the revenue side the gross average annual income of the Provincial Bank during the last 3 years was Rs. 10.85 lakhs against an earned profit of Rs. 13.10 lakhs while the average annual obligatory expenses consisting mainly of interest charges to creditors and establishment cost were Rs. 11.83 lakhs against an estimated gross loss of Rs. 10.84 lakhs. In the case of the Central Banks their gross annual income and expenses amounted to Rs. 29.38 lakhs and Rs. 30.63 lakhs, respectively, against the earned profit and estimated loss of Rs. 40.61 lakhs and 31.74 lakhs, respectively. The excess expenditures over revenue income have been met by the financing institutions out of capital.

(h) *Management charges.*—The management charges of the Central Banks have been near about Rs. 7.00 lakhs and that of the primary societies Rs. 3.00 lakhs. The charges are low as the work is mostly managed by honorary workers specially in rural societies.

Review of the position.

2. It would appear from the above brief survey of the position that since the depression commenced in 1930-31 a brake was naturally put on the lendings by all financing institutions and the restriction was more severe in subsequent years with the result that at present new loans are sparingly made by the financing banks to their members. Only recently the Provincial Bank has rather hesitatingly commenced advancing small short-term loans to a few Central Banks for 9 months on special terms and conditions regarding the issue to and repayment of these loans by the actual borrowers. The Provincial Bank is afraid that these loans may also come within the purview of the Debt Settlement Boards. Thus new business having stopped, almost a complete stagnation has now come upon the agricultural credit movement. The percentage of loans overdue from members has assumed an alarming proportion of 80 per cent. and the average recovery of such loans has dwindled down to 2 per cent. in the case of the Provincial Bank, 4 per cent. in the Central Banks and 2 per cent. in the village societies. The recovery of the annual interest has been 51 per cent. in the case of the Provincial Bank, 67 per cent. in the Central Banks and 60 per cent. in the village societies.

3. The borrowed capital of the Provincial Bank is Rs. 1.93 crores of which Rs. 1.03 crores is invested in the Central Banks. The Provincial Bank has, however, maintained a large fluid cover mostly in gilt-edged securities which has enabled it to meet the withdrawals as also to reduce the rate of interest on borrowings and lendings. It is for this reason that the Provincial Bank is not experiencing any difficulty in meeting withdrawals. But notwithstanding the lowering of the rate on borrowings the average margin of profit of the Provincial Bank has now come down to $\frac{1}{4}$ th per cent. as it is drawing money from outside at $3\frac{1}{2}$ per cent. and lending at an average rate of $3\frac{3}{8}$ per cent. But it must maintain sufficient fluid resources even by borrowing at a disadvantage because its investments are locked up in the Central Banks. The borrowed capital of the Central Banks is Rs. 4 crores of which Rs. 3.38 crores is invested in the societies of all kinds. The investment in agricultural credit societies only being 311 lakhs. The amount of the fluid cover maintained by the Central Banks is wholly insufficient to meet withdrawals of deposits maturing. Most of the Central Banks have, therefore, lost confidence of the investing public owing to their inability to refund the matured deposits in time. They have largely drawn upon their fluid covers and even their Reserve Funds during the depression years to meet these withdrawals which were demanded in large proportions on account of fall in the income of people holding surplus money. The huge borrowed capital of the Provincial and Central Banks having thus turned frozen since the depression due to the inability of the primary borrowers to repay their overdue loans in any reasonable proportion many of the Central Banks have been driven to a desperate position existing more or less to realise their old debts. At the rate at which realisations are made now by the Provincial Bank and the Central Banks it will require near about 50 years for the Provincial Bank and 25 years for the Central Banks to recover their outstanding loans from their respective affiliated societies. The economic depression has already made a sufficiently high percentage of these debts unrealisable and with the progress of time it is apprehended they will be more and more unrealisable unless immediate effective steps are taken for their realisation.

4. The average collection of interest is 51 per cent. of the annual interest in the case of the Provincial Bank, 67 per cent. in the Central Banks and 60 per cent. in the primary societies. The shortage in the realisation of the annual interest has been swelling the proportion of the arrear overdue interest every year at the rate of 30 to 40 per cent. of the annual interest. The overdue interest of the Central Bank from the societies has at present accumulated to 92.07 lakhs and that of the societies from their members to Rs. 221.19 lakhs. The rate of interest is considered high enough for the agriculturist members in consideration of their present repaying capacity. It is not expected that the cultivators will be able to improve the percentage of repayment of their principal debts at any time if the present high rate of interest continues.

5. Briefly, (1) in the absence of fresh business a complete stagnation has come upon the agricultural credit movement which has adversely affected the realisations, (2) the existing dues of the financing banks in the village societies have become long-term debts, (3) judging from the percentage of repayment these debts cannot be realised from primary borrowers at a period less than 20 years, (4) quite an appreciable amount of these debts has already turned out irrecoverable and they will be more and more irrecoverable with the progress of time, (5) the Central Banks have already lost an appreciable portion of their capital in meeting revenue expenses, (6) the percentage of realisation of annual interest indicates that the rate of interest is wholly incompatible with the present depleted repaying capacity of the primary borrowers, (7) the overwhelming heavy overdue interest payable to the financing banks can be realised only in very small proportion, (8) the piling up of overdue interest every year has created a feeling of despair among the debtors towards redemption of their debts, (9) the contraction of normal agricultural credit of the members of the societies for the inability of the financing banks to lend and the reluctance of the village money-lenders to make further business with the cultivators due to the operation of Debt Settlement Boards is bound not only to adversely affect the realisation of the agricultural debts in the future but also to result in inefficient production.

Causes which have contributed to the present position.

6. The present deterioration of the agricultural credit societies is not peculiar to this province only. In more than one province the whole system practically broke down due to inefficient working but the Government of those provinces have taken steps to resuscitate it. In others the agricultural credit movement is not of a much better order than ours. The overdues in Madras, Bombay and the Punjab during these depression years have also risen up to a large extent.

7. The deterioration in the banking side of the movement must be mainly attributed to the prolonged economic depression resulting in the abnormal fall in the paying capacity of the agriculturists. The condition has steadily gone down from bad to worse since 1930-31. There are other supplementary causes also which have contributed more or less to this deterioration. Among these the tendency of the agriculturist to ignore his debts and his unwillingness to repay to the extent of his ability if he can avoid is prominent. This may to a large extent be due to a feeling of despondency at the sight of the overwhelming proportion of debts which he thinks he will never be able to repay. Instances are not rare in the co-operative societies that members taking advantage of application before Debt Settlement Boards have stopped payment altogether although they were regular in payment of their due according to their capacity in previous years. There can be no denying the fact that the *Proja* movement, the election propaganda followed by the passing of the Agricultural Debtors Act and the Amendment of the Bengal Tenancy Act have raised a hope during the last 4 or 5 years in the minds of the agriculturists that their lot is going to be improved in the future by substantial reduction or remission of their monetary obligations. This mentality outstripped reasonable bounds in certain places and too much liberal concessions were demanded which were not within the capacity of the creditor banks to grant with the result that the debtor members in those places have adopted a "wait and see" policy and are making payments by bits only when hard pressed. Overfinancing has been attributed as one of the causes for deterioration by certain critics. This point is debatable in my opinion. The existing loans were advanced originally for 3 years and therefore the amount of loan was naturally heavy. They were given at a time when the prices of agricultural commodities soared high particularly in respect of jute. The private money-lenders at that time generally advanced loans for 3 years or more and the co-operative societies could not be popular unless loans for 3 years were advanced. The attention of the department was, however, drawn to the danger of issue of loans for 3 years while the bulk of their capital was raised from deposits for a period not exceeding 3 years as early as in 1923 and instructions were issued in that year and subsequently in 1926 enjoining the Central Banks to assess normal and maximum credit of members and to distinguish between short and long-term loans and also to limit the long-term loans to the long-term capital of the bank, viz., the share capital and the Reserve Fund. These instructions were ignored by the financing banks. Although taking the societies as a whole it cannot be conclusively proved that there was general over-financing the distribution of loans by particular societies to their members were in many instances improper, the panchayets, the Secretary and the Chairman having appropriated large amounts which were beyond their capacity to repay. There were also cases of nepotism in the grant of loans by Central Banks to a society controlled by an influential villager who could render political or professional assistance to the Secretary or certain prominent Director of the Central Bank. The high rate of interest prevailing even during depression years which was at least 3 per cent. more than in any other province in India has also contributed to the deterioration.

8. Surely some of these causes, namely, the injudicious distribution of loans without assessing the normal and maximum credit of the members particularly in the jute areas where the repaying capacity of the members widely varied year to year due to sharp fluctuations in the price of jute and the one man rule in the administration of the societies resulting in the appropriation of large loans by the Secretary and the Chairman could have been checked if the moral side of the movement were strong. But unfortunately this side was weak from the very beginning due to appalling illiteracy of the masses and in the absence of proper facilities for giving training to the co-operative workers including the staff of the department and the Central Banks in the principles of co-operation. The only other way of preventing or checking the abuses was through corrective provisions in the Act. Here also adequate provisions were wanting. The ultimate penalty of liquidating a society for abuses was wholly impracticable. There was hardly any subject relating to improvement of the working of the societies upon which elaborate instructions in the form of circulars were not issued. But the significance and importance of these circulars were lost upon the majority of the co-operative workers and as these were not mandatory in any way they were neglected with impunity. In all the provinces in India except in the Punjab realisation of co-operative dues is made in a summary manner for many years now. In this province the dilatory process of recovery through the civil court takes more than a year which gives the judgment-debtor in the meantime an opportunity to conveniently dispose of his property. The inadequacy of the departmental staff for many years also made it difficult for the department to maintain an efficient and effective supervision on the working of the societies. The staff continued to remain the same from 1925 to 1937 although the number of societies increased from 8,000 to 24,000 during

the period with important developments on the non-credit side. The policy of distribution of staff on territorial basis, namely, one Assistant Registrar for each Revenue Division and one inspector for each administrative sub-division disregarding the number of societies which was increasing every year was defective and against the recommendation of the MacLagen Committee on Co-operation on the subject.

9. The real expansion of the agricultural credit movement commenced from 1922 at the rate of about 2,000 societies per year and the expansion at this rate continued till 1928. It must be admitted that the gradually expanded movement worked under various handicaps of which the non-co-operation and no-payment movement of 1922-23, the inadequacy of supervising staff to cope with the expansion, the absence of training facilities to the workers and the absence of any summary procedure for prompt realisation of the co-operative dues in case of wilful default were serious.

10. It is difficult to assess blame for the deterioration upon any particular body. Co-operation is a highly technical economic system and much more complicated than any other system. The people can understand the capitalistic system of banking business more easily than co-operative banking. While in the former material security and profit are the guiding principles for the latter the character security and restriction on profit are the most avowed objects. Again, while in the former it is no concern to the investor whether his borrower lives or dies so long as his investment is secure and earns profit, in the case of the latter the system is considered as a failure unless it can improve the economic condition of its borrower. Relief to borrowers has no place, in the capitalistic banking whereas in co-operative banking it occupies a prominent place. Thus a co-operative society has to carry out at the same time two different functions one virtually antagonistic to the other. The society has to carry on banking business not for profit but for improving the material and moral condition of its members. It is this dual function of a co-operative society which puzzles even the ordinary educated mind not to speak of illiterate people. The adjustment of rigid banking principles with beneficial co-operative principles required regular and insistent training which was wanting.

11. In view of the serious handicaps enumerated under which the agricultural credit movement worked in this province during the short period of its expansion I can only conclude that the movement was not given a fair trial.

Departmental policy and the steps taken by the department to arrest deterioration.

12. Since the depression commenced the department has been following a policy of consolidation which involved liquidation of bad and hopeless societies, reconstruction of other societies by remission of overdue interest, reduction of the borrowing and the lending rate of interest and speedy collection of insecure loans. In pursuance of this policy the department in 1931 instructed all departmental officers to assist the Central Banks in the collection of their dues. Previously with a view to protecting the officers from being unpopular there was a circular of the Registrar forbidding the departmental officers from taking any action with regard to the collection of the dues of the Central Banks. The assistance given by the departmental officers in collection work since 1931 was gratefully acknowledged by all Central Banks. In 1933-34 the Registrar made extensive tours, visited a large number of Central Banks which were in difficulty to meet withdrawals and by holding conferences with the depositors of those banks amicably reduced the rate of interests on deposits which resulted in the reduction of the obligatory charges of the banks and enabled them to work with balanced budget. This timely action eased the budgetary position of many Central Banks and saved them from imminent collapse. In 1936 an enquiry into the financial position of the Central Banks was made by Mr. A. E. Porter, I.C.S., Joint Secretary to the Government of Bengal. As a result of this enquiry the Central Banks were classified according to their financial and business position. Mr. Porter particularly urged the recasting of the annual budget of the Central Banks on a realistic basis consistent with the cash income and pointed out the danger of dissipating capital for meeting revenue expenses. Attempts were made by the Central Banks to follow his instructions as closely as possible. But in view of the uncertain income of these banks due to various natural and political causes it was not possible for them in all instances to work within cash income without alienating the sympathy of their creditors. In the same year at the instance of the department a conference of the representatives of the Central Banks was held in Calcutta in which two very important and far-reaching resolutions proposed by the department were carried, namely, (1) that the Central Banks should change the nature of their business with the affiliated societies confining the advancing of short term loans to productive purpose only and (2) that a comprehensive enquiry

into the actual position of loans due from the individual members of village societies should be made by the departmental officers and the Central Bank staff working together. This enquiry involved an examination of the financial position of 4.46 lakhs of members of village societies. No additional staff was given by Government for this purpose but notwithstanding it was possible to complete the enquiry with the existing staff of the Central Bank and the department towards the close of the year 1937. The results of the enquiry were revised during the first 9 months of 1938. In 1937 the Co-operative Training Scheme subsidised by the Government of India was given effect to first by getting a batch of 12 departmental officers trained in the Punjab Training Institute at Gurdaspur and then by opening a training institute at Dum Dum, Calcutta. Towards the close of 1937 the first part of the departmental scheme regarding increase of staff was given effect to by the addition of 5 Assistant Registrars, 5 Divisional Auditors, 34 Inspectors and 40 Auditors. A further increase of 6 Assistant Registrars and 6 Divisional Auditors as contained in the Part II of the scheme has been given effect to in 1938. In addition to ensuring better and more efficient supervision the appointment of the additional staff has enabled the department to separate the audit of Central Banks and important Urban Banks from administration. A comprehensive Co-operative Societies Bill with effective provisions for preventing abuses and for improvement of the general condition of the movement was drafted in 1937. It is now passing through the Select Committee stage.

13. In normal times the policy of consolidation as is being pursued by the department backed by additional facilities afforded by the introduction of the training scheme, the increase of departmental controlling staff and an efficient Act is likely to produce good results. But at the present moment when the repaying capacity of the agriculturists has come down to the rock-bottom level and their overdue debts are piling up every year while on the other hand there are no encouraging signs of gradual rise in the prices of agricultural commodities to enable them to liquidate their debts in near future some sort of drastic reconstruction measures seem to be necessary instead of relying on slow process of consolidation. The results obtained by liquidation of bad and hopeless societies have been anything but satisfactory. The financing banks are unable to make prepayment of costs charged by certificate courts. They cannot also supply funds to the liquidator to purchase the lands of the judgment-debtors and dispose them of at the best possible price. The reconstruction of the tolerably fair societies requires drastic remission not only of their overdue interest but also of a substantial portion of the principal. The financing banks are unable to agree to such drastic remissions because they are tagged to their creditors who should be satisfied before large remissions could be assented to. In view of these facts I am definitely of opinion that a bolder policy involving a wholesale overhauling and reconstruction is needed to rehabilitate the position of the movement.

Results of the investigation into individual loans.

14. The results of the investigation into the position of individual loans have furnished the department with a certain degree of accuracy such informations as are necessary to assess the repaying capacity of the individual debtors. The enquiry has been carried out on a fairly realistic basis and the results obtained may be accepted for drawing up a scheme designed to reconstruct the movement as a whole. The abstract results of the enquiry have been shown in statement E appended

(a) *Societies*.—It will appear from the statement that the total outside liabilities of the societies amount to Rs. 454.82 lakhs while the total loans due by members amount to Rs. 360.26 lakhs on account of principal, and Rs. 250.02 lakhs on account of interest. The other good assets of the societies amount to Rs. 13.35 lakhs making a total of Rs. 623.64 lakhs. Out of Rs. 610.28 lakhs (principal Rs. 360.26 lakhs, interest Rs. 250.02 lakhs) due by members, Rs. 475.93 lakhs is covered by the value of their property, the aggregate value of the property of the individual members is estimated to be Rs. 1,655.26 lakhs excluding the interest of other creditors in the property of the members. An analysis of the repaying capacity of the borrowers indicates that only a sum of Rs. 249.44 lakhs on account of principal (with interest at 8 per cent.) and a sum of Rs. 69.32 lakhs on account of arrear interest can be realised from their surplus income. It may also be possible for them to pay another small sum of Rs. 3.24 lakhs from subsidiary occupation. It would thus appear that a sum of (Rs. 249.44 plus Rs. 69.32 plus Rs. 3.24 lakhs) Rs. 322 lakhs only is considered good and within the repaying capacity of the borrowers out of their outstanding due of Rs. 610.28 lakhs. The good loans are more than fully covered by the value of the members' property. The amount available from surplus income of more solvent members if the unlimited liability is enforced is estimated to be Rs. 544.97 lakhs.

(b) *Central Banks*.—On the basis of the realisable assets in the societies an analysed balance sheet showing the financial position of the Central Banks has also been drawn up (Statement F). It will appear from this consolidated balance sheet that the total outside liabilities of all Central Banks on account of loans, deposits, arrear interests and sundries amount to Rs. 440.68 lakhs. Their good assets in societies amount to Rs. 243.52 lakhs on account of principal and Rs. 48.37 lakhs on account of interest while their other good assets amount to Rs. 133.47 lakhs making a total of Rs. 425.36 lakhs. Of this their good productive and quasi-productive assets alone amount to Rs. 348.35 lakhs while the unproductive assets (including interests) amount to Rs. 77.01 lakhs. Out of the 116 Central Banks in the province there is surplus of good assets over outside liabilities in 53 Central Banks amounting to Rs. 30.73 lakhs while in the other 63 banks there is deficit amounting to Rs. 46.05 lakhs. But if the interest thought good is not included in the good assets of the Central Banks the number of deficit banks will rise up to 87 out of which 68 are indebted to the Provincial Bank

Necessity for establishment of an effective rural credit agency.

15. It is difficult to underestimate at the present moment the importance and urgency of establishing or re-organising an effective rural credit system in this province. The old credit system pursued by the village money-lenders is on its last legs at present. The inherent defects in the system could never make it a useful agency though it was tolerated throughout as no better system could be evolved. The element of profiteering is so conspicuous in this system that it cannot be relied upon even with strictest regulations to serve to the economic benefit of the poor agricultural masses. The usurious money-lending practised through this system is responsible for the introduction of the Bengal Agricultural Debtors Act which in its turn has now reacted on it and sounded its death-knell. It is unlikely that the system can thrive again under such disadvantageous circumstances as have been brought about by the operation of the Debt Settlement Boards and the amendment of the Bengal Tenancy Act. The collapse of this system which catered largely for the ordinary agricultural credit needs of the rural people has placed the ordinary cultivator into a serious position due to contraction of his credit. He has no other means now of raising capital for his agricultural operations except by selling his land outright. As a result of the amendment of the Bengal Tenancy Act mortgages are now becoming less and the sale figures are going up. This will increase the number of landless labourers in the country. It has been argued in certain quarters that notwithstanding credit difficulties lands have not been left uncultivated in any appreciable extent. The reason for this is that those who purchase the lands get them cultivated by hired labourers who are in many instances the original owners of the lands. I have obtained the opinion of 14 Assistant Registrars of this province and every one of them has complained of the contraction of credit in the villages and increase of sale of lands. The figures collected by me from a number of Sub-Registry offices also corroborate the fact that mortgages are decreasing and the sales are increasing. The position stated above surely establishes the urgent necessity for creation of an effective rural credit agency.

16. The loan offices which also catered to some extent for the credit needs of the more solvent agriculturists have almost all closed their doors in the early years of depression. Their future is uncertain and they cannot be considered as suitable credit agency for the ordinary agriculturists.

17. The co-operative societies are still dragging on their existence functioning indifferently. With the collapse of the co-operative system although it catered for the credit needs of a comparatively small percentage of agricultural population the last hope of the agriculturists will be gone. As I have stated previously the department has done its level best to hold up the movement during these long depression years but the position is gradually becoming untenable. The creditors of the financing banks have already shown exemplary patience with regard to the refund of their matured deposits. They have reduced the rate of interest and even gone to the length of waiving their claims on future interest in many instances for getting refund of their deposits as early as possible. They have agreed to accept refund of their deposits by annual instalments ranging from 5 to 10 years. But notwithstanding all these concessions it has not been possible for many Central Banks to refund the deposits even by annual instalment. The creditors of these banks have now grown restive and are inclined to take the help of the civil court. In some instances they have got civil court decrees for the whole amount of their deposits and outstanding interest. Some of these decrees were executed and the building of the Central Bank which is the only

ostensible property of the bank was attached. It is apprehended that the depositors ultimately despaired of getting back their deposits might go to civil court in larger numbers in near future and apply for appointment of receiver to take charge of the Central Banks or force the hand of the Registrar to liquidate some of the banks and along with them their affiliated societies. It would be a calamity of large magnitude if a Central Bank with all its affiliated societies are liquidated not only for the movement but also for the administration. The liquidation will necessitate the realisation of the assets of the societies by coercive measures which may result in serious agrarian troubles.

18. It has been suggested in certain quarters that Government should open agricultural credit banks in every sub-division, thana or union board and supply the necessary capital. This system appears to be fundamentally objectionable. There is the danger of Government becoming unpopular in financing the agriculturists directly for their normal credit needs. The agricultural loans are given only as an emergency measure of relief and in very small sums generally not more than Rs. 10 which the agriculturist can easily pay by making small savings in their annual budget. This measure makes the Government popular. But the supply of his normal agricultural credit will necessitate the advance of a larger sum for realisation of which in case of default some sort of stringent measure will be necessary, the introduction of which will make the Government unpopular. Further, the normal responsibility of Government will be very great if it once undertake to supply rural credit. While it is possible for a money-lender or a credit institution to refuse the credit for reasons for which he or it will not be responsible to anybody, in the case of Government it will not be so easy to refuse the credit without being unpopular. Government will have to raise large loans not less than Rs. 10 crores for short-term agricultural purpose and Rs. 50 crores for long-term purpose to meet the requirements of the agriculturists. The administration and management of the banks by Government officials is likely to be more costly than management by non-official organisations which will increase the overhead charges on the borrowers. There is also the danger of the policy of Government banks being controlled by political influence at the sacrifice of banking principles which might involve Government into a serious embarrassment. At the same time it is likely that the Government revenue and landlords rent which are the first charges on the assets of the agriculturists may be endangered as it will be difficult for Government to give preference to the payment of these dues ignoring the Government loans. The cultivators may also take advantage of this position and pay one and default the other. Their respect and that of their superior landlords towards punctual payment of Government revenue is likely to be shaken. Lastly, it will be discouraging public enterprise and banking habit among the people if Government take up direct financing to the agriculturists.

19. In view of the circumstances stated above I would be failing in my duty if I do not urge on the Government to devise means as early as possible for saving the agricultural credit movement from the impending collapse with which it is threatened at present.

20. As I have stated elsewhere the agricultural credit movement has not been given a fair trial in this province as it had to work under serious handicaps particularly during the period of its expansion I do not think the present deterioration can prejudice its claims to serve as an effective rural credit agency in the future provided it can commence working on sound lines taking advantage of the facilities now afforded. We are going to have a new Co-operative Societies Act with exhaustive provisions for preventing and checking abuses in the future and for better working. Provision has also been made in the Bill for direct and indirect financial assistance by Government. The staff of the department has been increased which will ensure better supervision and the policy of automatic increase of staff with the increase in the number of societies has also been accepted. To minimise the chances of defalcation the audit and administration has been separated in the Central and other important banks. The training of the co-operative workers, officials and non-officials has been taken up in right earnest through an elaborate scheme which will extend the benefit of training to all grades of workers including the members of the village societies. A rural reconstruction scheme embodying an economic and moral uplift programme to demonstrate the concrete benefits of co-operation appealable to the illiterate minds has been introduced and a special staff has been sanctioned by Government for the purpose. Lastly, signs are in evidence that a change for the better has come upon the attitude of non-official workers of the financing banks. They have changed the nature of business of the financing banks with their affiliated societies confining it to only short-term loan for productive purpose. The adversity of economic depression

has considerably improved their sense of responsibility and obligations and they are now extremely solicitous of saving the reputation of their banks. It must be admitted that their influence with the depositors has contributed largely to save many of the Central Banks from premature collapse.

21. I trust the aforesaid facts will carry a sufficient degree of conviction to enable Government to hope for better working of co-operative societies in the future and to encourage the credit movement to improve itself and gradually occupy the position of an effective credit agency. In this view I submit the following scheme for betterment of the present position and for gradual expansion of the movement in the future for favourable consideration of Government.

Scheme

22. For regeneration of the movement the first and the most important step should be to disentangle the societies from the burden of overdues by scaling down these overdues and arranging the repayment thereof by instalments spread over a number of years at low rate of interest consistent with the repaying capacity of the primary borrowers. This step is expected to gradually remove the deadlock in the financing banks.

23. From the results of the enquiry into the position of individual loans it has been ascertained that the present value of the property assets of the primary borrowers available to meet their co-operative dues is Rs. 476 lakhs against their total dues amounting to Rs. 610 lakhs to their societies. It may, therefore, be inferred that the maximum amount which may be found ultimately realisable from the assets of the members is Rs. 476 lakhs. But as the societies are not going to be dissolved or liquidated the value of their entire assets will not be available to liquidate their debts. The figure is important only to make an estimate as to what extent the loans may be considered secure by the value of the property of the members. The present repaying capacity of the members has, therefore, been taken as the real standard to estimate the proportion of repayment. According to this standard it is estimated that only Rs. 249 lakhs may be realised from the members by annual instalments spread over 15 years at a rate of interest not exceeding 8 per cent. The outside liabilities of the societies amount to Rs. 311 lakhs on account of loans from the Central Banks and Rs. 23 lakhs on account of other items consisting mostly of members' deposits. Since the latter amount will be debited against the debts of the members the total outside capital obligations of the societies may be taken at Rs. 311 lakhs. Out of this Rs. 311 lakhs due to the Central Banks from the societies the Central Banks are likely to realise only Rs. 243 lakhs out of the total estimated realisable amount of Rs. 249 lakhs. The remaining Rs. 7 lakhs will not fall to the share of the Central Banks because in the case of certain banks their principal dues from the societies are less than the principal dues of the societies from their members. The Central Banks will, therefore, ultimately lose a sum of (Rs. 311 lakhs—Rs. 243 lakhs) Rs. 68 lakhs out of their investments in the village societies.

24. It is to be considered now how far the position of the financing Central Banks will be affected by this loss of Rs. 68 lakhs. It has been estimated that excluding unproductive assets (block assets and arrear interest) the good realisable capital assets of Central Banks amount to (Rs. 243 lakhs from societies plus Rs. 67.20 lakhs other productive assets including securities plus Rs. 37.63 lakhs quasi-productive assets) Rs. 348 lakhs against their capital liabilities of Rs. 405 lakhs. On the basis of these figures the Central Banks will be in deficit to the extent of Rs. 57 lakhs to meet their capital liabilities but on the basis of actual deficit in 87 individual Central Banks the amount of loss will come up to about Rs. 68 lakhs, there being a surplus of Rs. 11 lakhs in 29 Central Banks.

25. This loss of Rs. 68 lakhs will have to be shared by the creditors of Central Banks, viz., the Provincial Bank and the depositors. Though on the face of it the loss appears to be 16.7 per cent. but since the surplus of one bank cannot be applied for wiping out the deficit in another the percentage of loss will vary widely from bank to bank. The maximum loss in an individual Central Bank has been estimated at 60 per cent. The estimated loss is over 10 per cent. in 56 banks (out of 87 deficit banks) and of an aggregate amount of Rs. 55.00 lakhs. It will be a real hardship on the creditors to lose so much of their principal money in addition to the arrear interest amounting to 35 lakhs due to them which also they will have to forego. The interest of the movement will certainly be best served if the creditors could be paid

back their principal money either in cash or in guaranteed paper. This will at once stabilise the position of the movement and place it on its feet again. The capital required for fresh business and for expansion of the movement by formation of new societies is likely to flow in again into the movement from the investing public and there may not be any necessity for large financial assistance from Government in this direction. But there seems to be no other way to pay back the entire principal money to the creditors except through a Government subvention to the extent of Rs. 68 lakhs as it will not be possible to realise more than Rs. 243 lakhs from the members of the societies. If Government agree to grant the subsidy either in cash or in guaranteed paper an attempt may be made to realise as much of this amount as possible from actual borrowers provided the rate of interest does not exceed 8 per cent. The yield in this respect will depend upon the new investments of the individual Central Banks in the societies and it is not possible to estimate now during what period this subvention can be paid back to Government. It is however possible to create a sinking fund for redemption of this subvention. If, however, Government do not agree to the proposal the loss of Rs. 68 lakhs will have to be borne by the Provincial Bank and the depositors. The total loss to the Provincial Bank will amount of Rs. 17.65 lakhs and that to other creditors Rs. 49.70 lakhs.

26. My proposals on the basis of the enquiry are—

- (1) that the principal outstanding dues of the members to their societies should be reduced from Rs. 360 lakhs to Rs. 249 lakhs subject to such modifications as may be necessary as a result of any further enquiry at the time of actual scaling down;
- (2) that the dues of the societies to the Central Bank should be reduced from Rs. 311 lakhs to Rs. 243 lakhs subject to any modification as may be necessary at the time of actual adjustment;
- (3) that the rate of current interest charged from the primary borrowers should not exceed $7\frac{1}{2}$ per cent., more than which is not justified, on the basis of actual interest collection at present;
- (4) that the arrears interest outstanding up to March 1938 from the members to their societies amounting to Rs. 250 lakhs, from the societies to the Central Banks amounting to Rs. 105 lakhs and from the Central Bank to the Provincial Bank and other creditors amounting to Rs. 35 lakhs should be remitted except in the case of such members who by reason of their superior financial position and higher percentage of actual payment can be considered as capable of paying a portion of the interest (the qualification has been added in view of the fact that there are certain members in the village societies as well as there are certain societies and Central Banks which can pay a portion of their arrear interest to their financing banks without hardship. This portion has been estimated at Rs. 69 lakhs in the case of village societies and Rs. 48 lakhs in the case of Central Banks);
- (5) that the repayment of Rs. 249 lakhs by the members to their societies should be spread over 20 years (at $7\frac{1}{2}$ per cent.) and realised in equated instalments. Similar period should also be fixed for the societies for repayment of Rs. 243 lakhs (at 6 per cent.) to the Central Bank (although the statement has been prepared on the basis of 15 years at 8 per cent., to be on the safe side I think the period of instalment should be extended to 20 years at $7\frac{1}{2}$ per cent.);
- (6) that the Provincial Bank will take over the outside debts of the Central Banks as are covered by their good assets or such portion of such debts as are left unredeemed by the Central Banks and will charge interest at the rate of 4 per cent. per annum on the debts so taken over;
- (7) that the Provincial Bank should be permitted to float debentures to the extent of the actually realisable assets of the Central Banks which have been estimated to be Rs. 348 lakhs so as to enable them to pay off their creditors through the debentures at a discount proportionate to the estimated loss of Rs. 68 lakhs likely to be incurred by the Central Banks;
- (8) that the debentures should be for 30 years redeemable at any time after the 20th year and should carry interest not exceeding 3 per cent;

- (9) that the principal and the interest of the debentures should be guaranteed by Government and a Sinking Fund should be created for their redemption, and
- (10) that a cash credit should be granted by Government to the Provincial Bank to the extent of the face value of the debentures received by the Provincial Bank on account of its outstanding dues from the Central Banks.

27. If these proposals are accepted by Government in principle the department propose to take the following actions for protection of Government liability in this respect :—

- (a) The financial position of individual Central Banks applying for debentures to the Provincial Bank will be critically examined again.
- (b) The village societies affiliated to the Central Bank will be asked to apply *en bloc* to the Special Co-operative Debt Settlement Board constituted for the Central Banks in pursuance of the present Government policy for conciliation of the debts of the members of the societies. Such conciliation should as far as possible be guided by the results of the departmental enquiry into the solvency and repaying capacity of the borrowing members.
- (c) The awards so obtained will be assigned by the societies to the Central Banks and by the Central Banks to the Provincial Bank and by the Provincial to the Trustee appointed by Government on behalf of the debenture-holders.
- (d) The collective awards of the societies assigned by any Central Bank and its such other good assets as are unquestionably safe will form the basis of security for Government guarantee to the debentures.
- (e) That the block assets of the Central Banks which have been left out of consideration will also be pledged to Government through the Provincial Bank against the guarantee and will serve as additional security.
- (f) The Sinking Fund created for redemption of the debentures will be controlled by the Trustee.

28. The question of Government liability for redemption of the debentures has been carefully considered by me. In my opinion the awards pledged to Government through the Trustee would offer sufficient security as under section 25 (g) of the Bengal Agricultural Debtors Act the landed properties of the debtors will be security for the awarded amount. It has been pointed out elsewhere that considered individually properties worth Rs. 475 lakhs will amply cover the ultimate obligations of the societies to the Central Banks amounting to Rs. 243 lakhs; while considered collectively properties worth Rs. 1,655 lakhs will be available to societies on *pro rata* basis with other creditors if it were found necessary to enforce unlimited liability. Further, in the event of liquidation if such a course becomes necessary at any time the contributions assessed by the liquidator will become a public demand and take precedence over certain insecure debts in which case the amount available to societies will be much more than Rs. 1,655 lakhs. But it is hoped that since the debts will be reduced to the minimum involving a payment of about Rs. 27 lakhs only annually as will be shown in the paragraph relating to method of repayment below there will be no default by the borrowers and it will not be necessary to take recourse to any drastic step whatsoever.

Extent of Relief to the Agriculturist Members of Societies and the extent of hardship to Creditors of the Financing Banks.

29. As stated in details the extent of relief to the members of societies will be that their total co-operative debts amounting to (Rs. 360 lakhs principal plus Rs. 250 lakhs interest) Rs. 610 lakhs will be reduced to Rs. 249 lakhs only. The outside debts of the members will also be reduced in the same proportion by the Debt Settlement Boards. The rate of interest on the adjusted co-operative debts will be reduced to $7\frac{1}{2}$ per cent. in place of $12\frac{1}{2}$ per cent. as at present. Instalments to the maximum limit of 20 years will be granted for repayment of the adjusted debts. The uncertain position of the financing banks will be cleared once for all which will enable them to

recommence new business with the members so much needed by the latter at the present moment. The renewal of business on short term basis will instil new life and vigour into the members and will, it is hoped, ensure satisfactory repayment of their debts.

30. For all these benefits to the agriculturists the creditors of the financing bank are going to lose a total sum of Rs. 68 lakhs out of their investments, viz., in round figures Rs. 18 lakhs by the Provincial Bank and Rs. 50 lakhs by the individual depositors. I do not deny that it will be a hardship in the case of individual depositors of certain Central Banks where the loss is estimated at more than 10 per cent. but there is no help as by the delay in taking up the reconstruction scheme adumbrated in this note they stand to lose more if not the whole of their investments.

Provincial Bank.

31. The position of the Provincial Bank as a result of the proposed reconstruction will be as follows :—

<i>Liabilities.</i>	<i>Assets.</i>	Book value.	Esti- mated to be realised.
1. Borrowed capital—	1. (a) Loans to Central		
(a) Deposit 207·40	Banks 103·49	86·00	
(b) Interest 4·57	(b) Other societies 16·25	6·98	
(c) Others 2·30	2. Loans to Sale and		
214·27	Supply Societies		
	(jute) 19·75	19·75	
2. Owned capital—			
(a) Statutory	3. Gilt-edged securities		
reserve. 6·80	(market value		
(b) Share capital 16·67	Rs. 102·00) 89·33	102·00	
(c) Special reserve 17·25			
(d) Others 0·39	4. Cash 1·02	1·02	
(e) Undistributed	5. Interest 26·29	1·13	
profits 1·01	6. Others		
42·12	(Unproductive) 0·26	·26	
256·39		256·39	217·14

32. It would appear that the assets will be depleted to the extent of (256·39 minus 217·14 or) 39·25 lakhs. This sum is covered by the Bank's owned capital amounting to Rs. 42·12, and the estimated good assets exceed the outside debts by 2·87 lakhs. There is no doubt that the margin is very small. But in view of the fact that the investments of the Provincial Bank in the Central Banks will be thoroughly "cleaned up" and adequately secured by the scheme which will contribute to a greater financial solvency of the bank, it should not grudge the loss. Further the revenue position of the Provincial Bank as indicated below will continue to remain fairly satisfactory if a cash credit loan is obtained from Government to the extent of the face value of the debentures received by the bank in repayment of its existing investment in the

Central Banks and the money so received is reinvested as short-term loan to the Central Banks :—

<i>Revenue expenses.</i>		<i>Revenue income.</i>	
3½ per cent. on 208·0 lakhs	7·28	4 per cent. on 86·00 lakhs of short-term loan	3·44
Cost of management (subject to an increase to 1·20 lakhs)	0·90	Receipts from Central Bank	25·60
Surplus	0·74	Less payment to Sinking Fund	24·06
		5 per cent. on 6·98 lakhs	0·35
		Yield on gilt-edged securities	3·52
		Yield on Government subvention	0·07
	<u>8·92</u>		<u>8·92</u>

The surplus will however be subject to a decrease by 0·30 lakhs or to 0·44 lakhs if the cost of management has to be increased to 1·20 lakhs.

Repayment to the Debenture-holders by the Provincial Bank—Creation of Sinking Fund.

33. The Provincial Bank will be required to subscribe an equated amount annually which with the interest will accumulate at the end of 20 years to the face value of the debentures. For this purpose a debenture redemption fund or Sinking Fund as proposed previously will have to be created. In addition, the Provincial Bank will have to pay interest annually to the debenture-holders at 3 per cent. through the Trustees of the Sinking Fund. The annual instalment of payment to the Sinking Fund will depend upon the expected yield on the investment of the fund. Though the debentures will be guaranteed by Government it would be wise to assess the yield on the investments of the fund at ½ per cent. below the debenture rate or at 2½ per cent. There is however a possibility of greater yield by a judicious investment of the fund in Government controlled concerns. On the assumption of 2½ per cent. yield the annual instalment works out at Rs. 39·147 per thousand-rupees of the face value of the debentures according to the formula $S = Pr / \left\{ \frac{(1+r)^n}{r} - 1 \right\}$ where P is the principal "r" is the rate of interest and "n" is the number of years. Thus, the Provincial Bank will be required to contribute (Rs. 39·147 plus Rs. 30 interest) = Rs. 69·147 annually for every thousand rupees. It is unlikely that there will be any loss to Government if this figure for instalment is accepted. If however the yield at any time goes below 2½ per cent. the Central Banks concerned may be required to contribute to the deficit whereas if the yield increase a proportionate rebate may be given to them. Similarly, interest at the rate of the yield may be charged on all deferred payments of instalments.

34. A repayment chart is indicated below :—

(a) Payment by members to societies at 7½ per cent.—Rs. 98·1·6 per thousand rupees or Rs. 9,80,900 per crore.

Annual payment involved—Rs. 9·80 lakhs × 2·5 plus 69/20 lakhs = 27·9 lakhs.

(b) Payment by societies to the Central Banks at 6 per cent.—Rs. 87·3 per thousand rupees or Rs. 8,71,875 per crore.

Annual payment involved—Rs. 8·72 lakhs × 2·44 plus 48·3/20 = 23·68 lakhs.

(c) Annual estimated receipts by Central Banks—

	Lakhs.
	Rs.
(i) From societies	23·68
(ii) From other productive assets	5·60
(iii) From quasi-productive assets	1·50 (approximately)
Total	<u>30·78</u>

(d) Payment by Central Banks to the Provincial Bank at 4 per cent.—Rs. 73.53 per thousand rupees or Rs. 7,35,600 per crore.

Annual payment—Rs. $73.53 \times 3.48 =$ Rs. 25.60 lakhs.

(e) Payment by Provincial Bank to the Sinking Fund—

	Per thousand.
	Rs.
Principal at $2\frac{1}{2}$ per cent. yield	39.174
Interest (annual)	30.000
Total	<u>69.147</u>
	or Rs. 6,91,470 (per crore)

Annual payment—24.06 lakhs.

The present actual collection by Central Banks—

	Principal. Lakhs.	Interest. Lakhs.
	Rs.	Rs.
1934-35	15.19	22.75
1935-36	13.59	23.79
1936-37	15.54	23.46
Average	<u>14.77</u>	<u>23.33</u>

Total average Rs. 38.10 lakhs.

35. It will appear from the above figures that the estimated annual collections of the societies (principal and interest) from their members will be Rs. 27.9 lakhs and their annual repayment to the Central Banks will be Rs. 23.68 lakhs. The annual receipts of the Central Banks (principal and interest) will be Rs. 30.78 lakhs and their annual instalment to the Provincial Bank will be Rs. 25.60 lakhs, while the Provincial Bank's annual contribution to the Sinking Fund will be Rs. 24.06 lakhs. The actual average cash collection of the Central Banks from the societies on the basis of the last 3 years figures is Rs. 38.10 lakhs. There is sufficient margin at every stage and therefore the annual contribution to the Sinking Fund does not stand any reasonable chance of default. The margin left over to the Central Banks will, it is expected be augmented by profits made by new business of short term loans which may be sufficient for them to meet their establishment costs. In case of any deficiency in this direction the Provincial Bank or the Government may be approached for temporary assistance.

Conditions to be fulfilled by Central Banks to be eligible for taking advantage of the Debenture Scheme.

36. A Central Bank applying to the Provincial Bank for debenture will be required to fulfil the following conditions and such other conditions as may be prescribed by the Provincial Bank with the approval of Government from time to time :—

- (1) It will scale down its dues from the societies and reduce the rate of interest to the extent and in the manner indicated in the scheme.
- (2) It will treat the adjusted dues as its long term investment in the societies and maintain such ledgers and accounts for these debts as may be prescribed by the Registrar.

- (3) It will amicably arrange with its creditors to take refund of their investments, by reduction if necessary, on the basis of its good realisable assets. (Provision has been made in the Co-operative Societies Bill for a compromise of this nature between a co-operative society and its creditors.)
- (4) It will restrict its future business to short term loan for productive purpose and should not advance fresh loans in excess of normal credit. The accounts of the adjusted debts which will be treated as long term investments of the Central Banks should be kept entirely separate from its short term business.
- (5) Its maximum borrowing liability will be controlled by the Registrar and all fresh borrowings will be subject to specific sanction of the Registrar.
- (6) The repayment of instalment to the Provincial Bank shall have precedence over its all other disbursement except establishment cost, and audit fees.
- (7) It will appoint a paid Chief Executive Officer for management who will be selected by Government and work under departmental control till the Government liability continues. He will not be removed without the previous approval of Government.
- (8) It will not dissipate any portion of its profit without the previous sanction of the Registrar.
- (9) It will submit its annual budget for the approval of the Registrar and shall not exceed the expenditure without his sanction.

37. Although I have stated in paragraph 26 (6), (7), that the Provincial Bank will take over the outside liabilities of the Central Banks to the extent of Rs. 348 lakhs as are covered by their good assets and float Government guaranteed debentures to liquidate them it is unlikely that all Central Banks will avail themselves of the scheme. There are a number of Central Banks which are at present enjoying the confidence of the investing public and these banks may not be inclined to alienate the sympathy and co-operation of the public. It is only the deficit Central Banks which are at present unable to pay off the matured deposits and loans that will take advantage of the scheme at once. The reduced outside liabilities of these banks as covered by their good assets will not I think be more than Rs. 200 lakhs. As each of these Central Banks will fulfil the conditions prescribed the necessity for debentures will arise. Government will not therefore be required to agree to the floatation of debentures to a large extent at a time nor I think for the entire maximum amount of Rs. 348 lakhs at any time.

Future Expansion.

38. The question of future expansion of the agricultural credit movement both with regard to new business with the members of the existing societies as well as formation of new credit societies has assumed an extra degree of importance at the present moment due to contraction of credit in rural areas. Fresh short-term business with the good members of the existing societies may be recommenced as soon as the arrangements for realisation of the over-dues as proposed in the scheme are made. For the purpose of this business a maximum sum of Rs. 50 lakhs per year during the next 3 years will be sufficient.

39. To tackle the question of rural credit at least to an appreciable degree large expansion of the movement by formation of new short term credit societies will be necessary. This cannot be done at once or hurriedly. A scheme for at least 10 years should be drawn up during which period it is expected that the movement will be able to cover a fairly large area. At the beginning that is during the next 3 years the progress must be slow as the department will have to proceed very cautiously with measured steps, keeping in pace with the progress of co-operative education of the members. Every year's success will determine the extent of expansion which can be taken up in the following year. I will not therefore hazard an estimate of expansion on the basis of likely increase in the number of societies but can assure Government that the department will not fail to form societies in areas where the people are at present feeling acute pinch of contraction of credit provided it can ensure effective supervision over these societies. For new societies during the next 3 years a capital of Rs. 10, 20 and 30 lakhs for the 1st, 2nd and 3rd year, respectively, should, I think be sufficient. From the 4th to the 10th year the rate of expansion is expected

to be greater as the position of the movement is likely to be sufficiently stabilised by that time which will encourage the inflow of outside capital in larger proportion into the movement particularly into the Provincial Bank.

40. It will thus appear that the Provincial Bank will require Rs. 60 lakhs to 1 crore of rupees during the next 3 years for financing the existing societies and the new societies that are likely to be formed during these years. It will be possible for the bank to meet its requirement in this direction if a cash credit to this extent be granted by Government. The Hon'ble Finance Minister in his note on rural credit has suggested that Government should raise a loan of 2 to 2½ crores for providing long and short-term loan to the agriculturists. He has specifically said that for advancing short-term loans the co-operative society is the best agency. In view of this suggestion the Provincial Bank may expect a cash credit loan to the extent of 1 crore from Government for advancing to the Central Banks for short-term business.

41. I anticipate that the assistance of Government to the Provincial Bank to float debentures to enable the Central Banks to refund their matured deposits and loans will bring about a substantial change for better in the position of the movement and it may not be necessary to seek any further financial assistance from Government for future expansion after the 3rd year.

Rural Indebtedness.

42. The problem of indebtedness in respect of 4½ lakhs of co-operative members or 25 lakhs of population will be solved by reduction of the crushing burden of their existing debts to the extent that will make it possible for them to liquidate from their resources or surplus income and by the conversion of the reduced debts into long-term credit by the financing Central Banks. This step will make the members credit worthy once again for receiving short-term loan for their ordinary agricultural operations and other productive purposes. It will be a most important forward step for retrieving the position of the movement by winning back the faith and loyalty of the members and for attracting other agriculturists into the movement. The department has also submitted proposals to Government separately for expansion of Land Mortgage Banks for providing long-term credit to more solvent cultivators who are still outside the pale of the movement. The new short-term credit societies will at the same time cater for the ordinary agricultural credit needs of the members of Land Mortgage Banks. The arrangement for supplying long and short-term credit facilities to the agriculturists as has been made now and proposed to be followed in the future together with the salutary provisions made in the Co-operative Societies Bill for restricting the credit will, I trust, sufficiently limit the scope of their unproductive credit and minimise the chances of their getting into indebtedness beyond their power of repayment.

Additional Staff.

43. The scheme if approved by Government will require some addition in the staff of the department as the Registrar will be the Trustee on behalf of the debenture-holders and accountable to Government for working out of the scheme efficiently. It may also be necessary to increase some staff in Central Banks for improvement of management and collections so as to enable these Banks to regularly pay their annual instalment to the Sinking Fund. I will come up to Government with my proposals in this connection after the principles underlying the scheme are accepted by Government as it is not possible to estimate at once what additional staff will be necessary without knowing how many Central Banks will avail themselves of the scheme immediately.

Summary of Proposals.

44. The following concrete proposals are submitted for favourable consideration of Government:—

- (1) The Provincial Co-operative Bank should be permitted to float debentures at 3 per cent. (issued at par) guaranteed by Government (principal and interest) to the extent of the good realisable assets of individual Central Banks, not exceeding the face value of Rs. 348 lakhs for all the Central Banks in the province.

- (2) The debentures should be utilised by the Central Banks in liquidating their outside liabilities as will be reduced in proportion to the reduction of their assets realisable from the members of primary societies and other sources. (It is proposed to reduce the debts of the borrowing members of the societies to only Rs. 249 lakhs in place of Rs. 360 lakhs on account of principal and Rs. 250 lakhs on account of outstanding interests due from them on the basis of their present repaying capacity as revealed by the investigation into their surplus income.)
- (3) The Provincial Bank should contribute to the debenture redemption fund at the rate of Rs. 69.147 annually per thousand rupees of debenture or Rs. 24.06 lakhs per year if debentures are floated for the maximum amount of Rs. 348 lakhs.
- (4) The Provincial Bank should be granted a maximum cash credit loan of Rs. 60 lakhs to 1 crore at a rate of interest not exceeding 3 per cent by Government for advancing to the Central Banks to recommence short term business with societies for productive purpose.
- (5) The currency of the Government guaranteed debenture should be for 30 years redeemable after the 20th year and their operation will be controlled by a Trustee appointed by Government.
- (6) Government should provide such additional staff to the department and the Central Banks as may be considered necessary for efficiently carrying out the scheme.

STATEMENT A.

The 30th June 1937.

Items.		Provincial Bank.	Central Banks.	Societies.
1.	2.	3.	4.	5.
(A)	1. Number of societies	1	116	19·896
	2. Membership . . . . .	..	..	4·45·554
(Figures in crores.)				
(B)	1. Working Capital	2·33	5·15	5·94
	2. Borrowed Capital—			
	(a) Individuals	1·35	2·69	..
	(b) Provincial and Central Banks	·39	1·22	3·19
	(c) Societies	·19	·09	·01
	(d) Members . . . . .	..	..	·19
	(e) Non-members . . . . .	..	..	·14
		—1·93	—4·00	—3·53
(Figures in lakhs.)				
(C)	1. Fluid Cover	59·72	43·09	..
	2. Matured deposits	41·75	..	..
	3. Deposits maturing in 12 months . . . . .	..	84·90	..
(Figures in lakhs.)				
(D)	1. Statutory reserve	6·46	32·51	186·92
	2. Other reserves	17·25	31·21	·47
	3. Total reserves	23·71	63·72	187·39
	4. Reserves separately invested	23·71	12·58	7·23
(E)	Investments to—			
	(a) Banks and Societies	118·04	338·34	..
	(b) Individuals . . . . .	..	..	399·12
	(c) Others	86·80	33·58	5·86

STATEMENT B.

Issue and Recovery of Loans.

(Figures in lakhs.)

Year.	Amount outstanding at beginning of year.	Loans issued during the year.	Amount collected.	
			Including renewals.	Not including renewals.

*I—Provincial Bank.**(a) Before depression—*

1925-26	35.50	41.10	32.76	..
1926-27	43.85	81.90	52.70	..
1927-28	73.46	99.57	78.57	..
1928-29	94.92	130.84	136.25	..
1929-30	115.71	107.72	88.83	..

(b) During depression years—

1930-31	128.55	69.87	60.55	..
1931-32	136.07	13.00	14.68	3.03
1932-33	134.30	39.77	37.86	2.63
1933-34	135.02	59.89	56.40	..
1934-35	138.61	20.04	19.22	3.16
1935-36	138.41	69.74	69.51	2.52
1936-37	116.28	20.25	18.49	2.27

Average cash collection—2 per cent.

*II—Central Banks.**(a) Before depression—*

1925-26	176.33	172.04	137.94	..
1926-27	213.78	156.13	105.88	..
1927-28	265.25	129.13	89.71	..
1928-29	307.52	131.72	107.88	..
1929-30	334.80	140.16	94.46	..

(b) During depression years—

1930-31	383.05	62.23	46.13	..
1931-32	405.69	50.32	33.01	..
1932-33	414.25	23.38	28.39	..
1933-34	393.60	26.03	32.07	..
1934-35	386.61	20.12	25.35	15.19
1935-36	374.54	24.34	29.55	13.59
1936-37	365.12	19.32	24.37	15.54

Average cash collection—4 per cent.

Year.	Amount outstand- ing at beginning of year.	Loans issued during the year.	Amount collected.	
			Including renewals.	Not includ- ing renewals.

III—Agricultural Credit Societies.

(a) Before depression—

1925-26	173·44	119·51	79·85	..
1926-27	211·17	137·81	79·93	..
1927-28	264·51	145·21	93·49	..
1928-29	312·65	154·27	114·77	..
1929-30	343·17	160·08	100·50	..

(b) During depression years—

1930-31	401·80	92·69	56·79	..
1931-32	432·44	50·19	46·87	..
1932-33	433·08	35·84	36·55	..
1933-34	423·42	32·74	36·36	..
1934-35	425·01	24·73	29·80	..
1935-36	415·53	23·30	30·48	30·43
1936-37	403·91	23·79	31·02	30·84

Average collection—8 per cent. approximately.

STATEMENT C.

Collection of Interest.

Year.	Amount outstanding at beginning of the year.	Amount accrued during the year.	Amount collected.	
			Including paper transaction.	Cash.
1	2	3	4	5
<i>I—Provincial Banks.</i>				
<i>(a) Before depression—</i>				
1925-26	1.30	4.87	4.79	..
1926-27	1.41	6.11	5.17	..
1927-28	2.51	8.34	7.40	..
1928-29	3.44	10.44	9.59	..
1929-30	4.30	13.49	12.00	..
<i>(b) During depression years—</i>				
1930-31	5.78	11.84	8.62	..
1931-32	9.00	12.25	9.60	4.09
1932-33	11.65	12.74	8.47	5.95
1933-34	15.92	13.16	10.38	..
1934-35	18.70	13.05	7.85	5.37
1935-36	23.90	11.76	10.39	6.75
1936-37	25.30	12.55	12.32	6.39

Collection of annual interest—51 per cent.

II—Central Banks.

<i>(a) Before depression—</i>				
1925-26	10.01	20.04	18.06	..
1926-27	12.07	25.15	22.56	..
1927-28	14.81	30.43	27.20	..
1928-29	18.29	34.33	33.19	..
1929-30	19.59	38.26	31.41	..
<i>(b) During depression years—</i>				
1930-31	26.53	43.40	24.03	..
1931-32	45.93	44.19	36.80	..
1932-33	53.56	43.86	30.98	27.17
1933-34	66.77	43.73	33.09	31.36
1934-35	77.68	40.68	29.16	22.75
1935-36	89.23	39.62	28.05	23.79
1936-37	100.67	36.78	26.28	23.46

Collection of annual interest—67 per cent.

III—Primary Societies.

1935-36	221.43	51.09	31.13	27.32
1936-37	241.39	49.85	29.71	26.76

Collection of annual interest—60 per cent.

STATEMENT D.

Profit and loss and income and expenditure of the Provincial and Central Banks
for 3 years.

		(Figures in lakhs.)	
		Provincial Bank.	Central Bank.
<i>I—Profit and loss.</i>			
(A)	1. Profit—		
	1934-35	14.93	41.42
	1935-36	11.80	41.28
	1936-37	12.59	39.24
	Average	13.10	40.61
	2. Loss—		
	1934-35	11.45	33.59
	1935-36	10.20	32.26
	1936-37	10.89	29.38
	Average	10.84	31.47
<i>II—Income and expenditure.</i>			
(B)	1. Income—		
	1934-35	9.73	29.75
	1935-36	10.44	29.52
	1936-37	12.37	28.87
	Average	10.85	29.38
	2. Expenditure—		
	1934-35	12.36	30.62
	1935-36	11.57	31.31
	1936-37	11.56	29.97
	Average	11.83	30.63

STATEMENT

Solvency and repaying capacity of

Serial No.	Division.	Outside liabilities.					Assets.			
		Loans from Central Bank.		Liabilities other than loans from Central Bank.			Loans due by members.		Other Good assets.	
		Principal.	Interest.	Bearing interest.	Not bearing interest.	Total.	Principal.	Interest.	Bearing interest.	Not bearing interest.
1	Burdwan ...	34.89	6.49	2.52	1.04	41.94	41.47	17.60	.36	.62
2	Chittagong ...	52.28	16.29	5.58	2.53	76.69	61.11	44.53	.41	1.23
3	Dacca ...	118.19	42.74	7.36	3.69	171.99	128.33	97.78	3.51	1.54
4	Rajshahi ...	60.21	24.28	3.60	3.89	91.98	72.58	52.10	1.60	1.75
5	Presidency ...	45.44	18.60	3.83	1.26	69.22	56.77	37.96	1.38	.95
	Grand Total	311.01	108.49	22.89	12.41	454.82	360.26	250.02	7.26	6.09

STATEMENT

Position of

Serial No.	Division.	Outside liabilities.					Good assets.				
		Borrowed capital.		Interest.	Others.	Total.	Productive.				
		Total.	Of which loans from B. P. C. B.				Total.	Of which loans to societies.	Quasi-productive.	Unproductive.	Interest.
				3	4	5						6	7	8	9	10	11	12
1	Presidency ...	67.63	5.59	3.56	.15	71.34	45.98	35.60	6.55	5.65	8.59
2	Burdwan ...	74.00	.67	1.63	.10	75.73	55.09	24.77	12.78	4.16	4.84
3	Dacca ...	133.53	49.50	13.34	.23	147.09	107.98	90.28	8.53	4.88	18.60
4	Chittagong ...	62.80	27.26	7.33	.44	70.57	51.50	46.09	5.96	4.00	6.29
5	Rajshahi ...	66.95	20.47	8.82	.17	75.95	50.17	46.78	3.81	5.51	10.15
	Total ...	404.91	103.49	34.68	1.09	440.68	310.72	243.52	37.63	24.20	48.37

E.

Rural Credit Societies (1937-38).

(All figures in lakhs.)

Total.	Total value of members' property.	Total amount of members' loans covered by their property.	Surplus or Deficit on basis of value of property.		Total amount of principal loan recoverable from members in 16 years with current interest at 8 per cent.	Total amount of arrear interest recoverable from members in 15 years.	Total additional amount, if any, recoverable from members in 15 years.	Total amount recoverable from members (columns 17+18+19).	Surplus or deficit on basis of income of members.		Surplus available for enforcing un-liquidated liability or liability of suretyship.
			Surplus if any, column 14+10+11 -7.	Deficit if any, column 7-(14+10+11).					Surplus, if any (column 20+10+11 minus column 7).	Deficit, if any, column 7 minus column 20+10+11.	
12	13	14	15	16	17	18	19	20	21	22	23
60.05	263.32	47.35	10.48	6.74	24.83	4.50	.80	30.14	4.93	18.59	214.11
107.34	393.56	93.88	23.32	4.35	48.61	13.28	.31	62.20	7.80	19.80	64.60
231.16	562.05	173.19	35.34	19.25	92.87	26.36	.60	119.83	16.33	64.36	86.53
128.03	253.78	94.38	20.17	14.36	46.01	14.14	1.26	61.40	7.73	35.01	57.99
97.06	182.55	67.13	14.60	14.03	37.12	11.04	.27	43.44	8.08	25.31	121.69
623.64	1655.26	475.93	103.91	58.73	249.44	69.32	3.24	322.01	44.87	163.07	544.97

F.

Central Banks.

(All figures in lakhs.)

Others.	Total.	Owned Capital.				Assets bad and doubtful.				Excess or borrowed capital over productive and quasi-productive assets.	
		Share.	Reserve Fund.	Others.	Total.	Investment.	Interest.	Others.	Total.	Positive (deficit).	Negative (surplus).
13	14	15	16	17	18	19	20	21	22	23	24
.99	67.76	7.77	5.58	7.40	20.75	13.45	10.78	.63	24.86	13.86	0.76
1.70	78.58	8.06	4.28	7.33	19.67	13.28	3.50	.25	17.04	8.16	1.53
.90	140.79	17.37	14.13	22.64	54.14	33.87	27.48	1.39	62.74	19.61	2.60
.47	68.21	8.65	4.51	6.05	19.22	9.54	11.91	.21	21.67	5.58	0.25
.38	70.02	9.64	5.81	10.70	26.14	16.78	15.69	.24	32.71	15.14	1.21
4.44	425.36	51.49	4.31	54.12	139.92	86.92	69.36	2.72	159.02	64.35	6.39**

*Error compensated (-1).

BIHAR SCHEME OF RECONSTRUCTION.

1. *Plan of the enquiry.*—The enquiry, before reconstruction, is made in the following stages :—

- (i) Enquiry into the assets, liabilities and repaying capacity of members.
- (ii) Enquiry at the registration offices for ascertaining previous encumbrances, if any, for 12 years.
- (iii) Further local enquiry for ascertaining as to whether the encumbrances, detected during verification, had been subsequently redeemed.
- (iv) Enquiries into liquidated societies.
- (v) Enquiries into lands held by—
 - (a) Societies.
 - (b) Central Banks.
- (vi) Enquiries into the present market value of other assets, namely, investment inside or outside the movement, certain properties like bank buildings, furniture from stock in hand, etc.

2. *Schedule of valuation of yield and income.*—The valuation of different classes of lands is made according to a schedule prepared by the Reconstruction Officer in consultation with the bank authorities and approved by the Revenue Officers of the district. Income from different classes of lands is also calculated according to a schedule of yield similarly prepared and approved by the Revenue Officers. The money value of the average yield of different crops is calculated on the basis of the average price during a period of 8 or 9 years since 1930 when the depression set in. Besides the income from lands, miscellaneous income from service, casual labour trade, etc., is also taken into account for calculating the total income of a member. Cost of maintenance is calculated according to the number of persons in the family.

3. *Repaying Capacity.*—Financing in the past appears to have been based mainly on the consideration of assets and liabilities. The importance of fixing the amount of loans according to the repaying capacity is now being realised everywhere. For reasons, some of which are set forth below, it is not enough to know the net assets of a member to be able to fix his *kists*.

- (i) The income from different classes of lands is not necessarily proportionate to the value of such lands even in the same district.
- (ii) The ratio of income to valuation of different kinds of lands varies from district to district owing to difference in the incidence of rent, yield, etc.
- (iii) The amount, which a member of an agricultural society can pay is determined not only by the income from his lands, but also by several other factors like the following :—

- (a) Cost of maintenance of the family, which largely depends on the number of members to be fed.
- (b) Expenses on social ceremonies, such as marriages, religious festivals, cost of repair of houses, etc., which fluctuate from year to year in individual cases.
- (c) Income, by wage, earning members of the family, which cannot be valued in terms of money in the list of assets.

4. *Income from miscellaneous sources.*—The importance of income from sources other than land would be apparent from the fact that in some districts like Shahabad and Saran, many families would show a deficit budget, if the earnings by several adult male members of the family, working in other districts and provinces in various capacities, be not taken into account. It is, therefore, absolutely essential to consider certain forms of income other than those derived from land and certain minimum expenses before one can estimate the amount, which a member can be expected to pay year in, year out. Even in comparatively good banks, where the investment is backed by sufficient assets, the loans have become frozen owing to the inability of the borrowing members to pay according to the existing *kists*. This is due to the fact that the amount fixed as the annual instalments far beyond their capacity to pay. In such cases, a satisfactory percentage of realisation can only be attained if the outstanding dues are spread out in annual instalments within their repaying capacity.

5. The prescribed forms will show that no attempt has been made to calculate, either by detailed enquiry or by any set formula, the actual surplus of income over expenditure of any particular individual in a particular year or over a number of

years. What has been attempted is to fix what a member can be expected to pay—a safe margin being left for fluctuations in the various items of income and expenditure from year to year. Instead of relying on mere guess work, certain data, some of which are mentioned below and which can be easily ascertained with a reasonable degree of accuracy, have been taken into consideration :—

- (a) Assets, duly verified after the enquiry at the Registration office and the average value of immoveable properties according to the valuation approved of by the Collector.
- (b) The nature and extent of liabilities, particularly registered liabilities, as far as they could be ascertained by a local enquiry, followed by a search in the Registration offices over 12 years.
- (c) The minimum amount required for the cost of maintenance of the family at an average rate fixed in consultation with the authorities of the bank and the local Revenue Officers.
- (d) Estimated income of wage earning members of the family and from sources other than lands.
- (e) Average recovery actually made during the previous three or four years.

On due consideration of the above data, an Enquiring Officer, who has to live in the village for at least three to four days questions the *punches* and members of the society and finds out from their estimate what individual members can pay from year to year. The Enquiring Officer also questions reliable persons of the village, who are not members of the society about their estimate. He then takes into consideration all the above facts and uses his own judgment in recording his estimate of what the members can be expected to pay from year to year. The Supervising Officer, who is a more responsible officer and who has to stay in the locality for at least two to three months and has considerable experience about a large number of members living under similar conditions, checks these estimates during his local verification and records his own estimate after due consideration. It is possible that during the verification of encumbrances, some of the assets, which the Enquiring Officer and the Supervising Officer had taken to be good, may be found to be encumbered and the estimate of the income and the repaying capacity of individual members may have to be partly revised in the light of the result of searches in the Registration offices. After the verification, an experienced officer of the department like an Assistant Registrar, working as the Reconstruction Officer, sits with a Special Committee of the bank and again examines the record in the light of such new data as are brought to light during verification. The Reconstruction Officer, if he considers it necessary, visits the village once again or the *punches* are asked to appear before the Committee at the bank office. After due consideration of the data on record and such personal examination of members as the Committee and the Reconstruction Officer consider necessary in consultation with the Manager of the bank and the inspecting clerk of the Circle the final annual *kist* is fixed. The Reconstruction Officer has been given a special direction to see that the *kist* fixed does not exceed the average repayment actually made by the member during the previous three or four years unless he is satisfied that the member has been wilfully withholding payment up to his maximum repaying capacity. While the *kist*, so fixed, may not be equal to the surplus of income over expenditure of individual members in particular year or from year to year, it is quite clear that there could not be a better and more competent body of men to fix the annual *kist* on due consideration of the best available data.

6. On a tentative basis 10 per cent. has been allowed for non-collection from retained members of reconstructed societies. It is being considered whether with a view to ensure greater safety more than 10 per cent. should not be allowed for non-collection. As the incidence of loss in investments in liquidated societies, in eliminated members and in assets like lands is likely to be appreciably greater than those in retained members of reconstructed societies, 25 per cent. of the gross estimated recovery has been deducted for estimating the net realisation.

7. *Estimate of net loss.*—On the basis of the record of reconstruction, the total of the estimated net realisation from retained members, eliminated members, lands and other assets, has been determined. On the liability side, the items include dues of the Central Banks, dues of the Co-operative Federation dues of outside depositors, dues of member-depositors, etc. The difference between the total liability and the total amount estimated to be recoverable shows the gross loss. From this gross loss certain owned resources of the society are deducted for determining the net loss of

the society. From this net loss, the arrear interest due, if any, is first deducted and the balance distributed on a *pro-rata* basis over the claims of all the creditors of the society. The proportionate loss of the Central Banks is then determined. In every Central Bank there will, in all probability, be a number of societies, which are in a position to meet all the outside liabilities, with or without, partly or wholly setting off their owned resources and most of these will be surplus societies. The remaining societies, which are unable to meet the dues of the outside creditors even after the whole of their owned resources, has been wiped off, will be deficit societies. The total of the net losses of the Central Bank in these deficit societies represents the loss of the Central Bank in its investments in the societies.

8. *Non-interest bearing assets.*—The assets of reconstructed societies and banks are of two kinds, which should be clearly distinguished from each other in any scheme of reconstruction. The scaled down dues of retained members form the most important part of interest-bearing assets of a reconstructed society, the non-interest-bearing assets being lands, dues from eliminated members, etc. In a reconstructed bank, the interest-bearing assets consist of the interest-bearing part of its investments in reconstructed societies, investments in the Provincial Co-operative Bank and in Government securities while assets in liquidated societies, eliminated members and lands belonging to the banks are essentially non-interest-bearing pending recovery. In a province like Bihar, where a large number of banks have been living partly on borrowed capital from year to year, the non-interest-bearing assets have assumed abnormal proportions. Roughly speaking, it is estimated that only about 33 per cent. of the assets of the banks is interest-bearing. While the non-interest-bearing assets shown in the balance sheet, are believed to be realisable, it is important to remember that during the period of recovery little or no interest will accrue from such assets even though an appreciable amount will have to be spent for their collection. As figures showing the incidence of non-interest-bearing assets have not so far been given in the annual reports of other provinces, it is not possible to compare Bihar with other provinces in this respect.

9. *Provision for crop loans.*—One of the main causes which has contributed to poor recovery has been the inability of the societies to provide the minimum seasonal credit needs of their members. It is well-known that a far-sighted Mahajan always advances small loans to his selected agriculturist debtors even when they default, to enable them to carry on their agricultural operations, inasmuch as unless an agriculturist is in a position to cultivate his land and grow his crops, he cannot possibly make any payment. As the scheme provides for compulsory mortgage of immoveable property of a member, it will not be open to the member to obtain credit from private Mahajans. The difficulty in obtaining private credit has been made all the greater owing to the enforcement of the Bihar Money-lenders' Act. It is, therefore, essential that due provisions should be made for giving small crop loans to the retained members pending the recovery of the scaled down dues according to the scheme. Two limits for crop loans based on due consideration of the cultivable area and other relevant matters have been provided. A member will get crop loan according to the minimum scale as long as he does not fully repay his old debts. As soon as he is free from debts, he will be entitled to a short-term loan on a larger scale, the object being to encourage him to pay off his previous debts as soon as possible.

INSTRUCTIONS FOR REHABILITATION ENQUIRY

PREFACE

In pursuance of the declaration made by the Hon'ble Minister of Development, while speaking on behalf of Government at the Co-operative Federation Congress, held on the 6th April, 1938, at Patna, an enquiry into the assets, liabilities and the repaying capacity of members of co-operative societies was started in June, 1938. Necessary instructions were issued from time to time in the form of a large number of Rehabilitation Circulars and Circular Orders which are now being issued in a convenient and consolidated form. The instructions are essentially based on the scheme which had been prepared in the department in July, 1937, and all the circulars had been issued before the present war started. No attempt has been made to modify the instructions in the light of the recent rise in prices after September, 1939.

The undersigned would be grateful if errors and omissions are brought to his notice

N. BAKSI,
Registrar,

Co-operative Societies, Bihar.

The 1st December, 1939.

PART I

PRELIMINARY COLLECTION OF DATA.

1. *List of societies and villages to be visited.*—The following lists, according to police-stations, showing relevant particulars about each item as far as they are available in the Bank office, should first be prepared :—

- (i) Working societies in Form No. 1.
- (ii) Lands held by societies } inform No. 2.
- (iii) Lands held by Banks }
- (iv) Lands mortgaged to society or Bank in Form No. 3.
- (v) Societies in which special or further enquiries are necessary.
- (vi) Liquidated societies in Form No. 4.

2. *Postponement of enquiry into certain good societies.*—(a) With a view to expedite the collection of minimum essential data for reconstruction of banks, the following classes of societies may be excluded from the enquiry for the present :—

- (i) Societies, which do not owe anything to the Central Bank, but are working with their own capital.
- (ii) Societies in which the total of the paid up share capital and deposits in the Central Bank exceed the amount borrowed from the Central Bank.
- (b) Members, who do not owe anything to the society, may not also be pressed for producing all their papers unless they willingly do so.
- (c) It may be made clear that these societies will also require reconstruction based on such enquiry and a full enquiry must be made before any fresh loans are given to such societies or members of such societies.

3. *Consolidated list of villages to be visited.*—A consolidated list, according to police-stations, of all the villages to be visited should then be prepared, on the basis of the lists referred to in the previous paragraphs, showing the various kinds of enquiries to be made in each village. The following form may be adopted in preparing the consolidated list :—

- (1) Serial number.
- (2) Name of society or village.
- (3) Liquidated or working society.
- (4) Whether the society has been audited up to the prescribed period.
- (5) Whether there is society's land in the village.

- (6) Whether there is Bank's land in the village.
- (7) Whether there is any further enquiry to be made.
- (8) Remarks.

4. After the consolidated list has been prepared, the villages, to be visited, should be marked on a Muzmulj map showing the whole area of the enquiry.

5. *Grouping of villages and consolidated programme.*—A consolidated programme showing the villages or societies in each police-station to be visited for the various enquiries should then be prepared, the villages being arranged in convenient compact groups, due regard being paid to their location on the map the nature and extent of work in each village, convenient places of halt for the Enquiring Officers, the Reconstruction Officers and the Supervising Officers, nature of communications and other considerations. It may be remembered that it may, sometimes, be more convenient to form compact groups of societies lying in more than one police-stations in the charge of the same Supervising Officer or Reconstruction Officer. More importance should be given to compactness of groups than to artificial boundaries of police-stations. Areas liable to floods should be finished in dry season. The groups in different police-stations may be referred to by different letters, e.g., A, B, C—one letter being used for one police-station, while sub-groups in the same police-station may be referred to as A(i), A(ii), A(iii), etc. Societies in each group or sub-group, in each police-station, should then be arranged in the most convenient order due attention being paid to the points mentioned above. The consolidated programme may then be drawn up in the following form :—

- (1) Serial number.
- (2) Police-station and thana number with distance and direction from police-station.
- (3) Group number (A, B, C or D, etc.).
- (4) Name of the society or the village.
- (5) Whether liquidated or functioning.
- (6) Number of members :—
 - (a) Borrowing.
 - (b) Non-borrowing.
 - (c) Total.
- (7) Society lands :—
 - (a) Area.
 - (b) Number of plots
- (8) Bank lands :—
 - (a) Area.
 - (b) Number of plots.
- (9) Number of miscellaneous enquiries.
- (10) Convenient place of halt for the Enquiring Officer or the Reconstruction Officer.
- (11) Name of person who will provide accommodation.
- (12) Remarks.

6. *Relevant data for each group to be kept in a separate Nathi.*—After the programme has been prepared relevant extract copies of all records relating to the above matters which have to be enquired into in the villages within a particular group or sub-group shall be separately prepared and kept in separate Nathis with extract copies of the consolidated programme, group by group. The Nathis will contain, among other matters the following notes and records :—

- (a) In the case of functioning societies, notes about members against whom award proceedings may be pending; in the case of liquidated societies, the whole liquidation record, complete with all necessary papers.
- (b) In the case of lands held by societies or banks, an extract copy of the Land Register together with sale certificates, in original, or a separate note about them, when such certificates are not available, together with a note showing to what extent the lands have been in possession of the societies or the banks.

- (c) Relevant information about mortgaged lands together with mortgaged bonds.
- (d) Full explanatory notes with necessary records showing exactly the points on which further enquiries are necessary.

Extract copies of all notes relating to the above matters together with necessary records should be placed in a separate file on the top of which an extract copy of the programme for each group or sub-group will be placed.

7. *Allotment of Work. Use of the Mujmuli Map.*—(a) As all the relevant records and the detailed programme for every item of work to be enquired into will be kept ready, the Officer-in-charge will be in a position to utilise the services of additional staff immediately on their arrival. At present, a considerable amount of time is being unnecessarily wasted over the preparation of a separate programme for each item of work and supply of relevant information and records to the additional staff before they are in a position to go out in the field. With the consolidated programme, hanging next to the map showing the locations of the villages to be visited, an intelligent Officer-in-charge should be in a position to explain the nature and extent of the work to be done by an additional staff when deputed and to hand them over the relevant files and extract copies of the programme within less than an hour of their arrival.

(b) Having prepared the consolidated programme and collected all necessary data and records that are available in the bank office for facilitating the enquiry the Officer-in-charge will allot a suitable number of groups or sub-groups to such field staff as may be available, bearing in mind the great importance of deputing them in a compact area, which can be most efficiently and economically supervised. The allotment of different groups of societies to different Enquiring Officers and Supervising Officers should be shown in the map and extract copies of the map, prepared on a tracing cloth, may be supplied to Enquiring and Supervising Officers. The date on which the enquiry is taken up in any particular village with a society will be written on the map as soon as the enquiry starts and the date of completion will be shown as denominator of the date of the commencement of enquiry, so that a glance at the Mujmuli map would enable the Enquiring Officer or the Supervising Officer to find out the progress of the enquiry from society to society in a particular area.

8. *Submission of consolidated programme to the Registrar.*—The Officer-in-charge will send a copy of the consolidated programme to the Registrar, Co-operative Societies, with a report on the following points:—

- (a) What difficulties in the preparation of the programme and in collecting all necessary data and records he has experienced and how he has sought to solve them.
- (b) How he has distributed the existing staff.
- (c) What extra staff, with or without additional Supervising Officers and Reconstruction Officers, are required to enable him to complete the work in a given time.
- (d) The approximate date by which the existing staff are expected to complete the work. He should give details of his estimate on the basis of the average outturn per Enquiring Officer or Supervising Officer.

9. A map showing the location of the villages to be visited and the consolidated programme will be kept hanging in the office of the Officer-in-charge.

10. *Basis of classification.*—It will be seen that in form 'A', in which details of lands are to be recorded, cultivable lands have been described as *bhadai*, *rabi* and paddy, each with three classes, namely, Class I, Class II and Class III. This classification of lands is available in the settlement records of Chota Nagpur and Santal Parganas but in the case of earlier settlements in the rest of Bihar, the basis of classification is different. In the settlement records of North Bihar and South Bihar, lands are generally classified as *bhit* and *dhanhar* and the settlement records do not show any further classification of *bhit* or *dhanhar*. As lands form the most important assets of members of agricultural societies and as the total income of such members is mainly determined by the yield of such lands as they may possess, it is essential that for a correct estimation of the assets and the repaying capacity of such members, standard schedules showing the average valuation of different classes of lands and the average yield of standard crops from different classes of lands should be carefully prepared. This is all the more necessary as most of the field staff have had no settlement experience. With a view to secure comparable data, collected by different Enquiring Officers, it is necessary that the classification of the plots within a holding and their valuation should be based on standard schedules. The valuation of different

classes of lands is made according to a schedule prepared by the Reconstructor Officer in consultation with the bank authorities and approved by the Collector of the district. Income from different classes of lands is also calculated according to a standard schedule of average yield of different classes of lands, similarly prepared and approved by the Collector. The money value of the average yield of different crops should be calculated on the basis of the average price during a sufficiently long period after the present depression set in. The yield should be shown in pucca maunds per acre and the valuation in rupees per acre. After an inspection of the fields and necessary enquiries according to the instructions, the Enquiring Officer will come to a finding regarding the approximate rate of yield, in pucca maunds per acre, for a particular plot and on the basis of this finding of yield, will classify the plots as first, second or third class with reference to the approved schedule of valuation. If on inspection of such sale deeds as are available in the village and after making oral enquiries, the Enquiring Officer finds that the actual average valuation of different classes of lands in the village materially differs from the prescribed schedule, he will submit a concise self-contained report to the Officer-in-charge for orders as to whether there should be any deviation from the standard schedule. After the classification of different plots has been determined in the manner laid down above, the value of particular plots, or of a holding, can easily be calculated. Similarly, after the classification of lands has been fixed, there should be no difficulty in estimating the average income according to the standard schedule of income. Schedules of average valuation, of average yield and of average income should be ready before the enquiry commences in any particular area.

11. *Schedule for average valuation of different classes of lands.*—The schedule for average valuation of different classes of lands will be prepared in consultation with the Bank authorities and Revenue Officers like Collectors, Sub-divisional Officers, Land Acquisition Deputy Collectors etc., on due consideration of the following points:—

(a) Figures obtained from Registration offices about the price of different classes of lands in different years.

It will be advisable to discuss the significance of the figures with Sub-Registrars. It should be borne in mind that sometimes the prices shown in the conveyances are not necessarily the prices that are actually paid. It should also be remembered that a correct classification of lands and the prices of different classes of lands are not available in the Registration Offices. The figures at the Registration Offices can only indicate the approximate average price and the examination of the prices paid for lands during a year or two will indicate the trend of prices, i.e., whether the prices are falling or rising. *What we require is the average price for different classes of lands.*

(b) Opinion of the Bank authorities and Revenue Officers based on their experience derived from day-to-day contact and general knowledge.

(c) Land Acquisition records, Cess revaluation records, if any, proceedings for land acquisition or cess revaluation be pending in the Collectorate.

It should be borne in mind that the average prices ascertained on due consideration of the above points would give only a general indication of the limits of prices in particular areas or particular villages. It is well-known that the price of different classes of lands may vary from village to village. Obviously, lands near markets, Railway stations, towns or near similarly advantageous positions, will carry better value than lands in a small village in the inaccessible regions of the same area.

12. *Average yield from different classes of lands.*—As a large number of crops may grow from year to year in the same plot or same class of land, the first essential is to record the commonest crop combination or combinations for each class of lands. For example, the commonest crop combinations would, in several areas, be as follows:—

- | | | |
|-------------------------------------|--------------------|---|
| (a) <i>Paddy lands. First class</i> | . May be Ekfasla . | . If Ekfasla—
A heavy Aghani paddy usually with a catch crop. |
| | May be Dofasla . | . If Dofasla—
1st crop—Bhadai, usually Maize, except in waterlogged areas.
2nd crop—Aghani paddy usually with a catch crop. |

- (b) *Paddy lands. Second class.* Usually Aghani paddy possibly with a catch crop like Khesari in irrigated areas.
- (c) *Paddy lands. Third class.* One crop—Light Bhadai or Light Aghani paddy without a catch crop.
- (d) *Rabi lands. First class.* Dofasla 1st crop—Maize.
2nd crop—Barley, gram or wheat (wheat in comparatively better class of lands).
- (e) *Rabi lands. Second class.* May be Ekfasla or Dofasla. The first crop being Madua, Maize or Jawar; the second crop being generally a rabi crop other than wheat.
- (f) *Rabi lands. Third class.* Usually Ekfasla With only coarse Bhadai crop like Madua, Bahar, Maize, etc.

Average yield.—The figures below show approximate yields per acre for an imaginary area to illustrate the relevant points. They should not be mechanically followed for preparing the schedule in any particular area.

First class paddy lands	15 to 16 maunds of paddy and 3 to 4 maunds of Khesari as catch crop.
Second class paddy lands	6 to 10 maunds of Aghani paddy.
Third class paddy lands	4 to 5 maunds of Bhadai or Aghani paddy.
First class Rabi lands	First crop—Maize 7 to 8 maunds. Second crop—Wheat 6 to 8 maunds.
Second class Rabi lands	First crop—Light Bhadai 3 to 4 maunds of Madua or Maize. Second crop—Barley 5 to 6 maunds.
Third class Rabi lands	One crop—4 to 5 maunds of Maize, Jaw, Madua, etc.

13. *Lands in which special cash crops are grown.*—Special notes should be made by the Enquiring Officers and the Supervising Officers in respect of lands, which are capable of growing sugarcane, tobacco, chilly ginger, onion and other cash crops. In the case of lands growing sugarcane, the area potentially capable of growing sugarcane should be determined on due consideration of the limits of irrigated zones as indicated by irrigation arrangements, e.g., canal water, Tal, Ahars, etc. The Enquiring Officers and the Supervising Officers, on due inspections of the lands and on due consideration of the location of the source of irrigation, should come to a finding as regards the area, surrounding the plots with standing sugarcane, which is capable of producing sugarcane. In ascertaining what should be the average yield and income from lands capable of producing sugarcane, the following considerations should be borne in mind:—

- (a) Sugarcane can only be grown once in three years—so that the average annual income will be approximately one-third of the estimated income from the sale of sugarcane produced in one year.
- (b) The cost of cultivation of sugarcane is very heavy and sugarcane exhausts the fertility of the soil with the result that crops of sugarcane cannot be raised continuously from a certain area for a number of years unless there is intensive manuring. Provision for the application of intensive manure necessarily adds to the cost of cultivation.

NOTE.—If there be any canegrowers' co-operative society, the records of that co-operative society should be consulted.

14. *Schedule of average income from different classes of lands.*—I have explained above the manner, in which the average yield in terms of the commonest crop combination is to be determined from different classes of lands. After the schedule showing the average yield from different classes of lands has been prepared, the average income from different classes of a Sub-divisional Office during this period are as follows :—

A statement will be prepared showing the prices of the standard crops, shown in the schedule of yield during the post-depression period i.e., from the year 1930 to 1938. In view of the fact, however, that the fall in prices of agricultural produce at the present depression set in has been abnormal and that there is every reason to believe that the present low level of prices is likely to continue more or less on a permanent basis, it is desirable that the average price of different crops during 1929-38 should be taken as the basis for calculating the income from different classes of lands. As an illustration, let us assume that the prices of maize reported by the Manager of a Sub-divisional Office during this period are as follows :—

	Per rupee.
1929	15 seers.
1930	16 ..
1931	17 ..
1932	23 ..
1933	24 ..
1934	20 ..
1935	22 ..
1936	23 ..
1937	19 ..
1938	18 ..

It will be seen that the average price of maize during the period under review comes to about 19 seers per rupee or to about Rs. 2 per maund. Now, according to paragraph 12, the average yield of an acre of third class Rabi land is about 5 maunds of maize. The gross income from an acre of land will, therefore, be about Rs. 10. The price of seed, when no hired labour is employed, should be deducted from this income. If the seed requirement of an acre of maize is taken to be half a maund, the price of half a maund of maize or Re. 1 should be deducted. In the case of a member, who employs hired labour (as in the case of a widow belonging to one of the higher castes—say Brahmin) then in addition to the cost of the seed, it will be necessary to allow for the cost of labour for cultivation. The cost on account of labour will be different in different cases. It will be less when only the human agency is hired than when the plough, the bullocks and the Kamias are all hired. The Enquiring Officer, who has to live in the village for at least 3 to 4 days, should have no difficulty in assessing, within reasonable limits of accuracy, the cost of cultivation according to the merits of each case.

15. *Arrangements to be made by the bank before the arrival of the Enquiring Officer.*—(i) It is essential that the Enquiring Officer should either live in the village where a society exists, or at a place at a distance of not more than one or two miles from the place of enquiry. This is necessary to ensure that the best time for the enquiry, which will be in the early morning, is fully utilised and also to avoid undue exertion on the part of the enquiring officer while returning to camp after the enquiry during the hotter part of the day, specially during the summer months.

(ii) If the maximum amount of efficient work is to be taken from the Enquiring Officers, who would mostly be strangers to the locality, suitable arrangements for their accommodation (a room for living and a place for cooking) should be made before the Enquiring Officer visits a village. For this purpose, the consolidated programme should show the name of the owner of the house who will provide accommodation. The bank executives, the Manager and the other field staff of the bank, should visit these villages and should satisfy themselves that the accommodation provided is clean and is otherwise suitable. In the area of one bank, where the enquiry was taken up before the inspection of the accommodation by the bank staff, it transpired in certain cases, that when the enquiring officer reached the village, the member who

was expected to provide the necessary accommodation, expressed his inability to do so while in other cases, the accommodation offered was not found to be suitable, the result being that a day or two of the time of the enquiring officers was wasted and in some cases they had to live under trees for a day or two. It should, therefore, be in the interest of the bank to expedite the enquiry by making the enquiring staff as comfortable as practicable under rural conditions.

(iii) Another great difficulty, which is causing undue delay in the enquiry in certain areas, arises from the failure on the part of the members to promptly produce the necessary records like Khatians rent receipts, Kebalas, mutation records, etc., and in getting the necessary permission of the landlords' Amlas for consulting the Jama-bandi registers and other records. This kind of delay can be reduced to the minimum if while the bank staff are out for inspecting the accommodation before the enquiry commences, they collect, as far as practicable, all the necessary data and the necessary records like Khatians, rent receipts, etc., and leave them with the Sarpanch of the society with instructions that all the members should be present on the expected date of visit by the Enquiring Officer according to the approved programme. During these visits the bank staff, if necessary with the assistance of the local directors and others public supporters may also approach the Zamindars' men with the request to give the necessary facilities for consulting their records. If this kind of preliminary spade work be done with care, patience and thoroughness, the speed of the enquiry can be increased to the maximum.

(iv) Another most fruitful way of securing local help and guidance would be for the bank directors to divide the whole area into suitable number of *Halkas*, each *Halka* being allotted to one or more directors, resident within the *Halkas*. The duties of these directors would be to enlist the support of the local leaders known for their honesty, interest and public spirit and to keep in constant touch with the Enquiring and the Supervising Officers while the enquiry is going on in their *Halka* giving such assistance as they may require in explaining the scheme of the enquiry, in winning public confidence by arranging lectures, meetings and discussions, by inducing Zamindars to give necessary facilities and by giving general advice and suggestions regarding the valuation of, and the income from, different classes of lands in the locality, different systems of the land tenure, the nature of the crops grown, the usual rotation of crops and other relevant matters. The department hope and trust that the local directors will take a personal interest in these enquiries and would help in getting the maximum amount of work done by the enquiring staff by making them as comfortable as possible. A copy of the different *Halkas* allotted to different directors should be sent, in duplicate, to the Assistant Registrar who will send a copy to the Registrar.

16. *Responsibility for preparation of records.*—While it is fully realised that without the assistance of those primarily concerned with the administration of the bank and of the village members in particular, the enquiry cannot be completed within a reasonable period of time and the data collected cannot be regarded as accurate, it may be made clear that the preparation of the records of the enquiry, like filling the forms, requires a certain amount of technical knowledge and a good deal of responsibility rests on the Enquiring Officer who has to certify about the correctness of each of the data recorded in the forms. While all forms of assistance help and guidance would be appreciated by the Enquiring Officers and the department, the responsibility for filling up the forms in such manner as the Enquiring Officers may deem fit, subject to the general instructions of the department, must rest solely on the Enquiring Officers.

17. *Assistance to be given by other departments, the Bihar Landholders' Association and other organisations.*—Government are issuing instructions to the District Magistrates and officers of other departments to give every assistance to the Enquiring Officers. The choukidars have been directed to attend the enquiry with a warning that disciplinary action will be taken if a choukidar intentionally withholds any information or makes any false statement. Full facilities for consulting records in the registration offices and in the Collectorate record-room will be available. At the request of the department, the Bihar Landholders' Association have issued general instructions to the Honorary Secretaries of their district offices for securing every facility from their members in the district. The landlords are sure to appreciate the fact that reconstruction of societies will facilitate the collection of rent. A copy of the letter issued by the Bihar Landholders' Association to their constituent members is appended to these instructions (*vide* Appendix V). Officers experiencing any difficulty are requested to get in touch with the representatives of the Association in the district.

PART II

COMMENCEMENT OF THE ENQUIRY

18. *Papers to be taken by the Enquiring Officers.*—Before proceeding to the village for enquiry the Enquiring Officer should take with him the following papers and records among others :—

- (i) *Nathis* of papers referred to in paragraph 6.
- (ii) An extract copy of the *muzmul* map on which the villages to be visited are marked.
- (iii) Certified copies of transactions between Central Banks and Unions and the societies from the last date of audit up to the date of reconstruction (31st December or 30th June as may be fixed).
- (iv) Copies of maps of villages with societies.
- (v) Sufficient number of forms, stationery, etc.

N.B.—(1) The Honorary Secretaries of all Central Banks and Unions are requested to ask their Managers to supply to the Enquiring Officers a copy of transactions, between their Central Co-operative Banks and Unions and the societies from the date of last audit up to 31st December or 30th June, whichever be the latest date, with a certificate as noted below :—

“Certified that I have compared the transactions, as copied, with the books of the bank and that the above statement contains a complete and correct list of the transactions between the
Central Co-operative Bank and the _____ society between
the last date of audit and 31st December, 19 /30th June, 19 .

Manager
Head Clerk.”

Enquiring Officers should not be called upon to attend offices of Banks for taking copies of transactions. Ordinarily, these statements should be taken by the Enquiring Officers when they proceed from the bank office to the field. In other cases, they may be sent to Enquiring Officers just before the enquiry starts at the village through peons or Inspecting Clerks concerned.

(2) A copy of the details about lands held by societies and banks should be taken from the bank as far as the data are available and relevant extracts given to the Enquiring Officers concerned. In cases, where the data are not up-to-date or where no data about lands held by societies and banks are available in the bank office, the Enquiring Officers should make a complete inventory of all such lands during their local enquiry. Even where the records of lands held by societies are available in the bank office, the Enquiring and Supervising Officers should carefully verify, at the village, whether the list is up-to-date and make it up-to-date, when it is not.

19. *Steps for winning the confidence of the villagers.*—On arriving at the village, the enquiring officer, accompanied by the Inspecting Clerk or a representative of the bank concerned and such public workers as may be available, will call on the leaders of the village and informally explain the object of the enquiry. After the local leaders have been satisfied, a meeting of the members and non-members of the village should be called and the local leaders should be encouraged to deliver the first speeches, introducing the enquiring staff. After the introduction of the enquiring staff by the local people, the enquiring officer should explain, in the local vernacular, the object of the enquiry laying special stress on the advantages noted below :—

Those who agree to the conditions laid down in the rehabilitation scheme will be given several concessions including the following :—

- (a) Reduction of dues in deserving cases subject to regular payment of *kist*.
- (b) Realisation of the dues in suitable instalments within their repaying capacity.
- (c) Suitable remission in rate of interest on outstanding loan in cases of those who regularly pay their *kist*.
- (d) Provision of future loans at a low rate of interest.
- (e) After reconstruction, steps will be taken to secure an all round improvement of the villages by agricultural improvement, cattle welfare, medical relief and village sanitation, education facilities and other works connected with rural development.

(f) Members who have defaulted in the past, will be given suitable concessions on the lines noted in items (a), (b), (c), (d) and (e) provided they accept the conditions of the rehabilitation scheme and pay revised instalments according to their repaying capacity.

(g) Drastic action will be taken against dishonest and wilful defaulters.

The villagers should be encouraged to speak out their minds and express their doubts and fears and when they do so, the points raised by them should be explained with patience and sympathy until the Enquiring Officer is in a position to win their confidence.

The points may have to be informally repeated to individual villagers during the stay of the Enquiring Officer at the village.

20. *Convenience of members to be considered.*—In selecting the time for the enquiry, due consideration should be shown for the convenience of the villagers. Usually all the members as well as others collect in a crowd causing undue confusion and undue detention of a large number of persons, who cannot be dealt with at the same time. As the enquiry will take about two to three days, the Enquiring Officer may call one to three persons at a time for the preliminary enquiries so that others may be free to do their usual work. During summer, the best time for work would be 6 A.M. to 11 A.M. and then from 4 P.M. to 8 P.M. But during winter and rains, the Enquiring Officer can work the whole day say from 8 A.M. to 6 P.M. with short breaks for meals.

21. *Audit before the enquiry.*—(a) The scheme of reconstruction of a bank will have to be based on the audited balance-sheets of all the societies under the bank on a particular date. In the case of those societies, the accounts of which have not been audited, audit of the accounts as they stood on the 31st December or 30th June, whichever be the last date preceding the enquiry, should first be done and a certified balance-sheet as on the 31st December or the 30th June, as the case may be, be prepared.

(b) With a view to save time the audit should be further simplified and only questions 1 to 7, 9 to 12, 14, 16 to 18, 32, 33 and 35 in the audit note form for the societies with unlimited liabilities need be answered until further orders.

(c) As usual three copies of the audit notes of primary societies should be prepared. One copy of this audit note should be sent to the Assistant Registrar and one copy to the Central Bank concerned. The Assistant Registrar and the Central Bank authorities should take immediate action where necessary when cases of serious irregularities and embezzlement are reported in the audit note. The third copy, meant for the society, should be tagged on to the Rehabilitation *nathis* of the society.

22. *Forms for recording assets and liabilities.*—Details of assets and liabilities of every member shall be recorded in the following forms :—

(a) Form 'A'—for immoveable properties and income.

(b) Form 'A/1'—for moveable properties and income.

(c) Form 'B'—for liabilities and charges thereon.

The instructions for filling forms 'A', 'A/1' and 'B' will be found in Appendices I, II and III, respectively. Special attention should be paid to careful blocking (*vide* instructions for filling columns 5, 6, 7 and 8 of form 'A').

23. *Consolidated statement of assets liabilities and repaying capacity.*—A consolidated statement showing the details of assets, liabilities and repaying capacity of all the members of a society would be prepared in form 'C' as per instructions recorded in Appendix IV. This statement is an abstract, prepared from the data recorded in forms 'A', 'A/1' and 'B' about each member of the society. The only new data to be recorded in this form will be in columns 15 to 20. To facilitate reference, the names of members will be written in this form in the order given in the Haisiyat Register.

24. *Form for recording lands held by banks and societies.*—(a) Details of lands held by societies or banks should be recorded in form 'A'. In place of the name of the member, the name of the society or the bank, as the case may be, may be recorded. There should be a separate *nathi* of forms 'A' containing details of the lands held by a society. There should be a separate *nathi* of forms 'A' containing details of all lands held by a bank.

NOTE.—(i) In respect of lands held by societies and banks, the valuation and the estimated income from these lands will have to be taken into account at the time of preparation of the Reconstructed Balance Sheet of the society and the bank. *It should be noted, however, that in the case of lands owned by the bank and societies, the average income actually realised should be taken into consideration after making due allowance for payment of rents and cesses.*

(ii) As already pointed out in Note (2) under paragraph 18 the Enquiring and the Supervising Officers should not blindly confine their attention to the list of lands, belonging to societies and banks, prepared on the strength of the data available at the bank office. It should be their duty to verify, by local enquiries, whether the list, prepared in the bank office, is complete or not and where it is not complete, to make it up-to-date.

25. *Enquiry into liquidated societies.*—(a) In the case of liquidated societies, where the amount of loss is likely to be considerable, the enquiry should be made by a responsible officer not below the rank of an Inspector or a Junior Assistant Auditor. It is advisable that the Assistant Registrar, or an officer of similar standing, should be entrusted with this work whenever practicable. Before proceeding to the village, the officer entrusted with the enquiry of liquidated societies, should carefully go through the liquidation records in consultation with the Liquidator, the Manager of the Bank and the Inspecting Clerks of the Circles, collect as much data as possible from the bank office and prepare a brief history of the case. A peon or an Inspecting Clerk may be sent, in advance, to collect the members with a view to save time. The Officer should, whenever possible, be accompanied by the Liquidator and the Manager and/or the Inspecting Clerk. The details of the assets and liabilities, etc., of every member should be recorded in forms 'A', 'A/1', 'B' and 'C' omitting the column for 'repaying capacity', in form 'C', as far as the data are available and the Enquiring Officer should give an estimate of probable recovery from each member, after due consideration of the assets and the liabilities of each member.

(b) During this visit, the officer should explain to the members the benefits of the rehabilitation scheme and try to reconstruct the liquidated society, if the members show a reasonable attitude and if such a scheme be feasible.

(c) It is quite possible that one or two members may not be present, but their absence should not justify unnecessary waiting or another visit. As far as possible, the record should be completed by enquiries from other members and non-members of the village and a second visit should be avoided except where it is absolutely necessary.

(d) From the gross amount expected to be recovered, a deduction on account of cost of collection, will have to be made, for determining the net amount expected to be available to the bank and for incorporation in the reconstructed balance sheet of the bank or union.

26. *Supply of Forms.*—Enquiring Officers should submit indents for forms at least ten days in advance to the Supervising Officers, who would give at least a week's notice to the head office or the Assistant Registrar. In the indents the number of different kinds of forms required should be clearly stated.

Enquiring Officers should be careful in avoiding the waste of forms. Supervising Officers will make a point of satisfying themselves whether forms have been properly used during their inspections.

27. *Difficulties.*—Supervising Officers will try to explain the difficulties of Enquiring Officers on the spot as far as possible without initiating any correspondence. When a reference to the bank is required, the matter should be settled by personal visit and by personal discussion. Correspondence should be initiated only when it is unavoidable.

28. *Order Sheet.*—An order sheet should be attached to each record. The record should show briefly the daily work done in connection with the enquiry from the time and the date when the work is taken up. The forms for each member should be tagged together in the form of a separate *nathi*.

29. *Report of Enquiring Officers.*—The *nathis* of different members should be arranged in the order in which they occur in form 'C'. The various records prior to submission to the Special Officer, should be tagged in the following order:—

- (a) Order sheet.
- (b) Consolidated statement of members (Form C).
- (c) *Nathis* of different members arranged in the prescribed order.
- (d) Village map with the plots belonging to the members duly marked and classified.
- (e) Audited balance-sheet up to the date of reconstruction.
- (f) General Report.
- (g) Correspondence, separately tagged together, about the society.

30. *Date of completion of enquiry.*—The date of completion of enquiry will be the date of receipt of completed *nathis* by Supervising Officers from Enquiring Officers.

31. *Supervision.*—As soon as the record is received, the Supervising Officer will record a note on the order sheet showing the date and time of receipt after checking that all certificates have been correctly given and signed and that the *nathi* contains all necessary records. At least 50 per cent. on the records of members of the first society will be checked by the Supervising Officer on the spot. Later on, it will be reduced to 20 per cent. in the case of the second society of the same Enquiring Officer supervised by the same Supervising Officer. It is expected that after two societies have been checked in this way, a reasonable standard will be attained and the Supervising Officer will be able to reduce his check to 10 per cent. of members. A society will take 3 or 4 days for the enquiry and at the initial stage of the enquiry, the Supervising Officer should visit each Enquiring Officer at least once before the enquiry is over. Later on, his local verification may have to be done sometimes during the enquiry and sometimes after the enquiry is over according to the circumstances of each case. The Supervising Officer will record in the order sheet a brief note of supervision showing the nature and extent of checking done.

PART III

VERIFICATION

32. *Search at the Registration office.*—The Supervising Officer, after verification, will send the record to the office of the Assistant Registrar for verification of encumbrances by the Verifying Officer. The Verifying Officer will record the result of his search in the prescribed columns in forms 'A' and 'B' signing and dating each form in token of verification. He will also record a note of verification in the order sheet. Relevant details, for which there is no space in the prescribed column, may be recorded in the order sheet, and in complicated cases, a separate note may be attached.

33. *Duration of search.*—(a) The search should cover 12 years from the 1st January, 1926, for registered encumbrances in respect of both simple and usufructuary mortgages in the case of all the immoveable properties whether already mortgaged to the society or not.

(b) The genealogical table in form 'A' and the remarks therein by the Enquiring Officer and the Supervising Officer should be examined to see whether the member is the recorded tenant and whether he is in the possession of the lands. If it is found that the member is the son or nephew of the recorded tenant the encumbrances, if any, created by the recorded tenant, should be ascertained.

(c) *Registers to be consulted.*—There are two index registers, I and II. Index II, which contains names of villages, should first be consulted for tracing the village required. Index No. I should then be examined for searching the names of members in the list of executants.

(d) Officers of the department are empowered to search at the Registration offices free of cost like Kanungoes, employed on Land Acquisition work. A private party is required to file a separate application for each item. Separate applications for each item are not required to be filed in connection with this enquiry, under rule 37, clause (2) at page 106 of the Registration Manual.

(e) Difficulties should be referred to the Assistant Registrar for solution in consultation with the District Sub-Registrar.

34. *Exclusion from search of certain matters.*—Enquiries into the encumbrances of the following classes of members may be omitted for the present :—

- (i) who have been excluded from this enquiry under paragraph 2;
- (ii) whose immoveable properties have been sold;
- (iii) whose dues to the society do not exceed Rs. 25.

35. Until further orders, only 10 per cent. of the records of the enquiry should be subjected to verification through enquiries at the registration offices. The Officer-in-charge of such enquiries should see that, at least, one record of every Enquiring Officer, working in an area of a particular bank, is fully verified. The records of the enquiry made by different Enquiring Officers should be sent for verification at the Registration Offices in rotation so that at least one record of each Enquiring Officer is verified until a second record of an officer, one of whose records has already been verified, is taken up.

36. *Local Enquiry by Verifying Officers.*—In certain cases it may happen that a holding or a part of a holding, included in the asset statement (Form 'A') is found to have been sold or mortgaged during search at the registration office which will, however, not provide any information as to whether the mortgage has been subsequently redeemed. In the case of sale, the value and the income from the property will have to be deducted while in the case of mortgage, it will have to be ascertained by local enquiry whether the mortgage has been redeemed. The Verifying Officer will let a number of such records accumulate till all the records of a compact group of societies have been received and verified. He will then pay a visit to the area and make all the necessary enquiries in one visit. After the local verification is completed, the Verifying Officer will make necessary entries in the remarks column of the relevant forms and will also record a note regarding the action taken by him in the order sheet. The record will then be sent to the Reconstruction Officer for disposal.

PART IV

RECONSTRUCTION

37. Reconstruction will be done according to the instructions contained in the Rehabilitation Circular No. 10 of 1938, dated the 2nd September, 1938, which has been separately printed.

APPENDICES

APPENDIX I.—INSTRUCTIONS FOR FILING FORM A

Main heads—

- (a) Lands may be classified as follows according to the nature of interest :
- (i) Proprietary or tenure like Mokarari.
 - (ii) Leasehold or Thika.
 - (iii) Raiyati.
 - (iv) Mortgage with possession.
- (b) House properties.
- (c) Miscellaneous :—
- (i) Fisheries.
 - (ii) Jungle rights.
 - (iii) Grazing rights.
 - (iv) Phalkar, etc.

In the case of proprietary rights or tenures, there may be rent-paying, as well as Bakasht lands, which have got to be separately dealt with. Bakasht lands have to be classified plot by plot like Raiyati lands by determining the valuation and income. Bhaoli and Nakdi lands have to be differentiated and difficulty is likely to arise in case of Bhaoli lands. Land temporarily cultivated for cash or produce, should not be taken into account, but a note in the remarks column may be made about it.

House properties.—It should be noted whether the building is pucca, katcha, titled or *phus*. In the case of pucca buildings the approximate length and breadth should be noted in the remarks column. *Phus* huts may not be taken to be worth anything at all. In areas near towns and municipalities the opinion of the local Engineer should be taken regarding the valuation of pucca buildings and shops.

Miscellaneous.—The extent of the property and its location should be indicated. *Baghs* (orchards) like banana plantation, mango groves, lichi gardens, etc., when covering the whole or part of a plot should be indicated in the remarks column. Any item of the immoveable properties, which cannot be classed as lands or house properties may be included in miscellaneous with necessary concise details.

Column 2.—This column is for recording the tauzi number of the village and the share of the member. In this connection, it may be remembered that a member may have immoveable properties with proprietary right in more than one villages and that there may be more than one tauzi in the same village. In case of a member with properties in more than one village, the details should be given village by village and in other cases, tauzi by tauzi. For determination of the share of the member, avoid direct questions and draw a genealogical table on the back of Form A, or in column (1) if space permits, showing the recorded tenants or proprietor or tenure-holder and the relationship and share of the member. In the case of a joint Hindu family of which only the *karta* is recorded as a member, record a note in the remarks column, showing whether the loan was taken for legal necessity and/or whether other co-sharers were sureties or not.

Column 3.—Record the number or numbers of the Khewat and the Khata in this column according to the villages or tauzis as the case may be.

Column 4.—The number of the plots, arranged tauzi by tauzi and Khata by Khata, should be recorded in this column one plot coming under the other. After examining the Khatians and the rent receipts and such other records like Kebalas, mutation records, Zamindari records, etc., the Enquiring Officer will come to a finding as to which plots are owned by the member partly or wholly and enter these plots, arranged according to tauzi and Khatas in this column.

Columns 5, 6, 7 and 8.—After column 4 has been filled up, the Enquiring Officer will carefully mark the plots on the village map with a sharp red pencil. Accompanied by all the members, the village chowkidar and one or two influential person of the village, the Enquiring Officer will then proceed with the map for inspecting the plots, starting from one corner of the village—say north-west. After due inspection of the lands and after making enquiries from the members and others regarding the average yield from the different plots in different parts of the village, the Enquiring Officer will divide the lands into blocks containing lands of similar quality. Blocks will

be marked lightly in lead pencil on the map and will show the different classes of lands in the village. After the blocks have been marked, the Enquiring Officer will return to his camp, record the area of individual plots in the sub-columns of columns 5, 6 and 7, if the plots are found to be cultivable. In the case of lands covered by orchards, Kharor, tanks, etc., which are not cultivable, the area will be entered in column 8, which is for miscellaneous items. After the areas of all the plots have been entered in columns 5, 6, 7 and 8 a total, showing the classified cultivable area and miscellaneous area of each Khata, will be struck. The income and the value of cultivable area of each Khata will be calculated on the basis of the classified area of that Khata and not plot by plot. In the case of the miscellaneous area, a separate record in column 8 for each plot will be necessary for obvious reasons. In Chota Nagpur and Santal Parganas where the classification is given in the Khatian, blocking will not be necessary.

Column 9.—Revenue, rent, cesses and taxes.—In this column the revenue of Zemindari lands, rents, cesses and taxes—like Chowkidari taxes may be shown. A running total will be shown Khewat by Khewat and Khata, by Khata.

Column 10.—Record the gross income Khata by Khata and plot by plot in the case of miscellaneous lands (column 8) and Khewat by Khewat in the case of Zemindari interest.

Column 11.—Record the net income after deducting the items in column 9 and cultivation expenses as follows:—

- (i) Cost of the seed.
- (ii) Cost of the hired labour if and when employed.
- (iii) Cost of irrigation.

Column 12.—Record the valuation of the properties as classified according to main heads,

Columns 13 and 14.—These columns are to be filled up by the Supervising Officer.

Columns 15 and 16.—These are meant for remarks of the Enquiring Officer and the Supervising Officer.

Column 17.—After the enquiry is completed, records will go to the Verifying Officer, who will conduct a search at the registration offices and in column 17, will record his report of verification.

Matters of special interest.—Any other matter not provided in the form, but which in the opinion of the Enquiring Officers or of the Supervising Officers should be reported, may be recorded at the bottom of the form if there be space or in the general report.

APPENDIX II.—INSTRUCTION FOR FILLING FORM A/1—MOVEABLE PROPERTIES

Column 1.—Main heads:—Moveable properties may be classified as follows:—

- (a) Cattle.
- (b) Vehicles.
- (c) Investment.
- (d) Miscellaneous.

(a) *Cattle.*—The number of milch cattle like cows, she-buffaloes, etc., may be separately shown. The number of pedigree bulls, bullocks and cows, if any, may be indicated in column 16 for remarks. The number of (i) bulls, (ii) bullocks, (iii) cows, (iv) calves, (v) sheep, (vi) he-buffaloes, (vii) she-buffaloes and (viii) ponies, may be separately shown and the rest, like goats, ass, etc., described as miscellaneous. The number of she-buffaloes, cows and sheep will have to be correctly determined and the income from them correctly ascertained in case of special societies like those of Goalas, Gaddis and Gareris.

(b) *Vehicles.*—*Carts, traps, ekkas, palanquins, etc.*—The most important item under this head will be bullock and buffalo carts, particularly in the areas near towns where they can be regularly used for hire.

(c) *Investment.*—Like Post Office Savings Bank deposits, Post Office Cash Certificates, Government papers, deposits in banks including co-operative societies and the co-operative bank, money lent on simple mortgage or handnote, if produced and acknowledged by debtors.

(d) *Miscellaneous*.—Stock in trade, like shops, machineries like cane crushing machines or Ata making machines, lending business in cash or kind, if proved by records, to be inspected by the officers.

In estimating the income from cattle producing milk for sale, the cost of feeding the cattle, the average life of the cattle, and the cost price may be taken into account. In estimating the income from bullock and buffalo carts, traps, ekkas, etc., it should be remembered that the animals have to be fed on grains for hard work required to be done. The cost of feeding the cattle and the cost of depreciation of the vehicles, the average number of days in a year when work on hire is available will have to be considered. As already stated the proximity of the village to towns and important grain centres would materially determine the income from vehicles. Usually it may be taken that a cart would last for three years on the average and that cart bullocks and cart buffaloes will not work for more than five to eight years. A separate note about any relevant matter may be recorded at the foot of the form or in the general report.

APPENDIX III.—INSTRUCTIONS FOR FILLING FORM B

Column 1.—Main Heads :—Liabilities may be classified as follows :—

- (A) Mortgage debts—
 - (i) Usufructuary (Rehan).
 - (ii) Simple.
- (B) Cash debts, if supported by documentary evidence and if acknowledged in case of oral debts.
- (C) Government dues like Takavi loans, Earthquake loans and loans under the Lands Improvement Act, etc.
- (D) Other outstanding due, like arrear rent, cess and taxes.
- (E) Miscellaneous—Nay other items other than co-operative dues, which may not have been included in A, B, C and D.
- (F) Dues of co-operative societies.

Columns 2, 3 and 4.—Require no explanation.

Column 5.—The plots should be recorded according to Khatas where more than one Khatas are included.

Column 6.—Careful enquiry should be made to ascertain the extent of compound interest that has been charged. In the case of loans given by Mahajans, it is usual to go on renewing handnotes immediately before the period of limitation expires and in many cases the original amount lent in cash is only a small fraction of the amount shown as principal in the last handnote.

Columns 7 to 14.—Require no explanation.

Column 15.—Careful enquiries should be made to ascertain correctly the purpose of the loan in each case.

Columns 16, 17 and 18.—Require no explanation.

Other relevant points of importance may be recorded at the foot of the column or in the general report.

NOTE.—*Benami transactions*.—It sometimes happens that with a view to defraud their creditors or their societies members make *Benami* transactions in the name of relations and friends and execute registered deeds in their names or purchase holdings in the name of relations and friends at rent suit sales. It is, therefore, necessary for the Enquiring Officers to make confidential enquiries at the village in order to find out such *Benami* transactions if any and to note the same in the remarks column of Form B. A brief reference may also be made in the general report.

APPENDIX IV.—INSTRUCTIONS FOR FILLING FORM C

Column 1.—The names of members should be written in the same order in which as they are in the Haisiyat Register.

Columns 2, 3 and 4.—Require no remarks.

In the case of a member, who has proprietary interest, a note in the remarks column may be made. In column 4, the total value as in column 12, of Form A will be recorded.

Column 5.—Record here the total value of moveable properties as in Form A/1.

Columns 6 and 7.—No remarks.

Column 8.—Note here the area mortgaged to the bank or society.

Columns 9 to 13.—To be filled from Form B.

Columns 15, 16 and 17.—Only the number of those members of the family, who live together in the village more or less permanently should be recorded. If any member of a family lives elsewhere but contributes to the family budget out of his earning, a note should be made in the remarks column, so that the amount of this income may be taken into account.

Column 18.—This is a difficult matter inasmuch as the standard of living varies from place to place and according to the caste and social status of the members. For our purpose, it will be assumed that people who are in heavy debts will be expected to be satisfied by the barest minimum in the form of food and clothing. On an average for an adult male or female one seer of coarse rice per day and four dhoties or saris may be allowed. For children below 12 and above the age of one year cost of maintenance may be calculated at half the rate. It will be better if instead of calculating the cost in terms of grain and clothing in every case, a flat rate per adult per year is prescribed in consultation with the revenue authorities and the bank authorities. It has been suggested that Rs. 2-8-0 to Rs. 3 per month per adult male or female would probably serve for our purpose. The actual rate will, however, have to be determined for each area.

Column 20.—In this column income from the following sources will be recorded:—

- (i) Income from labour by adults, male, female or children, e.g., Ropni, crop-cutting, etc.
- (ii) Receipts from members of the family, who may be salary earners either at the village or may be resident elsewhere.
- (iii) Pensions or gratuities as retired Government servants, like soldiers, peons, etc.
- (iv) Salary in cash or kind earned as village Chowkidars, Dafadars, Ghatwals, Malis, Goraitis, Priests, etc.
- (v) Income from other miscellaneous sources.

Column 23.—This will be the total of column 8 of Form B

Column 24.—It is very difficult to determine accurately the repaying capacity of a member. The first charge on his income will be the cost of his maintenance and of his family, a minimum figure for which will be shown in column 18. It may, however, be remembered that only the very minimum has been provided and no provision has been made for *Kurtas*, turbans, *Gamchas*, ornaments for children and women, which even a poor villager would use to some extent. No attempt has also been made to determine in each case the expenditure incurred in repairs of houses, festivals, social and religious ceremonies. Column 23 will show the interest charges, but it will have to be remembered that, in all probability, the figures noted in this column represents only a portion of the actual figure. It is also true that an ordinary villager is seldom able to meet all the annual interest charges. If all the interest charges have to be deducted from his gross repaying capacity for the purpose of finding what the co-operative society will be getting an unfair advantage at the cost of the co-operative society. If a member is unable to meet all his creditors including the co-operative society, the co-operative society must insist on getting a reasonable share of whatever is available as surplus for re-payment of debt. Keeping this principle in mind, the Enquiring Officer will duly consider the assets, the liabilities, the normal repaying capacity, shown in column 22, the total annual interest charges and the dues of the co-operative society and then ask the members of the society as to how much the particular member can be expected to pay every year. He will then use his own discretion and record his own estimate in column 25 and the members' estimate in column 24

In some cases where the member has taken Takavi or Earthquake loans, payable in three or four years, it will have to be remembered that his repaying capacity will be low till such loans are repaid, and after the repayment of such loans, he should be in a position to pay in larger instalments.

Column 26.—In this column, it may be noted whether the member is literate or not. The letter "L" may be put against the member who is literate and a cross against those, who are illiterate. A note about those, who have read up to M. E. standard or possess higher qualifications, may be made in column 27.

APPENDIX V.

COPY OF CIRCULAR LETTER NO. _____, DATED THE 16TH MAY, 1938, FROM THE HONORARY JOINT SECRETARY, BIHAR LANDHOLDERS' ASSOCIATION, PATNA, TO THE VARIOUS SECRETARIES OF DISTRICT LANDHOLDERS' ASSOCIATIONS IN THE PROVINCE.

In forwarding herewith a copy of a letter from the Registrar of Co-operative Societies, Bihar, I have the honour to request that you will give every facility to the Inquiry-officers who may be deputed in your district in connection with the preparation of the statement regarding the assets, liabilities and the repaying capacities of the members of the Co-operative Societies in your district or sub-division. Please ask your members to allow the Enquiry-officer to consult the records of the landlords particularly the Jamabandi register, Khatians and Jamawasil Bahi and the Tahsildars in each Elaka should be instructed to give necessary help and advice. This is a very important from the landlords' point of view inasmuch as their rents would be realized from the members of the Co-operative Societies in the localities.

OFFICE OF THE REGISTRAR OF CO-OPERATIVE SOCIETIES, BIHAR.

Memo. No.

-C.S.

Dated Patna, the _____ *1939.*

Copy forwarded to

In case of any difficulty the matter should be brought to the notice of the Secretary of the Landholders' Association of the district concerned.

N. BAKSI,
Registrar.

Rehabilitation Enquiry Form No. I.

Name of the Bank or Union.....

Details of societies as on.....19

Name of Police-station.

Serial No.	Name of Society.	Thana no.	Date of registration.	Distance and direction from the Central Bank	Distance and direction from the police-station	Nature of communication and distance motorable.	Name of Secretary.	Number of members.	Working capital.
1	2	3	4	5	6	7	8	9	10

Loan due by members.				Loan due to Central Bank.				Classification.	Remarks about audit.	
Principal.		Interest.		Principal.		Interest.			Date of last audit.	Period of last audit.
Total.	Over due.	Total.	Over due.	Total.	Over due.	Total.	Over due.			
11	12	13	14	15	16	17	18	19	20 (a)	20 (b)

FORM No. 2.

Details of lands held by Societies
Banks

1. Serial number.....
 2. Name of the Society.....
 3. Name of the member whose lands have been purchased.....
 4. Reference of sale certificate with date.....
 5. Area in acres.....
 - Khata number.....Plot number.....
 - Total number of plots.....
 6. Remarks (e.g., whether the Society
Bank is in possession of the land).....
-

FORM No. 3.

Details of lands mortgaged to Co-operative Societies
Banks

1. Serial number
2. Name of the Society.....
3. Name of the executant.....
4. Date of execution.....
5. Area in acres.....
- Khata number.....Plot number.....
- Total number of plots.....
6. Consideration money.....
7. Remarks (state if only the member, as Karta of the joint family, is the executant).

FORM No. 4.

LIQUIDATED SOCIETIES.

1. Serial number.
2. Name of the Society.
3. Thana number.
4. Distance and direction from the Co-operative Bank.
5. Distance and direction from the police-station.
6. Nature of communication and distance motorable.
7. Date of registration.
8. Date of liquidation.
9. Notification number liquidating the society.
10. (i) Names of liquidators.
(ii) Dates of appointment.
11. Number of debtor members.
12. Loans due by members :—

On the date of liquidation.	Amount realised up to 31st December, 1938.	Balance as on 31st December, 1938.	Subsequent realisation, if any.
1. Principal.	1. Principal.	1. Principal.	1. Principal.
2. Interest.	2. Interest.	2. Interest.	2. Interest.
3. Other dues.	3. Other dues.	3. Other dues.	3. Other dues.
4. Total.	4. Total.	4. Total.	4. Total.

13. Loans due by the society on :—

1. Principal.	1. Principal.	1. Principal.	1. Principal.
2. Interest.	2. Interest.	2. Interest.	2. Interest.
3. Other dues.	3. Other dues.	3. Other dues.	3. Other dues.
4. Total.	4. Total.	4. Total.	4. Total.

14. Steps taken for realisation.
15. Lands held by the liquidator :—
 - (i) Total area in acres.
 - (ii) Total number of plots.
16. Lands mortgaged to the liquidated society :—
 - (i) Number of members who have mortgaged.
 - (ii) Area.
 - (iii) Number of plots.
17. Remarks.

IMMOVEABLE PROPERTIES AND INCOME.

.....Bank.....Society Police-Station.....District.....Name of Member.....

Main heads.	Tauzi no. of village, share of member.	Khewat or Khata no.	Plot no.	Cultivable lands.			Area in acres.			Classified plot by plot.		
				Bhadai.			Rabi.			Paddy.		
				5			6			7		
1	2	3	4	I	II	III	I	II	III	I	II	III

Miscellaneous area in acres.	Revenue rents, cesses and taxes.	E. O.'s estimates.			S. O.'s estimate.		E. O.'s Remarks.	S. O.'s Remarks.	Verification Report.
		Income.		Valuation.	Net income.	Valuation.			
		Gross.	Net.						
8	9	10	11	12	13	14	15	16	17

Certified that the statement has been prepared by me after personal examination of all relevant data and inspection of the properties and records except where otherwise mentioned.

Date

Signature of Enquiring Officer.

FORM A/1.

MOVEABLE PROPERTIES AND INCOME.

..... Bank Police-station District Name of member
 Society Thana Subdivision

Main heads.	Description.	Number.	Value.	Income.	Remarks.
1	2	3	4	5	6
(a) Cattle . . .	1. Bulls . . .		Rs.	Rs.	
	2. Bullocks . . .				
	3. Cows . . .				
	4. Calves . . .				
	5. He-buffaloes . . .				
	6. She-buffaloes . . .				
	7. Buffalo calves . . .				
	8. Sheep . . .				
	9. Horses . . .				
	10. Miscellaneous . . .				
(b) Vehicles . . .	11. Bullock-carts . . .				
	12. Buffalo carts . . .				
	13. Ekkas . . .				
	14. Traps . . .				
	15. Palanquins . . .				
	16. Miscellaneous . . .				
(c) Investment . . .	17. In post offices . . .				
	18. In Banks . . .				
	19. Miscellaneous . . .				
(d) Miscellaneous.	20. Machineries . . .				
	21. Money-lending business.				
	22. Shops . . .				

Certified that the statement has been prepared by me after personal examination of all relevant data and inspection of the properties and records except where otherwise mentioned,

Date.....

.....
 Signature of Enquiring Officer.

LIABILITIES AND CHARGES THEREON:

FORM B.

..... Society Bank Police-Station:..... District..... Name of member.....

Main heads.	Date of Execution.	Name and address of creditor.	Area in acres mortgaged.	Details with plot numbers.	Amount of Principal.	Rate of interest per cent per annum.	Annual charges on account of interest, etc.
1	2	3	4	5	6	7	8

Amount paid up to date.			Amount outstanding.			Purpose of loan.	Remarks of E. O.	Remarks of S. O.	Verification Report.
Principal.	Interest.	Total.	Principal.	Interest.	Total.				
9	10	11	12	13	14	15	16	17	18

Certified that the statement has been prepared by me after personal examination of all relevent data and records except where otherwise mentioned.

Date

Signavure of Enquiring Officer.

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND REPAYING CAPACITY.

FORM C.

.....Bank,.....Society.....Village, Thana No....., Police-station....., District.....

Serial No.	Name of member.	Value of assets.			Total of columns 4 and 5.	Area in acres mortgaged.		Liabilities.					Difference of columns 6 and 13.	Number of members in the family.				Cost of family maintenance.	Income.		Total of columns 19 and 20.	Normal repaying capacity (total income minus total expenditure) column 21—column 18.	Annual interest charges.	Present annual repaying capacity.		Education.	E. O.'s remarks.	S. O.'s remarks.
		Area in acres.	Value.	Other properties.		To mahajan.	To bank.	Dues of mahajans.	Government dues.	Arrear rents, cesses and taxes.	Dues of Co-operative Society.	Total liabilities.		Male.	Female.	Children under 12 years and over 1 year.	Total of column 11, Form A.		Miscellaneous, e.g. service, occasional labour, etc.	Members' estimate.				E. O.'s estimate.				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	

Certified that the statement has been prepared by me after personal examination of all relevant data except where otherwise mentioned.

Date

Signature of Enquiring Officer.

OFFICE OF THE REGISTRAR, CO-OPERATIVE SOCIETIES, BIHAR.

REHABILITATION CIRCULAR No. 10 OF 1938, DATED 23RD SEPTEMBER 1938.

Instructions for Reconstruction of Societies.

1. *Elimination of members.*—The following classes of members will not be retained as members of reconstructed societies :—

(a) Dishonest and/or wilful defaulters, who do not care to make proper repayment even after the benefits of the scheme have been explained to them.

(b) Members, who refuse to execute collateral security bounds for the whole of their immoveable assets or for an adequate portion of the same.

NOTE.—In the case of *solvent* members having considerable properties, lands, valued at three times the amount of loans outstanding, will be the minimum for which security bonds are to be taken.

(c) Members, who have no repaying capacity or whose repaying capacity is negligible.

(d) Members, whose liabilities exceed the value of their assets and who cannot pay a reasonable portion of their dues, to be calculated as follows, during the period of reconstruction, after deducting the value of shares, less one rupee and deposits held by him :—

The guiding principle is that the total amount, which can be realised from a member, is limited to the amount which he can pay within the period of reconstruction covering 20 years, after due provisions have been made for crop loans (*vide* paragraph VI). Where the total amount, which a member can pay within 20 years, is found to be less than his total dues both in respect of principal and interest, on the date of reconstruction, he may be retained as a member of a reconstructed society, provided his estimated total repaying capacity during 20 years is not less than the principal amount of the loan, *plus* future interest. It should be clearly understood that it is not intended that this maximum limit of concession should be allowed in all cases, where a member can pay, in 20 years, more than the principal amount of the loan, the amount to be realised from him will be as much as he can pay in 20 years up to the limit of his total dues less the rebate, if any, allowed to good members according to paragraph VIII.

NOTE.—(i) *Future interest to be charged.*—Now the question arises whether any interest is to be charged on the dues, as scaled down. Government are being moved for exempting co-operative societies from the provisions of the Money-lenders' Act, which is at present applicable to co-operative dues. If the amount, as scaled down, were made up partly of principal and partly of interest, future interest is chargeable only on the portion representing the principal. Future interest at a rate not exceeding 7 per cent. may be charged, as recommended by the Rehabilitation Committee. The cost of management, interest on borrowed capital and provisions for future reserves can only be met out of the future interest earned. While the scheme of reconstruction is being prepared, the interest on the principal amount, outstanding from year to year, during the period of reconstruction, will have to be calculated and added to the annual instalment of the principal.

(ii) *The limit of remission.*—The dues may be scaled down up to the limit of repaying capacity of the member in 20 years, provided he is in a position to pay, at least, the principal amount, with future interest from the date of reconstruction, or in other words, the maximum amount, which can be remitted for the purpose of retaining a member, will be the interest due up to the date of reconstruction. If a member cannot pay the principal, together with future interest at 7 per cent. from the date of reconstruction, he will be eliminated.

II. *Elimination of societies.*—The following classes of societies will be weeded out :—

(a) Societies already in liquidation, except in special cases where they prove their fitness for reconstruction.

(b) Societies against which enquiries under section 35 of the Co-operative Societies Act have already been held and the members of which are unmindful of the consequences.

- (c) Societies against which awards have been taken and the members of which are not willing to accept the terms offered by the Reconstruction Officer and where most of the members, particularly the Panches, are found to be dishonest or wilful defaulters.
- (d) Where after reconstruction, the number of members, considered fit to be retained as members of a reconstructed society, falls below the statutory minimum, the society will have to be liquidated unless—
- (i) it may be amalgamated with another reconstructed society within a reasonable distance, or
 - (ii) new members are recruited to bring the total number up to the prescribed minimum.
- (e) In dealing with cases of societies on the border line, the Reconstruction Officer will take into account the incidence of literacy among, the members, the general character of individual members, the general condition of the village (whether liable to floods, droughts, etc., or not), the nature of the soil (whether fertile or not), existence of party factions, possibilities of developing cottage industries and other relevant socio-economic factors.
- (f) The cases of members of societies against whom awards have been taken may be sympathetically considered if they come to reasonable terms on or before the date of reconstruction. In the case of members who have been sold off by the society or the bank but who are certified to be honest by the sub-committee of the bank and who are not yet beyond redemption, the Reconstruction Officer may consider the feasibility of resettling the lands, if not disposed of, with the original members on a rent purchased system according to the scheme.

NOTE.—Members and societies eliminated will be dealt with separately by the award and liquidation department according to instructions which are being separately issued.

III. *Procedure for dealing with individual members.*—When on due consideration of the points, set forth in paragraph II, a society appears to be *prima facie* fit for reconstruction, the following procedure will be adopted in preparing a scheme of reconstruction.

(1) *Documents and data to be considered by the Reconstruction Officer.*—

- (a) Nathis of the society.
- (b) The books of the society.
- (c) The records about the society kept in the bank office, including the latest audit and inspection notes.
- (d) A duly certified balance-sheet prepared up to the date fixed for reconstruction.

NOTE.—The date of reconstruction of the bank/union and of all the societies under the bank or union, must be the same. In districts or areas where the amalgamation of two or more weak banks may have to be considered, the date of reconstruction of all such banks and of the societies under such banks, must be the same, so that the data may be comparable.

(2) The cases of members should be taken in the order that appears in the Haisyat Register of the society.

(3) *Disposal of owned resources of members.*—Before the question of scaling down the dues is considered, the following adjustments should be made:—

- (a) The number of shares held by the member should be reduced to one, of the reduced value of Re. 1. It will be necessary to amend the bye-laws of the society before formal adoption of the scheme by the society.
- (b) The following items should then be set off against the total dues (both principal and interest) as they stood on the day of reconstruction:—
 - (i) The balance of the share money (i.e., paid value of shares held by the member less rupee one).
 - (ii) Deposits, with interest, if any, up to the date of reconstruction.

(c) In the case of a member, whose total dues is less than the total of the items noted under (b), the excess of the total under (b), over his total dues, should be treated as a deposit in his favour in the society.

(d) Where a member does not owe anything to the society on the day of reconstruction, the whole of the total of the items under (b) should be treated as a deposit in the society in his name.

NOTE.—Deposits, calculated as in (c) and (d) will carry interest at a rate which may be slightly higher (say $\frac{1}{4}$ per cent. to $\frac{1}{2}$ per cent.) than the rate at which the societies will be charged by the financing bank or union after reconstruction. The idea is to encourage thrift among the members and to make it possible for the movement, in time, to reach a stage when the demand for loans by certain members will be met more or less entirely from the pooled resources of other members, non-member depositors being eliminated from the movement, as far as practicable. There is good reason to believe that once the members come to have direct financial stakes in the societies and banks, a good many of the existing defects will automatically disappear.

IV. *Deposits of non-members in the society and other miscellaneous liabilities like arrear Federation dues, etc.*—(a) In several societies, particularly in the Chota Nagpur Division, there are deposits by non-members. Such deposits constitute a part of the borrowed capital of such societies.

(b) Several societies have defaulted in the payment of Federation dues on account of audit and other charges. The current dues on account of services rendered will be included in the cost of management but the arrear dues will be treated as a liability like the claims of other outside creditors of the society.

(c) All the creditors, like the financing bank or union, non-member depositors, the Co-operative Federation (in respect of its arrear dues) member-depositors, etc., will be treated alike and paid on a *pro rata* basis out of surplus receipts, unless special arrangements can be made to pay them in larger instalments according to such instructions as may be issued from time to time. With a view to avoid unnecessary clerical work connected with the maintenance of small accounts for 20 years, arrangements may be made, at the discretion of the society or the financing bank or union, for the repayment, in full, of an outstanding amount due to a depositor, when the amount falls below a certain figure—say Rs. 5.

V. *Determination of repaying capacity.*—The most important thing is to come to a definite finding as to the amount a member can be expected to pay from year to year during the period of reconstruction. For reasons stated below, it is not enough to consider only the assets and liabilities of members before coming to such a finding :—

(a) The income from different classes of lands is not necessarily proportionate to the value of such lands even in the same district.

(b) The ratio of income to valuation of different kinds of lands varies from district to district owing to difference in the incidence of rent, yield, etc.

(c) The amount, which the member of an agricultural society can pay, is determined not only by the income from his lands, but also by several other factors like the following :—

(i) Cost of maintenance of the family, which largely depends on the number of members to be fed and also, to a certain extent, on the social status of the member.

(ii) Expenses on special ceremonies, such as marriages, religious festivals, cost of repair of houses, etc., which fluctuate from year to year in individual cases.

(iii) Income from other miscellaneous sources, e.g., income by wage-earning members of the family which cannot be valued in terms of money in the list of assets.

(iv) Income from other miscellaneous sources, e.g., business, vehicles, etc., (bullock carts, ekkas, etc.).

(2) The importance of income from sources other than land would be apparent from the fact that in some districts, like Shahabad and Saran, most families would show a deficit budget, if the earnings from several adult male members of the

family, often working in other districts and provinces, in various capacities, be not taken into account. Enquiring Officers and Supervising Officers have been directed to carefully scrutinise income from wage-earners (*vide* instructions for filling column 20 of Form C in Registrar's Rehabilitation Circular No. 1 of 1958). During reconstruction, the Reconstruction Officer should again carefully examine the figures and see, after due consideration of the number of adults in the family (*vide* columns 15 to 18 of Form C), whether incomes from these sources have been correctly estimated. Even in comparatively good banks, where the investment is believed to be backed by sufficient good assets, the loans have become frozen owing to the inability of the borrowing members to pay according to the existing kists. This is due to the fact that the amount fixed as the annual instalment is far beyond their capacity to pay. In such cases, a satisfactory percentage of collection can only be attained if the outstanding dues are spread out in annual instalments within the repaying capacity of the members. If this view is correct, societies in good banks are in as much need of reconstruction as those in weak banks. The theory of co-operative financing, based merely on a consideration of the assets, is universally regarded as obsolete. In the Burma scheme of reconstruction, summarized in the Reserve Bank Bulletin No. 3, considerable importance has been given to the correct estimation of the repaying capacity. The form used for ascertaining the repaying capacity in Burma shows numerous details into which searching enquiries have been made by the department in Burma before reconstruction of societies was taken up. In view of the precarious condition of the movement in this province, however, and the urgent need for speedy rehabilitation, most of the comparatively less important details in the forms, used in Burma and other places, have been omitted from the enquiry. It may be noted that in the forms and instructions, no attempt has been made to calculate, either by detailed enquiry or by a set formula, the actual surplus of income over expenditure of any particular individual in a particular year or over a number of years. What has been attempted is to fix what a member can be expected to pay—a safe margin being left for fluctuations in the various items of income and expenditure from year to year. Instead of relying on mere guess work certain data, some of which are mentioned below and which can be easily ascertained with a reasonable degree of accuracy, should be taken into consideration:—

- (a) Assets, duly verified, where necessary, after enquiry at the Registration Office and the average value of immoveable properties according to the valuation fixed in consultation with the local Revenue Officers and Bank authorities.
- (b) The nature and extent of liabilities, particularly registered liabilities, as far as they could be ascertained by local enquiry, followed by a search in the Registration Offices for 12 years.
- (c) The minimum amount required for the cost of maintenance of the family at an average rate, fixed in consultation with the authorities of the bank and the local Revenue Officers.
- (d) Estimated income of wage-earning members of the family and from sources other than lands.
- (e) Actual payments made to co-operative societies and other creditors from year to year.

(3) On due consideration of the above data, the Enquiring Officer, who was in the village for at least 3 to 4 days, had ascertained from the Panches and members of the society and had given an estimate of what the individual members could pay from year to year. The Enquiring Officer had also instructions to enquire from reliable persons of the village, not necessarily members of the society, about his estimate. Taking into consideration all the above facts, he must have used his own judgment in recording his estimates of what the members can be expected to pay from year to year. The Supervising Officer, who is a more responsible officer and who had to live in the locality for about two or three months, and as such, acquired a considerable experience about a large number of members living under similar conditions, had instructions to check these estimates during his verification. Some of the assets, which the Enquiring Officers and the Supervising Officer had taken to be good, may later be found to be encumbered, and the estimate of the income and the repaying capacity of individual members may have to be partly revised in the light of the result of searches in the Registration Offices. After the verification, an experienced officer of the department like an Assistant Registrar, working as the Reconstruction Officer, will sit with a Working Committee of the bank and will again examine the records in the light of such new data as may have

been brought to light during verification. The Reconstruction Officer may visit the village again or the Pauches may be asked to appear before the Committee at the bank office. After due consideration of the data on record and such personal examination of members as the Committee and the Reconstruction Officer may consider necessary in consultation with the Manager of the bank and the Inspecting Clerk of the Circle, the final estimate of the maximum amount, which the member can pay, will be made after deducting from this amount the minimum amount of the crop loan required by him. In cases, where the Reconstruction Officer modifies the estimate of the Supervising Officer about the repaying capacity total income and other important data, the Reconstruction Officer should briefly record reasons in the remarks column. In cases requiring further explanation, separate notes may be recorded under General Remarks or in a separate sheet.

VI. *A margin of repaying capacity to be kept in reserve for payment of crop loans in the case of bona fide cultivators.*—It is necessary that a portion of the annual repaying capacity should be kept in reserve in the case of all *bona fide* cultivators, who are to remain as members of reconstructed societies so as to leave a margin for repaying crop loans without which any improvement in the condition of the tenant is not possible. The tenants require crop loans for their annual agricultural operations. If, for these short-term loans, they have again to approach, after reconstruction, ordinary Mahajans, it is clear that their old debts will be unduly affected. In the cases of a large number of members, having limited resources, it will also be extremely difficult, if not impossible, to obtain credit from outside agencies after they have mortgaged all their properties under the scheme. It is, therefore, necessary to provide means by which a member of the society, after reconstruction, may obtain the minimum short-term credit facilities, or crop loans, from year to year. It is equally necessary that they should repay crop loans regularly inasmuch as it will not be ordinarily possible to issue a second crop loan to a member against whom the crop loan for the previous year, or a portion thereof, is outstanding. The money which he can pay, in a particular year, is limited to his repaying capacity. If, for the purpose of calculating the period of repayment, the whole of the annual repaying capacity is taken into account, there will be no surplus repaying capacity to enable him to pay the crop loan without which he cannot possibly carry on his annual agricultural operations. It is, therefore, necessary that in calculating the amount, which a member may be expected to pay every year towards his old debts, as reduced according to the scheme, not more than 75 per cent. of his annual repaying capacity should ordinarily be taken into account, at least 25 per cent. being ordinarily kept in reserve for paying short-term loans for annual agricultural operations. The actual amount of the crop loans, required by individual members, will have to be fixed after due consideration of the merits of individual cases by the Reconstruction Officer in consultation with the sub-committee of the bank, but the total liability of a member of a reconstructed society should not ordinarily exceed 75 per cent. of his repaying capacity for a period of 20 years.

In fixing the amount of crop loan required, the Reconstruction Officer should carefully consider the following points:—

- (i) Members like labourers, shop-keepers, etc., who are not cultivators or whose main occupation and source of income is not cultivation even though they may hold small areas, would not require as much crop loans as those who are essentially agriculturists. In the case of members a large proportion of whose total income is derived from sources (e.g., service, labour, mahajani, shop-keeping, vehicles, palanquins, etc.) other than cultivation, the amount of crop loan should be based mainly on the cost of cultivation, i.e., on seed and on hired labour, if employed, for the area of land cultivated. In such cases, 25 per cent. of the total income may be much more than what can be reasonably required for cultivation expenses.
- (ii) The area of land under cultivation.
- (iii) The number of bullocks and ploughs owned by the member and whether they are sufficient.
- (iv) The number of adult members capable of working in the field and the extent of hired labour required for cultivation. Members who belong to higher caste like Rajputs, Brahmins, etc., will require hired labour even if there be male adult members in the family. Similarly members, who are women or minors, will require hired labour.

The Reconstruction Officer will record his finding about the minimum crop loan required against the name of each member in column 27 of Form D. The maximum crop loan to be allowed should also be fixed in the case of each member. In the case of comparatively solvent members the Reconstruction Officer may allow a crop loan between these two limits, provided the total dues, subject to the rebates admissible under paragraph VIII, can be fully realised during the period of reconstruction. Every member will be entitled to have a crop loan up to maximum limit as soon as he has repaid his old debts, as scaled down under the scheme.

The limit of crop loans, thus fixed, will serve to check overfinancing in future.

VII. *Period of repayment.*—From what has been stated in the foregoing paragraphs, it is clear that anything in excess of the amount which a member can pay within a period of 20 years (due allowance being made for the repayment of crop loans), should be written off. It should be clearly understood that it is not intended that in the case of every member, payment should be spread out for 20 years. The period of payment will be determined by the repaying capacity and it is possible that in some cases members may be able to pay off their dues in 2, 3, 4, 5, 6, or 7 years. In no case, should the period of repayment be longer than what is absolutely necessary and in no case should it exceed 20 years. The Reconstruction Officer may, under certain circumstances, extend the period of repayment up to limit of two years. (*Vide Note under instructions for filing column 28 of Form D, Part I.*)

VIII. *Recognition of good members.*—It will be apparent that the scheme of reconstruction would tend to give greater relief to members who have been recklessly financed and/or who have more or less regularly defaulted in payment. If it is necessary to relieve the burden of indebtedness by reducing it to the limit of the repaying capacity within a reasonable number of years, it is equally, if not more, necessary that adequate encouragement and recognition should be given to good members, who, in spite of the economic depression, have been doing their best in meeting their monetary obligations either in part, or in full. It has also been reported that, in some banks, there has been an unfortunate tendency on the part of some of the members to withhold payment in view of the enquiry. It must be made clear that the members, who deliberately default, should be shown no leniency and will be liable to be weeded out from the movement, drastic action being taken for the realisation of their dues. On the other hand, it is necessary to encourage good members by giving a reasonable rebate on account interest paid during a reasonable period, after the commencement of the enquiry—say for the years 1937 and 1938. It is suggested that these members, who, in the opinion of the Reconstruction Officer, are found to be doing their best in making regular payments, partly or wholly, should be charged interest at specially reduced rate (say $6\frac{1}{4}$ per cent.) during these two years and the difference between this rate and the rate on which money has been, or may be, realised from them during this period should be refunded to them by adjustment. In the case of those, who clear off their account during this period, credit may be given to them in the form of a deposit. In the case of others, against whom there are certain outstandings, the amount may be set off against the principal due. The Reconstruction Officer, in consultation with the authorities of the banks, will be in the best position to determine the nature and extent of the rebate to be given in the case of societies under different banks and the manner in which it has to be accounted. What has been stated above is only by way of indicating a salutary principle. It is clear that the extent of rebate will depend upon the financial resources of individual banks and societies.

IX. *Statement of revised kists of members of reconstructed societies.*—The relevant data, showing the value of assets, dues of co-operative societies up to the date of reconstruction, dues as scaled down, and the annual kists, both in respect of the amounts payable and the amounts to be remitted during the period of reconstruction, will be entered in Form D.

X. *Remission to be sanctioned in instalments conditional on payment of revised kists.*—It will be seen that while the total amount treated as recoverable, will be fixed at the time of reconstruction, the remission of the whole amount will not be actually sanctioned at once. The total amount to be remitted will also be spread out in annual instalments on the understanding that each instalment of remission will be sanctioned conditional on payment of the corresponding annual kist, so that if a member defaults, he would be liable not only for the amount outstanding on account of the unpaid portion of his dues, as scaled down, but also for the unremitted portion of the amount provisionally shown as remission.

XI. *The kist may vary from year to year.*—Another point should also be carefully borne in mind in fixing the annual kist from year to year. It has already been explained as to how future interest will have to be added to the annual instalment up to the limit of the repaying capacity, the amount of future interest payable gradually decreasing from year to year. It should also be remembered that the amount which a member can pay to the society may not be the same from year to year. To make this position clear, let us take the case of a member—and there must be hundreds of such members—who has taken an earthquake loan, complete repayment of which will be over in four years from the date of reconstruction and for which he has got to repay at the rate of Rs. 20 a year. Such a loan being the first charge on his assets, it is quite clear that out of his normal repaying capacity, Rs. 20 will have to be deducted for the first four years and the balance of his repaying capacity, after due allowance has been made for the margin required for the crop loans (*vide* paragraph VI), will be available for repayment of his old debts. It is quite possible that, in certain cases, where the annual repaying capacity is small, only a nominal amount, say Rs. 2 or Rs. 3, may be left for the first four years, while in other cases the members, with their repaying capacity fully absorbed by the annual payments on account of liabilities like the earthquake loans, may not be able to pay anything at all to the society till such loans have been repaid. In such cases, the amount of kist for the co-operative dues, to be realised from year to year, will have to be fixed after due consideration of other liabilities, which, as in the case of the earthquake loans, may be more pressing than co-operative dues. In such cases, after the repayment of such earthquake loans, the kist for repayment of co-operative dues may, with good justification, be increased by the amount of the annual kist for the repayment of the earthquake loans. In cases where, after due consideration of unavoidable annual payments to be made, the Reconstruction Officer is in a position to find that the amount which the members can pay to the society from year to year, remains practically constant, the annual instalment will be consolidated equated amount, including interest, which can easily be calculated from Annuity Tables. In other cases, where the amount, which the member can pay from year to year varies, the calculation will be a little more complicated.

As no interest is to be charged on the amount to be remitted from year to year, the total of the columns for remission will be equal to the amount shown as irrecoverable in column 100, Form D.

XII. *Estimated annual receipts from year to year.*—Besides recoveries from the members, there are certain other sources of receipts, *e.g.*—

- (i) income from lands in possession of the society,
- (ii) income from outside investments.

The annual income from these sources will have to be added to the total of the annual kists due from different members of a reconstructed society for estimating the annual receipts from year to year during the period of reconstruction. The statement will show the annual receipts as well as the total receipts (*i.e.*, total of the annual receipts) during the period of reconstruction.

XIII. *Repaying capacity of the reconstructed society.*—A statement, in Form E, showing the estimated cost of management of the society will then be separately prepared. Certain provisions for reserves (say 10 per cent. of the actual annual demand on account of interest) will have to be made for meeting future bad debts due to unforeseen causes and for providing a nucleus for the gradual growth of owned resources. When the total of these two items is deducted from the annual anticipated collection from all the members of the reconstructed society, the net amount available to the creditors of the society will come out. The total of such net amounts, available to the creditors from year to year, during the period of reconstruction, will represent the total receipts by the creditors on account of their existing investments and future interest during the period of reconstruction. It should be clearly understood that this is all that can be expected to be realised from the members of the reconstructed society.

XIV. *Estimated recovery from members and societies excluded from reconstruction.*—The Reconstruction Officer will have to carefully estimate what can be reasonably collected from members and societies, weeded out according to the instructions given in paragraphs I and II after due consideration of relevant data in the books of the society and in Forms A, B and C. It may be borne in mind that after due allowance is made for the cost of collection, the net amount, that can be expected

to be realised, will, in all possibility, be appreciably less than the market value of the lands held by such members. It should also be remembered that it will perhaps be safer not to consider, for the purposes of this estimate, the value of the members' moveable properties, which can easily be removed or concealed, that collection in such cases will take a few years during which no interest would be realisable and that there would be some cost of collection, including cost of litigation in some cases.

XV. *Lands of members purchased by the society or bank.*—(a) The value of such lands will be determined by the Reconstruction Officer on the basis of the current market rate, after due consideration of the fact that such lands offered for sale by societies are not likely to fetch as high a price as may be obtained by a person through private sale. In estimating the value, the following points should be carefully considered :—

- (i) Whether *dakhaldahani* has been obtained by the society.
- (ii) Whether the lands are in the actual possession of the society.
- (iii) Whether the original owner of the lands, in collusion with the members or the panches, is continuing to be in adverse possession.
- (iv) Whether rents are being regularly paid by the society or the bank.

It is expected that the Enquiring Officer and Supervising Officer, while recording the details of such lands in Form 'A', should deal with these points. If, however, their reports be not adequate on these points, a further enquiry by an officer, to be specially deputed by the Reconstruction Officer, or by the Reconstruction Officer himself (in case of properties of considerable value) may have to be made.

(b) In certain cases the Central Bank or Union may have purchased the lands of a member in award proceedings with a view to prevent loss to the society and ultimately to the bank. In such cases the Reconstruction Officer will estimate the sale value of the lands, on the basis of the prevailing market rate, after due consideration of the points set forth in sub-paragraph (a). It will be found in certain cases that where the central bank has purchased the lands of the member, owing to delay in adjustment of the account of the member in the books of the society, interest may be continuing in the books of the society against the member. The interest from the date of purchase by the central bank is not legally realisable and should be written off outright, the value of the lands, as estimated by the Reconstruction Officer, representing all that can be realised in full satisfaction of the loans of such members.

XVI. *Estimated total realisation from the society.*—(a) From what has been stated in the foregoing paragraphs, it will be clear that the total realisation out of the existing investment in a society will be the total of the following items :—

- (i) Estimated total realisation from members retained (*vide* Column 11, Form D, Part II).
- (ii) Estimated recovery from members excluded from reconstruction (*vide* Form G).
- (iii) Estimated realisable value of lands purchased by the society (*vide* paragraph XV).
- (iv) Investment in central bank.
- (v) Cash in other banks, like Postal Savings Bank, Commercial Banks.
- (vi) Cash in hand.
- (vii) Other items, like certain outstanding dues on account of arrear rent of lands, belonging to the society settled with the members on Batai or Nakdi rent. Such cases are comparatively rare but in view of the difficulty in collection of such dues, very careful scrutiny is required before any portion of it is included in this head before reconstruction.

(b) If the liabilities exceed the assets, determined according to the scheme of reconstruction, the deficit will represent the amount of bad debts which cannot be recovered and has to be written off.

XVII. *Sources from which the bad debts can be met.*—(a) *Owned resources.*—The following owned resources should be utilised for meeting the bad debts of the society in the first instance :—

- (i) Undistributed profits.
- (ii) Other funds, like Common Good Funds.
- (iii) Various kinds of reserves.

NOTE.—The value of shares of the central bank held by the society should be left intact at this stage.

(b) If, after the above owned resources have been used up, there is still a deficit, the deposits of the society in the central bank will be first set off against the dues of the central bank.

(c) *Sacrifice of creditors.*—If, after the deposits have been used up, any deficit still remains, the creditors of the society, *viz.*, the central bank or union, non-member depositors, member-depositors and the Federation (in respect of its arrear dues) will be treated on an equal footing and they will have to reduce their claims on a *pro rata* basis as follows :—

- (i) The arrear interest should first be written off to the extent that is necessary.
- (ii) If the remission of the whole of the arrear interest be not sufficient to wipe off the deficit, the claims of the different classes of creditors will have to be reduced on a *pro rata* basis.

XVIII. The amount by which the claim of the central bank will have to be reduced, according to the previous paragraph, will represent the estimated loss of the central bank or union out of its existing investment in the society. The total of such losses in all the societies, financed by the central bank, will represent the total gross loss of the central bank out of its investments in this societies.

INSTRUCTIONS FOR FILLING UP REHABILITATION FORM 'D'.

General.—This form is made up of the following three parts :—

Part I.—In this part, figures about assets, liabilities, total income, repaying capacity, minimum and maximum crop loans, are given. With a view to facilitate easy comparison, comparative figures for assets and liabilities both on the basis of the bank records and the enquiry have been given.

Part II.—This part shows, in abstract, details of the outstanding dues before reconstruction, adjustment of owned resources, dues as scaled down and the amount to be written off as irrecoverable. The reconstructed balance-sheet will be essentially based on this part of the form.

Part III.—This gives the details of the annual kists in respect of principal, future interest, arrear interest as well as the total kist together with the amount of annual remission conditional on payment. In the concluding portion of this part of the form, totals of these figures, during the period of reconstruction, are given.

PART I.

Columns 4 to 8.—The figures will be based on the records of the society and the bank. The figures for columns 4 to 7 will be available from the Haisiyat register of the society. The figures for column 8 may be available in the audit notes of some of the societies but in most cases, no figure for individual members will be available even though an estimate of bad debts for the whole society may be found in the audit note of the bank or the society. Where only the estimate of bad debts for the whole society is given, the column against individual members will remain blank.

Columns 9 to 22.—From column 9 onwards, the figures will be based on the figures in form 'C'. It may be carefully noted that the figures in these columns will not necessarily be mere copies of those recorded in form 'C'. In the case of a member, a part of whose holding is under usufructuary mortgage for a sum

which is greater than the present value of the land, it will be necessary, during reconstruction, to exclude the market value of the property, so mortgaged, from the assets side, and the value of the amount borrowed, on such mortgage, from the liability side. There may also have been mistakes in calculation in form 'C'. The Reconstruction Officer will have to carefully consider what modification of the figures, given in form 'C', are required before entering them in this form.

Column 23.—Where the value of assets exceeds the total of "Liabilities", the balance may be shown as a "plus" figure and where the total liabilities is greater than assets, the difference will be shown as a "minus" figure.

Column 24.—No comments.

Column 25.—Total income.—The estimate of the Supervising Officer may have to be revised by the Reconstruction Officer for reasons to be briefly noted in the remarks column (column 29). The Reconstruction Officer should not blindly copy the figure given in column 21 of form 'C'.

Column 26.—The estimate of the Reconstruction Officer, which need not necessarily be the same as that of the Enquiring Officer or the Supervising Officer, is to be recorded in this column.

Column 27 (a), (b).—Two sub-columns have been provided for recording the minimum crop loan, which a member must have, as well as the maximum crop loan admissible. With a view to prevent over-financing in the case of good members, a maximum limit is necessary. The same limit will operate against less solvent members of reconstructed societies, after they have cleared off the outstandings.

Column 28.—In this column, the figures arrived at by deducting the minimum crop loan from the figure in column 26 will be entered. This figure will represent the maximum amount, which can be expected from a member of a reconstructed society year in and year out, towards the repayment of old debts including future interest after the date of reconstruction. The figure in this column is the maximum kist for the member.

NOTE.—For reasons to be recorded by the Reconstruction Officer and for introducing a larger element of safety in the scheme, the Reconstruction Officer may, at his discretion, slightly reduce the annual kist and extend the period of repayment, subject to a limit of two years.

PART II.

Column 1.—The principal may be in respect both of loans and advances.

Column 2.—Record the arrear interest due on account of loans and advances up to the date of reconstruction.

Column 3.—No comments.

Column 4.—The question arises whether in the case of a member whose total outstanding is made up partly of principal and partly of arrear interest, the amount to be set off out of the share money and deposits should be deducted out of the principal or arrear interest. In a large number of cases, share money has been ordinarily realised by deduction from the amount of loan and undue hardship is being caused owing to absence of payment of any dividend on the share money and the continued liability of the borrowing member to pay interest on that portion of the loan, which represents the paid up share money. It has, therefore, been considered desirable that the amount to be set off should be deducted, in the first instance, from the principal amount of the total outstanding. If, however, the amount to be set off is more than the principal, the balance, if any, should be deducted from the arrear interest.

Column 5.—This in every case will be Re. 1.

Column 6.—This will be the balance, if any, after the deposits and the share money, less Re. 1, have been set off against the total dues.

To facilitate calculation, while fixing the amount to be set off and to be shown in column 6, an attempt should be made to make the figure in column 7 free from annas and pies as far as practicable.

Column 7.—No comments.

Column 8.—This will be the difference between columns 7 and 11.

Columns 9, 10 and 11.—Require no comments.

PART III.

This part of the form shows the payment to be made by the member from year to year during the period of reconstruction. The total payment as well as the details in respect of principal, current interest on the principal and arrear interest are shown. For reasons set forth in paragraph XI of the Instructions of societies, the instalment may vary from year to year, at least, for some years from the date of reconstruction. In the case of members, who are found to be in a position to pay the same amount from year to year, equated instalments, calculated according to Annuity Tables, will be arranged, the total on account of principal and interest due from year to year being the same. In the case of others, the calculations will have to be made for each year till the year is reached from which they can be expected to pay the same amount from year to year up to the end of the period of reconstruction. When this stage is reached, equated payments can be arranged. It will be seen that in the kist sheet, the total of the principal and current interest has not been given. In the case of equated payments either for the whole period of reconstruction or a part thereof, as the case may be, it will be necessary for some officer to check the total of principal and current interest on the equated basis. To facilitate this kind of check without the use of pencil and paper, current interest and principal have been shown in adjacent columns, instead of arrear interest being shown immediately after principal. Another reason for putting current interest and principal in adjacent columns is that in a large number of cases, arrear interest will probably have to be written off and in most of the case arrear interest will, in all probably, be recoverable only during a few years from the date of reconstruction after which the column for arrear interest will remain blank. It will facilitate quick check of the total by mental calculation if there be no space between columns for the principal and current interest. In the column for principal only the principal amount to be realised, according to the scheme of reconstruction, after the dues have been scaled down, will be put and the amount will not include the amount for remission to be shown in column 5. As explained in paragraph X of the Instructions, the total *de jure* demand will be the totals of columns 4 and 5 but this demand will be enforced only in the case of a defaulter. The *de facto* demand against a member of a reconstructed society, who pays according to the scheme, will be the figure entered in column 4.

Columns 6 to 100.—As in columns 1 to 5.

Column 101.—Record the total of anticipated realisation on account of future interest from the date of reconstruction.

Column 102.—The total realisation on account of outstanding dues, as scaled down under the scheme, and on account of future interest on the principal amount during the total period of reconstruction will be entered in this column.

FORM "E".

(1) We have to provide for the minimum cost in connection with the maintenance of books of accounts, but no provision is necessary in cases where there are literate members or where the Inspecting Clerk writes the registers of the society.

(2) *Audit charges.*—On the basis of last three years' charges.

(3) Here enter estimates of cost of management of lands, if not settled with others, and provide for annual rent to landlord.

(4) *Contingencies.*—Remember that registers are not purchased every year but only when the existing books are exhausted. Provide for all such expenditure on the basis of three years' average expenditure.

(5) Provide adequate depreciation on stock.

(6) Give details of other items, if any.

NOTE.—The abovenoted cost of management will be deducted from the annual collection of current interest from members of societies (*vide* paragraphs XII and XIII of Instructions).

FORM 'F'.

(1) Income from lands in possession of society should be noted here. These may be of 3 kinds:—Rent in kind from *bataidar*, cash rent from cultivating tenant or from harvest if the land is cultivated by the *panches* themselves. The area should be mentioned in each case. In case there has been no income in the past, Reconstruction Officer will please make an estimate of the probable income after taking into consideration points mentioned in paragraph XV.

(2) and (3) No comments.

NOTE.—In this estimate, the amount to be collected from members as interest, either current or arrear, need not be noted here, which will be available from Rehabilitation Form D, Part III.

FORM 'H'.

1. In the reconstructed Balance Sheet (a) the share held by the members, (b) Reserve Fund, (c) Other Funds and (d) the undistributed profit [item 1 (a), (b), (c) and (d) of the liability side] and deposits of members, item II (a) of the liability side will be filled up after setting off the dues of the members as laid down in paragraph III of the Instructions for Reconstruction of Societies. The balance shown in the reconstructed Balance Sheet as share held by members and as deposits of members will not agree with the figures shown in columns 5 and 6 of the Rehabilitation Form D, Part II, as the former include the balance of those who owe nothing to the society, and the latter only deal with those who come in under the scheme of reconstruction.

2. The amount recoverable from members will be the net amount available to the creditors at the end of the reconstruction period out of the total collection of principal and arrear interest (column 102 of Rehabilitation Form D, Part III), after the necessary deductions for reserves and the cost of management, *plus* the estimated collection from those members who have been excluded from reconstruction.

N. BAKSI,

Registrar.

CENTRAL PROVINCES AND BERAR.

Note by the Registrar.—The position of most of the Central Co-operative Banks in Berar is in an extremely unsatisfactory condition and an Enquiry Committee was appointed by the Provincial Government which submitted its report in February 1939, making certain proposals for rehabilitation of the movement in Berar. The decisions taken by Government on the report are outlined in the enclosed Press Communiqué dated the 9th September, 1939. No action has been taken on the communiqué as the Government is considering a scheme (copy enclosed) drawn up at the Joint Session of the Standing Committees of the Indian Provincial Co-operative Banks' Association and the All-India Co-operative Institutes' Association in October, 1939, for rehabilitating the banks. There are no other rehabilitation schemes in the province.

AGRICULTURE DEPARTMENT

PRESS COMMUNIQUE

Nagpur, the 9th September 1939.

By Notification No. 1653-1949-X, dated the 6th October 1938, the Berar Co-operative Enquiry Committee was appointed by the Government of the Central Provinces and Berar with the following terms of reference:—

- (1) to examine the position of the co-operative movement in Berar in general and of the finances of central banks in Berar in particular;

- (2) to suggest ways and means for a more remunerative management of the lands acquired by the central banks; and
- (3) to make proposal for financial accommodation to those central banks which are in need of it immediately or for some years to come.

The circumstances which led to the appointment of the Committee were briefly set in a Press Communiqué issued simultaneously with the notification announcing appointment of the Committee, and it is not necessary to recapitulate them in this communiqué.

2. Briefly the position, as disclosed in Chapters III and IV of the Report, is that out half the societies in Berar are under award or liquidation, and almost the whole the amount due from them is overdue, and over 80 per cent is under recovery in members and societies under coercive proceedings. The total liabilities of all 12 central banks amount to Rs. 1,06,72,000, while the total assets aggregate Rs. 90,58,000, consisting of cash and liquid assets amounting to Rs. 22.19 lakhs, movable property valued at Rs. 30.52 lakhs, and debts classed as good amounting to Rs. 37.87 lakhs. The total deficit of all the banks amounts to Rs. 16.14 lakhs, and if the liability to shareholders is not taken into account the deficit is Rs. 10.12 lakhs. The area of land in possession of the central banks amounts to 49,712 acres and that in possession of societies to 4,798 acres, the multiple value of which is estimated to be Rs. 25.57 lakhs and Rs. 2.77 lakhs, respectively. Except Pusad, Arwaha and Mehkar banks, whose profits were only nominal, the remaining banks are running at a loss, the annual income falling short of the expenditure by Rs. 2.7 lakhs. The assets of 5 banks were less than the liabilities, and the other 7 banks on the other hand showed some excess of assets over liabilities. This was the position on the 1st June 1938. It has probably undergone a change for the worse since in some respects. The causes which have brought the banks to their present deplorable condition are, according to paragraph 23, Chapter IV, of the Report, as follows :—

- (a) Heavy financing before and during the boom period and more on the basis of assets than on the paying capacity.
- (b) Failure to strike the overdues on the heads, the moment they appeared.
- (c) Speculative reliance on a possible appreciation of land values and lifting of the cloud of depression in the near future.
- (d) Fall in the values of lands beyond all expectations. As a corollary to fall in values of lands, the letting values also have gone down, thus adversely affecting the banks which had large areas of land to lease out.
- (e) Interlocking of the short-term capital derived from deposits in the purchase of lands which now form the bulk of the assets of the banks.
- (f) Fall in cash recoveries partly owing to depression and partly owing to factions and mischievous propaganda, and partly owing to deliberate withholding.
- (g) Income from land is negligible, being not sufficient even to pay land revenue.
- (h) Many banks are reduced to such a strait that they depend upon borrowings for their annual expenditure, for payment of deposits and interest thereon, for land revenue and for their contributions to central institutions such as the Berar Co-operative Institute.
- (i) Dependence upon the Provincial Bank for financial accommodation. So long as it was forthcoming, banks could carry on; and the moment it was withdrawn, the cash came."

Elsewhere in the Report the following causes are also specified :—

- (i) Concentration of large loans in the hands of a few big borrowers. From the Annual Report on the working of the Co-operative Department for 1937-38, it appears that 15.3 per cent. of the borrowers have monopolized 80 per cent. of the loans, and 175 persons owe the large sum of Rs. 19.96 lakhs.
- (ii) The unfortunate importation into elections of party factions and sometimes even of communal spirit, which has come in for severe animadversion from the Committee; and

- (iii) Unco-operative action of the members themselves who tried to defraud the societies by disposing of their land, creating encumbrances on it, forming local combines to boycott auctions, and various other unco-operative devices.

Thus the report of the Committee shows abundantly that the present state of the movement in Berar has been brought about by the combined operation of three causes, viz., unfavourable seasons and low prices—which were beyond the control of the operators—and also by the unbusinesslike methods, and unco-operative attitude of the members.

3. In order to meet the situation, the Committee has made several recommendations. The more important of them are summarized in paragraph 20 of Chapter IX and are as follows :—

(1) (a) Suspension of the constitution of all central banks till the disposal of the land in their possession by an order passed under rule 14 (i) by the Registrar, and management of the affairs of the banks by a Central Board consisting of the Registrar or his nominee, the Managing Director of the Provincial Bank or his nominee, and four persons from amongst the share-holders of the central banks in Berar to be nominated by the Registrar.

(b) The affairs of each central bank to be placed in charge of an officer-in-charge, assisted by local advisory committees consisting of the officer-in-charge, the Registrar or his nominee, and three persons to be nominated by the Registrar.

(2) "The liability to share-holders, viz., the share capital and the undistributed dividend, should for the present not be taken into account as a liability for the purpose of estimating the deficits. If eventually, after the claims of all the present creditors are met, there is any surplus, the value of the shares will be restored; but if then the value of the shares should be considered as nil and they should not be redeemed. It is not necessary to write off the share capital from the books immediately."

(3) "The Provincial Bank should for the present write down its claim by Rs. 10 lakhs. It is not necessary to write off this amount permanently, but it should be understood that the central banks will pay this amount only after all the remaining liabilities to the present creditors have been met in full and there is a surplus. Till then, it follows, that no interest will be charged on this amount."

"This amount of Rs. 10 lakhs should be distributed among the weaker central banks in proportion to the present estimated deficits in their assets after ignoring the liability to the shareholders."

(4) "In future, the interest on the remaining debt due to the Provincial Bank should be reduced to 3 per cent.", and this debt to be compulsorily converted into debentures as described in the next paragraph.

(5) "All the present deposits should be compulsorily converted into debentures for a term of 30 years The interest on these debentures should be 3 per cent. Both the principal of and the interest on these debentures should be guaranteed by the Government." The Committee has stated that if Government were not prepared to give such a guarantee, it would prefer immediate liquidation of the banks to deferred liquidation by the process of conversion into debentures without such a guarantee.

(6) "The lands owned by the central banks at present should be sold by running a lottery. Even after that, it is possible that some lands will remain and some more land will have to be acquired in future. These lands should be sold by auction, failing that, on the hire-purchase system, and, failing even that, they should be leased out till it is possible to sell them."

(7) "The Government should make an annual grant of Rs. 1 lakh to meet the deficit in the running expenses of the central banks till the lands are disposed of by the central banks."

(8) In paragraph 11 of Chapter X of the Report, the Committee has made another important recommendation, namely, that the debts due from members, not only from working societies but also of societies under liquidation, should be scaled down by the process of conciliation. The Committee has suggested that the additional debt caused by this conciliation, which is estimated at Rs. 25 lakhs should be borne by the Government.

4. Government has given full and earnest consideration to the recommendations of the Committee and has also made every effort to consult institutions and persons in a position to give authoritative advice. Government regrets that the main recommendations of the Committee are neither feasible nor in the best interests of the co-operative movement itself. They also impose an undue burden on the general tax-payer. Government is not, therefore, prepared to accept them. The main reasons for this decision are set forth briefly in paragraphs 5 to 8 of this Communiqué.

5. The Committee has stated that its recommendations "should be treated as an organic whole" and should not be mutilated. The central recommendation of the Committee on which its whole scheme turns is the disposal of land by the expedient of lottery. The various serious objections to this course, legal, ethical and economic, are obvious. The proposal is also unworkable in practice, for it would involve the sale of tickets whose number would run into several lakhs. Disposal of so much land by lottery will also have a very unsettling effect on the prices of land in Berar, as most of the winners would hasten to convert their land prizes into cash. Amongst all the criticisms and suggestions which Government has seen, not one has been in favour of this recommendation, and Government has no hesitation in rejecting it.

6. With the rejection of the lottery scheme, the whole edifice of the Committee's scheme collapses. However, a few more observations may be made on the other recommendations. According to the Committee, the burden which Government is expected to bear on behalf of the general tax-payer is as follows:—

- (i) Guarantee of the principal and interest of debentures, the amount of which may easily be over Rs. 80 lakhs. At 3 per cent. the annual interest charges alone would be over Rs. 2.4 lakhs
- (ii) An annual grant of Rs. 1 lakh until the lands are disposed of.
- (iii) The entire loss caused by the scaling down of the debts due from members, which the Committee estimates at Rs. 25 lakhs.

7. Government is clearly of opinion that it cannot, in the interests of the general tax-payer as well as of the co-operative movement itself, undertake this liability. As much has been said in the Report, in the Press and on the public platform regarding the responsibility of Government for making good the losses to depositors, it is desirable to reiterate the position of Government. So far as the legal responsibility of Government is concerned, the Committee has conceded that there is none. Government is equally convinced that no moral obligation either rests on it. The position of the Government, *vis-à-vis* the co-operative movement, has been always very clear. A reference may be made to the Resolution on the King Committee's Report which contains a lucid exposition of the Government's position. In paragraph 25 of its Report, that Committee stated as follows: "We think that Government ought, in the interests of the co-operative movement itself, to disclaim unequivocally all future responsibility for the provision of financial assistance to co-operative institutions." In accepting this recommendation, Government, in paragraph 4 of its Resolution, laid down its future policy in the following terms; ". . . in the interests of the co-operative movement itself, Government must disclaim responsibility for the provision of direct financial assistance to co-operative institutions". A reference was then made to the large amounts held by banks in deposits, and it was pointed out that it was "evident that the Local Government cannot accept financial liability for operations of such magnitude". A little further it was stated again "it is obvious that the Local Government is unable to give an assurance that in any future crisis it will be able to provide the large sum of money which might be required". Neither the Committee nor any advocate of Government's responsibility has been able to point to any statement or act of Government which even suggests a departure from the policy so unambiguously laid down. No analogy can be drawn from the assistance rendered by Government to the Provincial Bank in 1921. The circumstances then were entirely different. The Provincial Bank then needed only temporary accommodation to a limited extent, unlike the heavy responsibility lasting over 30 years suggested by the Committee now. The rôle of the Registrar is that of "guide, philosopher and friend", and the facilities provided by Government in the way of audit, inspection, etc., do not saddle any financial responsibility on it. Consistently with its responsibilities to the Province, therefore, Government regrets very much its inability to admit that it is under any obligation to make good the losses of the central banks.

8. It is not necessary to examine the scheme of the Committee at greater length. The present position of the co-operative movement in Berar is baffling and well nigh hopeless, and there is a considerable volume of authoritative opinion in favour of the view that there is no alternative but to liquidate the banks. Government, however,

is averse to taking this course if it can possibly be avoided. It has to be remembered that in approaching this problem Government has to look to the interests not only the depositors but also of the members of societies, as well as of the general tax-payer. The criticism that is often heard that the scheme prepared by the Committee—entailing as it does a crushing burden on the general tax-payer and selling up of a large number of members of societies, most of whom are as much the victims of natural forces and world-wide causes as of personal delinquency—has been conceived in the depositors' interests, is not without force. Liquidation too would involve the selling up of practically all the members and the total destruction of the co-operative movement at least for a generation. This is an eventuality which every well-wisher of the country and every true co-operator would endeavour to avoid. If liquidation is to be ruled out, except as a last resort, then the only alternative is to evolve some method of reorganization and rectification, which would by a process of voluntary conciliation bring the liabilities of the members and banks within their repaying capacity and realizable assets.

9. The principles on which any scheme of reorganization and rectification should be based are, in the opinion of Government, the following:—

- (1) That the conciliation of liabilities should be in the main voluntary and should not be forced on any party, though Government may be prepared to facilitate conciliation by enacting legislation as in some other provinces.
- (2) That every effort should be made to limit the losses to depositors as far as it is practicable to do so, and that Government may be prepared to help them to a strictly limited extent, so long as, the position of Government that it is under no liability to make good the depositors' losses is clear and understood.
- (3) That the scheme should carry within it the germs for the revival and growth of the co-operative movement, so that if it is accepted and loyally worked by the co-operators there may be a chance for the co-operative movement to rehabilitate itself and to fulfil its mission of promoting the moral and material welfare of the people.

10. Bearing these principles in mind, Government has, after careful consideration and consultation with the various interests affected and authorities on the subject, devised a scheme which in its opinion fulfils the above requirements and affords the co-operative movement in Berar a chance of rehabilitating itself. The salient features of the scheme prepared by Government are briefly outlined below.

11. It is obvious that any scheme involving recovery from members of societies more than they can reasonably be expected to pay in their present circumstances is foredoomed to failure. Even by liquidation it will not be possible to recover more than the present value of the assets. The first step, therefore, of any scheme of rectification must necessarily be to determine the repaying capacity of each member. The case of each individual member should be considered on merits and his repaying capacity determined in the light of all the circumstances without blind adherence to any preconceived rule of thumb. At the same time it is necessary that members who have been guilty of flagrantly unco-operative or dishonest actions and whose continued membership would be a source of weakness rather than of strength to the reorganized societies should be weeded out, e.g., members who formed societies to take big loans themselves, which they have deliberately declined to repay. The joint responsibility of members should also be taken into account while determining their liability and the amount payable by them. The period over which repayments by members should be spread should be 25 years. It is necessary to liquidate the present chapter of the co-operative movement in Berar as early as possible. It is equally important that more loss than is absolutely necessary should not be caused to the depositors. After careful deliberation, Government considers that 25 years is the longest period during which the members may fairly be expected to repay their present liabilities. It is, therefore, intended that the present debts of members should be reduced to the amount which they can repay in 25 years on the basis of their repaying capacity. In return for this, the members would be required to surrender the land in their possession which would, however, be given back to them again on hire-purchase system, so that, if they continue to repay their instalments, the land would eventually be theirs on a nominal payment. It may be necessary to require that the other immovable property of members should also be mortgaged for the repayment of the instalments. Members who do not agree to this proposal will have to be proceeded against coercively for the recovery of the sum outstanding against them. It is intended that along with working societies, societies whose liquidation proceedings are still in progress should be brought within the ambit of this scheme, if possible.

12. After determining the amount that can be recovered from the Members, the amount which each society can pay to the central bank in 25 years will be ascertained, and its liabilities conciliated for that amount. In return for this the societies would be required to assign mortgages or surrender land in their possession to central banks. Societies which do not agree to a reasonable proposal will necessarily have to be liquidated. It may also be necessary to liquidate societies which have been flagrantly unco-operative or dishonest in the past.

13. In this manner it would be possible to make an estimate of the amount which each bank may hope to be able to recover out of its outstandings against societies in 25 years. The present value of this amount at 4 per cent. interest would then enter into the calculation for ascertaining the value of the realizable assets of each central bank. The next step would be to approach the creditors of each bank, including the Provincial Bank, to agree to conciliate their dues so as to bring them within the total value of the realizable assets as determined above. It is not intended that the difference between the total liabilities and the conciliated amount should be written off. For this amount the creditors would be given preference shares in the respective banks. The preference shares would be entitled to priority of dividend up to 3 per cent. out of the net profits. The surplus, if any, would be utilized for making payment of dividend up to 3 per cent. to ordinary share-holders. If there is still any surplus left after making both of these payments, it would be utilized in paying dividend equally to the ordinary and preference share-holders, subject to such maximum limit regarding the amount of dividend as may be prescribed by law and the rules for the time being. In the event of liquidation, preference shares would have priority. These shares would be redeemable at the option of the banks, and they would carry no guarantee by Government. As has been stated already the conciliation would be voluntary and the depositors would be given the option of choosing between this scheme and the only other alternative, *viz.*, liquidation. Government would, however, be prepared to facilitate conciliation by introducing legislation providing that, if creditors to whom 66 per cent. of the liabilities are due accept a scheme, it would be binding on the rest. Similar provision exists in the Bihar and Orissa Co-operative Societies Act. For obvious reasons, it is not contemplated that items like dues to commercial banks, Provident Fund of employees, land revenue arrears, which are small, should be liable to conciliation as described above.

14. After the voluntary conciliation of the liabilities, cash payment *pro rata* would be made to the creditors equivalent to the cash assets of the banks and their reserve funds. The reserve funds of working societies or reorganized societies cannot obviously be utilized for this purpose. The balance of the scaled down amount will then be converted into debentures repayable in 30 years and bearing interest at 3 per cent. and carrying Government guarantee as to the payment of interest for 30 years, but no guarantee as to capital. It would be open to the banks to redeem the debenture before the expiry of 30 years, if they wish to do so.

15. The effect of this scheme would be to bring the present liabilities of the banks within their repaying capacity and to give them a period of about 25 years to shake off the legacy of the past and to start a new chapter. The problem of the management of land is proposed to be tackled, as far as possible, by giving it out on hire-purchase system to the old owners, or failing them, to other members of the society, or if that too is not possible, to other members of the public, provided the person to whom land is given is solvent and is in a position to cultivate it. Land which cannot be given out in this manner would be sold or leased out or otherwise managed in the best possible manner.

16. As regards the future management of the banks, Government is averse to any increase of official control. As stated in paragraph 3 of the Resolution on King Committee's Report, "the ultimate goal which Government has before it is the development of a genuinely co-operative organization, self-contained, self-governing as regards its internal affairs, and independent of money contributed by the general tax-payer". But it has been strongly pressed on Government that in the present circumstances it is essential that official control should be strengthened. The Berar Co-operative Enquiry Committee has also made similar recommendations. In some quarters the suggestion has been made that the movement should be completely officialized. This course does not commend itself to Government, which is anxious to retain in the movement at least a nucleus of co-operative element which may in the fulness of time sprout and develop into a fine tree. In deference to the views that have been pressed upon it, and also as a necessary concomitant of the Government guarantee regarding interest. Government considers that for some years at least the management of the central banks should lie in the hands of a committee composed of the representatives of share-holders, both ordinary and preference, and the nominees

of the Provincial Bank and of the Registrar. The hands of the Registrar are also proposed to be strengthened by giving him the following powers:—

- (1) Authority to change the byelaws of societies and banks or to suspend the operation of any resolution if it be contrary to the interests of the society.
- (2) Statutory power of superseding the management of any society. This power is already enjoyed by the Registrar under rule 14. It would, however, be better to give statutory powers to the Registrar.
- (3) The power to levy surcharge in case of gross mismanagement or disregard of the law, rules and byelaws.

17. If the above scheme is accepted by the banks and depositors, the income of the banks would be appropriated in the following order:—

- (i) to pay the land revenue charges;
- (ii) to pay the interest charges on debentures, including interest of the previous years which may have remained unpaid and which may have been paid up by Government;
- (iii) to meet the working expenses; and
- (iv) to meet the charges that may be needed for putting in the sinking or debt redemption fund which ever may be adopted.

It is only after these items and such other deductions as may be required to be made by law or the rules for the time being have been met that any amount would be available for distribution of dividend on preference or ordinary shares. Government, however, recognizes that after the inauguration of the scheme for a few years it may not be possible for the banks to meet their working expenses. In the first three years, therefore, Government would be prepared to make up the working expenses of the central banks up to a limit of Rs. 50,000 a year, provided the banks carry out all measures of retrenchment which the Registrar considers necessary and reasonable. If the scheme outlined above is accepted by the co-operators in Berar, Government would be prepared in collaboration with the Provincial Bank, to explore the situation and devise some method to make arrangements for the future expansion of the movement.

18. As has been stated above, Government does not wish to force the above scheme on either the share-holders or the depositors. It is, therefore, contemplated that the above scheme should be put first to the share-holders of each bank for acceptance. If the share-holders of any bank do not agree, there will be no alternative but to liquidate the bank. If, however, as is hoped, the share-holders accept it, the creditors would be called upon by the Registrar to make an election between the above scheme or liquidation. It is, however, hoped that the above scheme would be acceptable to the creditors also, for under it they stand to get all that they would in the event of liquidation and something more. After the creditors of a bank have also accepted the scheme, arrangements for the necessary enquiries will be made with the least possible delay, so that the banks may be able to start functioning again as early as possible. Government would also be prepared to introduce such legislation as may be necessary in the next session of the Assembly to implement the above scheme.

19. Only the bare outlines of the scheme have been given above. Government is still firmly convinced that co-operative movement conducted on the right lines is a very potent weapon in the fight against poverty and ignorance, and that it has great potentialities for the moral and material regeneration of the people, and for solving the problem of rural finance. It is in the hope and desire that the movement may be extricated from its present moribund state and flourish once more that the above scheme has been conceived, and Government feels that if it is accepted and worked in the right spirit a healthy and vigorous co-operative movement would still re-establish itself with consequent benefit to the people and the province.

20. The Committee's report, containing as it does a valuable analysis of the present position of the co-operative movement in Berar and the causes that have led to it, has been of the greatest assistance to Government, and Government desires to tender to the Chairman and the members of the Committee its warmest thanks for their arduous labours.

K. B. L. SETH,
Secy. to Govt., C. P. & Berar,
Agriculture Department.

RESOLUTIONS PASSED AT THE JOINT SESSION OF THE STANDING COMMITTEES OF THE INDIAN
PROVINCIAL CO-OPERATIVE BANKS' ASSOCIATION AND THE ALL-INDIA CO-OPERATIVE
INSTITUTES' ASSOCIATION.

Held at Madras on 27th and 28th October 1939.

1. This meeting requests the Secretaries of the two Associations to prepare a memorandum of the schemes now under consideration in the various provinces for the introduction of the system of multi-purpose societies or for reorganisation of the primary societies on a wider basis and elicit the opinion of the affiliated Institutes and Provincial Banks thereon for consideration of the Standing Committees at a later date.
2. The meeting, having heard the suggestion made by the delegates from Central Provinces and Bengal in regard to land mortgage banks advancing short term loans, specially crop loans, resolves to watch with interest the experiment if made in those two provinces.
3. This meeting is of opinion that when debentures are issued for financing land mortgage banks, due provision should be made for the creation of sinking funds or debenture redemption funds.
4. This meeting is of opinion that co-operative acts should be so amended as to make the co-operative loan a prior charge on the crops subject only to any revenue or rent charges.
5. This meeting requests the Provincial and State Governments to give adequate financial aid to co-operative societies for the construction of godowns in villages for storing of agricultural produce on the security of which loans are to be advanced.
6. This meeting requests the Provincial and State Governments to make adequate grants for the development of co-operative societies for the production and marketing of handloom products.
7. This meeting recommends to all Provincial and State Governments to take suitable action to strengthen the movement by helping the financing banks to advance on a more extensive scale short term crop loans to the rural societies.
8. The Standing Committees request the Provincial and State Governments to provide adequate funds and give other forms of help such as technical advice and initial assistance for starting co-operative societies, which will undertake development of agriculture, supply of agricultural requirements and sale of agricultural produce.
9. This meeting resolves that the Provincial and State Governments be moved to establish dairy farms and milk societies under co-operative system on an extensive scale, to improve cattle breeding and supply of pure milk in the country and to afford such farms and societies financial aid by grant of credit in the initial stages.
10. After giving careful consideration to the several suggestions made for the rehabilitation of the co-operative movement in Berar, the communiqué issued by the Government on the Report of the Committee of enquiry and the resolutions passed at the meetings of central banks and of depositors of central banks, this meeting resolves to formulate the scheme appended hereto and to recommend to the Government and the Provincial Co-operative Bank of Central Provinces to examine the same without further delay and take suitable action thereon.
11. This meeting approves the general outlines of the scheme of rehabilitation of the co-operative movement in Bengal submitted by the Registrar of Co-operative Societies to his Government and requests the Government of Bengal to examine it with a view to take necessary action as speedily as possible.
In this connection, while this meeting is in favour of expansion of the movement, it desires to record its considered opinion that such expansion should proceed on cautious lines and without undue haste.
12. This meeting requests the Government of Bihar to examine the report of the Board of Experts on the rehabilitation of the Co-operative Movement in Bihar recently submitted to the Government and to take suitable action thereon as quickly as possible.
13. This meeting thanks the managers of the Provincial Co-operative Banks for making available to the Standing Committees the proceedings of their meeting, which contain useful comments on the proposals made by the Reserve Bank of India in their circulars dated 14th May 1938 and 12th June 1939. This meeting resolves to circulate the proceedings to the several Provincial Co-operative Banks for their opinion with a view to formulate their reply to the Reserve Bank.

14. This meeting requests the Secretaries of the two Associations to collect the market acts passed by the various Provincial and State Governments and submit the same to the Standing Committees in order to suggest to the Governments concerned the lines of necessary legislation for establishing regulated markets wherever it is necessary.

15. This meeting requests the Secretaries of the two Associations in collaboration with Mr. K. Velayuthan Pillai, to draw up a scheme for implementing resolution No. 9 of the joint session of the Standing Committees held in Jubbulpore in April 1939 regarding organisation of a band of life workers to serve the Co-operative Movement in India.

16. This meeting resolves to refer the resolution* proposed by Mr. Lahiri to the President for writing a suitable note thereon and circulate the same to the members of the Standing Committees, for consideration at a later meeting.

17. The continuance of the publication of the *Indian Co-operative Review* at Madras during the year 1940 and the incurring of necessary expenditure in connection therewith are sanctioned.

18. The invitation of Mr. D. P. Dastur, Manager of the Sind Provincial Co-operative Bank to hold the next meeting of the Association at Karachi is noted with thanks. The President is authorised to fix the place and date of the next meeting after consulting the convenience of the members.

19. This meeting requests the President and Secretaries to arrange for a co-operative study tour for about six weeks throughout India at some convenient time after the middle of January 1940 and to draw up a programme of the tour. Those who join the tour will bear their own expenses

* That in view of the critical position of co-operative organisation in many of the provinces and States and with a view to avoiding chaos and confusion, this meeting considers it desirable that a proper lead be given by this Association to co-operative public opinion all over the country by taking suitable steps for the preparation of a well considered scheme:—

- (a) for rehabilitating the existing organisations as far as possible;
- (b) indicating the course of action to be followed with reference to new organisation; and
- (c) laying down a policy of de-officialisation.

APPENDIX TO RESOLUTION No. 10

SCHEME FOR THE REHABILITATION OF THE CO-OPERATIVE MOVEMENT IN BERAR.

(Adopted by the Joint Session of the Standing Committees of the Indian Provincial Co-operative Banks' Association and the All-India Co-operative Institutes' Association, held at Madras on the 27th and 28 October, 1939.)

The financial position of the primary societies and the Central Banks in Berar is set out in detail in the Gole Committee report. The Government communiqué on that report briefly summarises it as follows: "About half the societies in Berar are under award or liquidation, and almost the whole of the amount due from them is overdue, and over 80 per cent. is under recovery from members and societies under coercive proceedings. The total liabilities of all the 12 central banks amount to Rs. 106.72 lakhs, while the total assets aggregate Rs. 90.58 lakhs, consisting of cash and liquid assets amounting to Rs. 22.19 lakhs, immovable property valued at Rs. 30.52 lakhs, and debts classed as good amounting to Rs. 37.87 lakhs. The total deficit of all the banks amounts to Rs. 16.14 lakhs and if the liability to share-holders is not taken into account the deficit is Rs. 10.12 lakhs. The area of land in possession of the central banks amounts to 49,712 acres and that in possession of societies to 4,798 acres, the multiple value of which is estimated to be Rs. 25.57 lakhs and Rs. 2.77 lakhs respectively. Except Pusad, Darwha and Mehkar banks, whose profits were only nominal, the remaining banks were running at a loss, the annual income falling short of the expenditure by Rs. 2.7 lakhs. The assets of 5 banks were less than the liabilities and the other 7 banks on paper showed some excess of assets over liabilities. This was the position on 30th June 1938. It has probably undergone a change for the worse since in some respects." Of the liabilities of the Central Banks roughly a sum of about Rs. 65 lakhs is payable to their depositors while the investments of the Provincial Bank in them amount to roughly Rs. 35 lakhs.

The scheme outlined hereunder is based on the following fundamental considerations:—

1. Any scheme of rehabilitation should have as its primary aim the improvement of the condition of the members of the village societies and relieving them from the heavy burden of accumulated co-operative debt by scaling down the same to the level of their capacity to pay.

2. The machinery for providing rural credit should be thoroughly overhauled and the flow of productive credit to the agriculturists should be ensured in future on a better system. This has become all the more necessary by the drastic curtailment of credit to the agriculturists as a result of debt relief measures and other factors.

3. The depositors who placed their resources at the disposal of the movement and thus benefited the agriculturists by providing sources from which rural credit has hitherto been drawn should be given a fair deal and every effort should be made to see that they get sixteen annas in the rupee of their deposit, if it is possible to do so. Any sacrifice that they may be required to make should be one of last resort, after exploring every avenue to meet their claims.

4. Without some tangible financial assistance from the Government it will not be possible to do justice to the depositors or to rehabilitate the movement, and the Government can do a great deal to restore public confidence in the co-operative institutions once more by the evidence they give of their solicitude to the movement in the form of some suitable assistance given at this juncture.

5. But the demand from the state for assistance should impose as little burden as possible on the general tax-payer for the commitments of the Provincial Governments are many, and help to the co-operative movement is one of the socio-economic programmes for the betterment of the masses. But such help from the public Treasury is justified for it does not merely mean help to certain institutions and their creditors but to the entire rural economy in general which will be revitalised by the revival and expansion of the Co-operative Movement.

The scheme of rehabilitation may be set out under the following heads: (1) Depositors of central banks; (2) The Provincial Bank's investments; (3) Central Banks; (4) Primary Societies; and (5) Future management and finance.

I. Depositors of Central Banks.

The depositors may be asked to write down *for the present* 25 per cent. of the amount due to them, that is roughly Rs. 15 or 16 lakhs. We advisedly say for the present, for if ultimately there is a surplus of realisable assets under the scheme of rehabilitation, there is no reason why such surplus should not be paid to the depositors eventually to make up their loss represented by writing down the 25 per cent. In the case of bank whose realisable assets are actually in excess of their liabilities, this is a real concession. Our recommendations only postpone the payment of the 25 per cent. until it is ascertained that there will be surplus assets after meeting the other claims as indicated in the scheme. In regard to the other 12 annas in the rupee of their deposits, steps should be taken to pay them six annas in the rupee immediately and ask them to wait for the payment of the balance of six annas till available assets are realised. For this fraction of 6/16th of their deposits, they will get debentures on which interest at three per cent. will be guaranteed by the Provincial Government (without guarantee of principal) the only security for principal being the realisable assets. We shall revert to this a little later. It must be stated that the Government guarantee of interest (if there is a deficit) should not be fulfilled by depleting the assets but must be met by Government from its own funds.

Besides liquid resources of the central banks, the other assets consist mainly of lands purchased by central banks and societies and loans outstanding in the societies. The central banks will be required to find Rs. 10 lakhs from their liquid resources for paying the first instalment to the depositors. This sum of Rs. 10 lakhs will roughly represent a little less than one-half of their liquid resources, which amount to a little over Rs. 22 lakhs. The lands purchased by the central banks are about 55,000 acres in extent. It is difficult to estimate the market value which they may fetch when sold, for it depends not only on the integral value of the lands but on their marketability and the demand for them. But it is expected that on a conservative estimate, they will fetch about Rs. 30 lakhs. This amount may be realised only in the course of some years, for this large extent of land cannot be put on the market for sale all at once. It will have the effect of depressing prices besides involving other difficulties. It is however, expected that they can be disposed of in the course of about seven years. If the present land values continue or improve it should not be difficult to realise even something more than this amount in less than seven years.

In this connection, we must say that the best mode of disposal of lands should be adopted and the scheme does not commit the central banks to any particular method. Where it is possible to find outright purchasers, lands may be disposed of by immediate sale as and when purchasers are available. Where they can be only disposed of on hire-purchase system, that method may be adopted. Again, if there are any creditors who are prepared to take lands in entire or partial discharge of their claims, they may be given the lands. Other modes of disposal may also be explored.

In regard to the loans outstanding in the societies, it is even more difficult to make an estimate with any precision or even approach to accuracy. It must be largely a matter of conjecture as to what is good asset and what is not. The Government Communiqué puts the debts classed as good at a little less than Rs. 38 lakhs. This figure may require further scrutiny after scaling down the loans to the level of the paying capacity of the members and placing the securities behind them on a sound footing. In any case these loans can be recovered only by means of payments extended over 20 or 25 years. So, the assets in the form of lands and outstanding loans are not immediately available even for part payment to the creditors.

If the creditors are to be paid six annas in the rupee immediately, a sum of about Rs. 25 lakhs may be required. Deducting the sum of Rs. 10 lakhs which is to be drawn from the liquid resources, we have still to find a sum of Rs. 15 lakhs. We recommend to the Government of the Central Provinces to lend this sum to the Provincial Co-operative Bank at Nagpur, without asking the Bank for any particular form of security or making it liable for the loss if any. The interest on this loan should not exceed three per cent. or the Bank rate. The Government will have a priority for payment of their instalments as and when the proceeds of the sale of the lands and collections of loans in societies come in. It must also be stated that the entire loan of Rs. 15 lakhs will not be required at once. If a cash credit to this extent is arranged for the Provincial Bank the money will be drawn as and when it becomes necessary in the process of rehabilitation. It will take some time before this loan can be fully utilised for the purpose mentioned above.

The difficulty that is created by the Provincial Bank being a secured creditor and the lands being mortgaged to it can be got over only by the Provincial Bank agreeing to give up its priority in favour of the Government, a course which we

shall recommend when we deal with the Provincial Bank. The period of the Government loan need not be co-extensive with the period allowed to the members of societies to repay their loan. We think a loan for about fifteen years would be quite enough. The proceeds from sale of lands will come in before that period. The creditors will thus get immediately Rs 25 lakhs out of the Rs. 50 lakhs that will be due to them after they write down four annas in the rupee as already stated. For the further sum of Rs. 25 lakhs, they will have to wait for the realisation of the assets by the sale of lands and recovery of outstanding loans. But during the period the Government loan is subsisting, only such portion of the assets as remain after paying the instalment due to the Government will go to the Provincial Bank and the creditors.

A question may arise as to the proportion in which this sum of Rs. 25 lakhs thus found for immediate payment of 6/16 of the deposits is to be distributed among the various central banks. We consider that the sum may be distributed pro-rata, that is in proportion to the total amount of deposits held by them. We consider this an equitable procedure, because our scheme contemplates that all depositors should be ultimately paid sixteen annas in the rupee, if realisable assets make it possible and we have asked depositors in all central banks, without discrimination, to write down for the present 25 per cent. of their total claim and similarly asked the depositors of all central banks to receive this four annas at the end when it is found there are ultimate surpluses of realisable assets. So, we think the only equitable procedure is that of distributing the sum of Rs. 25 lakhs in proportion to the deposits held.

An alternative mode of financial assistance by the Government which may suggest itself is the Government taking over the lands purchased by the central banks and societies and giving the movement their estimated value of Rs. 30 lakhs and settling the lands on hire-purchase system, recovering the instalments from the lessees as arrears of land revenue. This is the Burma scheme. We have not recommended this scheme for it may prove disadvantageous both to the central banks and the Government alike. When the lands are disposed of under favourable conditions, the central banks may be able to realise more than Rs. 30 lakhs. If a scheme of rehabilitation can look to the Government for a smaller measure of relief (a loan of Rs. 15 lakhs under proper safe-guards) as in our scheme, there is no need to ask the Government to find twice that sum, with the entire responsibility to recover that sum from the lessees thrown on the Government.

II. The Provincial Bank.

A sum of about Rs. 35 lakhs is due to the Provincial Bank from the central banks. We recommend to the Provincial Bank to write down a sum of Rs. 6 lakhs and bring down their claim to Rs. 29 lakhs. The Provincial Bank was, according to our information, prepared to write off even Rs. 10 lakhs. But we are not asking the Bank to do it for two reasons. Firstly because we do not wish to touch the capital of the Provincial Bank or its other resources in view of the fact that it should be the chief financing agency and should be in a strong financial position. We have fixed the amount at Rs. 6 lakhs because it roughly corresponds to the special bad debt reserve already accumulated by the Provincial Bank in addition to its statutory reserves. This bad debt reserve is intended to write off bad debts and to that extent, it may safely be utilised. We are aware that this bad debt reserve is intended not only to meet losses from bad debts in Berar but also in other parts of the Central Provinces where also some of the Banks are not in a sound financial position. But in accordance with the conventions and rules observed in regard to writing off bad debts and drawing on available reserves for such purposes, we will have to utilise the bad debt reserve to deal with definitely ascertained bad debts from time to time. There is nothing uncommon in this procedure. Our second reason for not asking the Provincial Bank to make a larger sacrifice is that we propose to recommend to the Provincial Bank to forego its priority in favour of the Government till the loan of Rs. 15 lakhs which the Government is requested to advance, is discharged. This will be a greater service to the movement than writing down its investments by four lakhs more. If the Provincial Bank immediately brings down its claim to Rs. 29 lakhs and also agrees to forego its priority in favour of the Government in the manner stated above, we hope that our scheme of rehabilitation will have a fair chance of success.

III. Central Banks.

The scheme of rehabilitation must necessarily deal with the central banks and the primary societies as well. In regard to the central banks the position seems to

be that four of them, Amraoti, Akola, Khamgaon and Malkapur, are in a worse condition than the rest of the eight banks. One of the eight banks seems to be good and is not involved in any financial crisis. The other seven are comparatively better than the four banks mentioned above and can be reconstructed. We hope that if our scheme in regard to the depositors and creditors and the Provincial Bank is accepted by the Government and the Provincial Bank, there may be no necessity to liquidate even any of the four central banks mentioned above. If our scheme fails by the reluctance on the part of any of the interests concerned to render suitable help or make adequate concessions the responsibility for liquidating the Movement must be assumed by them.

If, however, any central banks have unfortunately to be liquidated in the last resort, the Provincial Bank should undertake the financing of societies in the area of the liquidated banks, till such time as co-operators of Berar are able to establish new central banks in such areas. It will take considerable time to re-establish central banks there. The provincial bank is the only agency to step in during the interval.

IV. Primary Societies.

Much depends upon how the primaries are rehabilitated and re-constructed. This in our opinion is the foundation of the whole scheme of rehabilitation. There must be a thorough examination of the individual loans in the several societies and relief to the utmost extent possible should be given to indebted members. It may be that the arrear interest will have to be completely wiped off and possibly a portion of the principal amount may have to be scaled down. The extent of relief in this direction is obviously a matter to be decided after an examination of each individual member's loans and must vary from area to area. It is for the Department of Co-operation and central banks to arrive at some definite conclusions in regard to this matter, after necessary investigation.

After such an examination of individual loans the members of societies should be divided into two categories—"retained members" and "eliminated members." By eliminated members we do not mean that any body should be struck off the rolls of membership. All that we mean is that such members will not be brought under the scheme of rehabilitation by giving them extensions for recovery of loans, because their cases are definitely bad. Every effort should be made to recover loans due from them after giving them the relief mentioned above, as quickly as possible, but not necessarily or in all cases by immediate coercive processes. We think that a period of one to five years according to the merits of each individual case, may be prescribed for the recovery of the dues from the eliminated members. They should certainly not be entitled to fresh finance. In regard to retained members, their loans should be placed on a new footing. All short and intermediate loans have become frozen and practically become long term loans as a matter of fact. They must get about 20 to 25 years and revised kists must be fixed for them. The reconstructed central banks must be put on a sound footing by restricting their membership to good societies with retained members. Definitely bad societies and effects of eliminated members must be brought under some scheme of quasi liquidation which may require a special agency to be employed till the process of rehabilitation is completed. The Government may have to be approached for the cost of this agency.

We recommend that unlimited liability should be only enforced where it is absolutely necessary to do so. We would have preferred the abandonment of such liability altogether. But in the peculiar conditions of Berar, we feel that the creditors and depositors of central banks may raise some objection to any of the legal rights to which they are entitled being abandoned. But in making contribution orders for enforcing unlimited liability care should be taken to issue such orders for sums in excess of amounts actually borrowed by a member, only when he is found guilty of fraud, mismanagement or is otherwise responsible for causing loss to the society.

Legal Obstacles.

There are many details which we have not filled in. For instance it may not be possible to give effect to some of our proposals without necessary legislation. The utilisation of Rs. 10 lakhs out of the total liquid resources as suggested by us may require legislative sanction. The need for legislation may arise, because under our scheme pooling of such liquid resources may become necessary, that is to say, the liquid resources of a plus bank may have to go to relieve the distress in a minus bank. This is now not permitted under the co-operative law. But we hope that the whole scheme will be worked with the consent of the several interests concerned, in which

case no legal difficulty would arise. But if ultimately it does arise, it should not be difficult to get over these legal impediments by suitable legislative or executive action.

It is true that we are encroaching on the legal rights of depositors. But ultimately, the only legal right the depositors have is to ask for liquidation of the central banks and to wait for recovery till the liquidator realises the assets. The assets are represented by lands and loans outstanding in the societies. Every one who is familiar with the processes of awards and liquidation know what it means to realise the assets. In the circumstances of Berar, depositors are likely to be prejudiced much more by this course than the course which we have suggested, which after all involves a sacrifice of four annas in the rupee and waiting for realisation of assets under more promising conditions, for the payment of six annas in the rupee, the other six annas being paid immediately. As we have already stated, for the portion of the deposits represented by the six annas in rupee for which the depositors will have to wait for some time, they will get debentures the interest on which at three per cent. will be guaranteed by the Provincial Government. As the depositors are being helped to realise ultimately at least twelve annas in the rupee and as the Government and the Provincial Bank are coming to their rescue, it should not be considered objectionable from any standpoint to pass legislation, if necessary in the direction indicated. For instance, no depositor can be asked legally to wait for 25 years or even for a day after the deposit matures to make a demand for the return of the deposit. So, a sort of moratorium may have to be declared by legislation to prevent the depositors and creditors of central banks from making a demand, except in accordance with the terms of the rehabilitation scheme. There are other directions in which legislation may be necessary.

V Future Management and Finance

There are two other aspects of the scheme of rehabilitation with which also we wish to deal. One is the question of future management. But in order to give effect to this scheme and to keep central banks and societies going in future, the Government must come to the rescue of the central banks and find money necessary for expenditure. We consider that a subsidy of Rs. 1 lakh per year for the next five years will be necessary, and we recommended that this subsidy be given without prescribing exacting conditions which central banks may not be able to comply with.

The next question is about future finance. The Provincial Bank and the Government are the only sources from which funds for future finance can be drawn at least for some time to come, because the public cannot be expected to invest any more funds in the central banks in their present position. Future finance can be ensured by the Provincial Government agreeing to arrange for a cash credit accommodation to the extent required to the Provincial Bank through the Imperial Bank or the Reserve Bank on the guarantee of the Government if the Provincial Bank requires such financial backing. We understand that a credit limit not exceeding Rs. 5 lakhs would be enough for the present and the Provincial Bank can itself find the funds necessary if it can draw up to a maximum limit of Rs. 5 lakhs on this account as and when necessity arises. If fresh finance is advanced with care and caution and due attention is paid to regular recoveries we do not foresee any risk of the Government or the Provincial Bank losing any portion of the money so made available. It all depends upon the future management of the banks. The proposal of constituting the future boards of management of central banks with representatives of the Provincial Bank, the Government and the Central Banks is a fairly workable one. If, however, the Government, in order to safeguard its own interests, wants to take over the management of central banks in a more effective manner we leave the matter for the decision of the Government.

There is one question connected with future finance which requires mention. In the present circumstances of Berar, we think that the assets represented by the future loans should be completely separated from the assets represented by the old loans for various purposes. One such purpose will require legislation. In law, the creditors of central banks—the old depositors and the Provincial Bank—will be entitled to claim that these new assets of the central banks represented by future loans should also go in discharge of their claims *pari passu* with those of the new creditors who will be the Government and the Provincial Bank. This will be fatal to our scheme of rehabilitation as a whole. So, legislation may have to be undertaken to the effect that the new assets represented by future loans would not be made available to the old depositors and creditors in central banks, but these assets will be utilised only for the discharge of loans advanced by the Provincial Bank or by the Government through the Provincial Bank for future finance.

The separation of assets represented by fresh finance (crop loans) from old assets of central banks may however be effected without legislation if the Provincial Bank constitutes the central banks, through which the crop loans are advanced, as its agents. Then the assets represented by those loans will not be the assets of the central banks, which are merely agents. This is a question of suitably drafting an agreement between the Provincial Bank and central banks.

It is now difficult to say whether, even if the recommendations made above are agreed to by the Government, the Provincial Bank and other interests concerned, it is possible to save all the central banks from liquidation. But every effort should be made to see whether the scheme drawn up could not be implemented without liquidating any central bank, for the repercussions of liquidation are very serious. But if the scheme is not adopted or even if it is adopted it is found that all the banks cannot be saved, then as a last resort, such banks as cannot be saved may be liquidated, provision for finance to societies being made as already suggested.

GOVERNMENT OF ORISSA.

DEVELOPMENT DEPARTMENT.

COMMUNIQUE.

The 6th June 1939.

The condition of the co-operative movement in this province had been engaging the attention of the Bihar and Orissa Government for some time before the creation of the new province. In 1935, at the request of the Hon'ble Minister in charge of Co-operative Credit in Bihar and Orissa, Mr. (now Sir Malcolm) Darling, Special Officer of the Government of India, made a tour of the province and examined the financial position of certain co-operative banks and societies in North Orissa and submitted a note containing the results of his examination. Before the separation of Orissa from Bihar, it was found that the Central Banks in North Orissa owed a large sum of money to the Bihar and Orissa Provincial Co-operative Bank at Patna, and it was, therefore, decided, at the instance of the Government of India, that the Registrar of Co-operative Societies, Bihar, should continue to exercise control and supervision over the co-operative movement in North Orissa till the question of the dues of the Provincial Co-operative Bank at Patna was taken up and settled. In presenting the Budget for 1937-38, the Hon'ble the Chief Minister reviewed the whole position in regard to the co-operative movement in the province, and, in the course of his speech, undertook that, before the starting of the Provincial Bank of Orissa, a careful enquiry would be made to take stock of the whole situation. In pursuance of this undertaking, Government, in November 1937, appointed Diwan Bahadur Deivasikhamani Mudaliar, ex-Registrar of Co-operative Societies, Madras, to conduct the enquiry. That officer made a very thorough enquiry and submitted a report which was published in Resolution No. 4024-E., dated the 15th June 1938 and was circulated to all important officials and non-officials of the Province. The opinions received from those who have been consulted have been carefully considered by Government.

The general conclusion of Diwan Bahadur Deivasikhamani Mudaliar is that the co-operative movement in North Orissa has broken down for a number of reasons, namely, economic depression, bad harvests, high rates of interest, over-financing and bad financing, the apathy of *panches* and office-bearers, wilful default by members, collusive disposal of land, deliberate withholding of payments in anticipation of remissions, propaganda by interested parties for non-payment of rents, over-rapid expansion, inadequacy of Government staff for supervision and control, the policy of "full finance" of members with a view to wiping off all prior debts, and prolonged and costly execution proceedings. These reasons are accepted by Government as substantially correct.

On the question of the rehabilitation of the movement, the Diwan Bahadur's conclusion is that, in its present state, the movement cannot be revived without substantial financial and other assistance from Government. His proposals are, briefly, that a State-aided Provincial Co-operative Bank should be established at a very early date; that during the period of rehabilitation—which he reckons as 15 years—

this Bank should be rigidly controlled by Government; that the management of the Central Banks should be taken over by the Provincial Bank whose agents will act as Secretaries of the Central Banks; and that Government should advance loans from time to time to the Provincial Bank to carry on its business and also for the purpose of financing the Central Banks. The Diwan Bahadur has considered the question of liquidation of the existing Central Banks in North Orissa but is, on the whole, of the opinion that liquidation is not practical politics. As regards primary societies, he has recommended that the entire overdue interest or a substantial portion of it should be remitted independently of individual examination of loans; that a detailed examination of the financial position of the societies and of individual loans should be undertaken; that the debts should be scaled down and the period of repayment fixed anew; and that the creditors of the Central Banks should be taken into their confidence by Government.

The question of the bifurcation of the Bihar and Orissa Provincial Bank and the settlement of accounts between the Central Banks in North Orissa and this Bank had been engaging the attention of Government ever since the creation of the province. In order to expedite the matter and to get rid of the burden of contributing to the Bihar Government for the services of their Registrar of Co-operative Societies, a conference was convened at Patna on the 13th and 14th August 1938, at which representatives of the Governments of Bihar and Orissa and of the Bihar and Orissa Provincial Co-operative Bank met, and it was decided that the Orissa Government should pay to the Bihar Government (and through them to the Bihar and Orissa Provincial Co-operative Bank) a sum of Rs. 3,75,000 in eight equal annual instalments free of interest; that, by this undertaking, the determined share of the North Orissa Central Banks in the assets and liabilities of the Provincial Co-operative Bank as on 15th August 1938 would be transferred to the Orissa Provincial Co-operative Bank, and that the Registrar of Co-operative Societies, Bihar, would cease to have any control over the Co-operative Department in North Orissa. The Central Banks in North Orissa have ratified this agreement. On account of this commitment Government will, through the Provincial Bank, make recoveries from the assets of the Central Banks of the money that would have been due to the Patna Provincial Bank if this agreement had not been entered into, rateably with the other creditors of the several Central Banks of North Orissa.

Government now propose to take steps for the rehabilitation of the movement after considering the recommendations made by Diwan Bahadur Mudaliar.

The first step will be the creation of a Provincial Co-operative Bank.

Government have decided that in the first instance the Provincial Bank should be managed by a Board of Directors entirely nominated by Government. It has also been decided that the Secretary of the Bank should be an expert appointed by Government. Government will finance the Provincial Bank either directly or by guaranteeing a loan from an outside source, subject to the conditions that will be imposed by Government. The details regarding the amount of loan and the conditions will be decided after the Provincial Co-operative Bank comes into existence and approaches Government for financial assistance.

It is proposed that the management of the existing Central Banks of North Orissa will be taken over by the Provincial Co-operative Bank temporarily, the transfer being effected, if possible, voluntarily, or, failing that, by legislation. This arrangement will be for a period of six years, but if within the period of six years the Provincial Bank considers that any Central Bank is sufficiently rehabilitated, it may retransfer the management. The agents of the Provincial Bank will act as Secretaries of the Central Banks. Government will be prepared, if necessary, to give financial assistance to the Central and Provincial Banks to meet the cost of administration for a certain period.

As regards interest overdue from members of primary societies, Government have decided to recommend to the Central Banks that all interest overdue for more than 3 years on the 1st July 1938 should be wiped off, and that for the rest of the overdue interest the rate of $7\frac{1}{2}$ per cent. should be applied and the excess over that amount be remitted; that from 1st July 1938 all loans outstanding from members by 1st July 1938, and all loans newly issued after that date shall bear interest at the rate of $7\frac{1}{2}$ per cent. per annum; and that all amounts recovered after that date by execution proceedings or otherwise should, after recovery of costs, etc., be appropriated first towards current interest (i.e., interest accruing from 1st July 1938 and after) at $7\frac{1}{2}$ per cent., and next towards the principal; and, in case there is any further

balance, this should be appropriated towards arrears of interest (i.e., interest outstanding by 1st July 1938). In the case of loans outstanding to Central Banks from Societies the same concessions shall be given, the rate being $6\frac{1}{2}$ per cent. instead of $7\frac{1}{2}$ per cent.

Lastly, as regards the depositors of the Central Banks, Government have carefully considered the recommendation of the Diwan Bahadur that the consent of the creditors of the Banks should be obtained to the arrangements that Government propose to make for the rehabilitation of the movement. While they are aware that such a consent would materially help in the success of the steps that Government propose to take, they have decided that, so far as this question is concerned, it would be to the advantage of everybody concerned to wait and see the working of the movement as resuscitated for a period of one year before taking a final decision in the matter. Government, therefore, propose to defer the consideration of the question of the depositors for a period of one year from the date on which the Provincial Co-operative Bank begins to function.

For giving effect to these proposals, the agreement of the Central Banks is essential. The main object is to revive the movement with the least possible disturbance to the existing state of affairs, the only other alternative being to liquidate all the Central Banks and rural societies in North Orissa as a prelude to the winding up of the movement. Government agree with the Diwan Bahadur that the Co-operative movement, in spite of its break-down in this province, has been able, during the last 30 years, to supply credit to the agriculturist on terms more favourable than he could obtain from the Mahajan, and for this reason, if for nothing else, it would be unwise to wind up the movement. Government trust that all those interested in the movement, particularly all depositors in Central Banks and the members of the rural societies, will accept these proposals as the most satisfactory that can be devised for the resuscitation of the movement.

CIRCULAR MEMORANDUM No. 5542 C. S., DATED CUTTACK, THE 29TH AUGUST, 1939,
FROM THE DEPUTY REGISTRAR.

SUBJECT :—*Rehabilitation of the co-operative movement in North Orissa—Procedure of.*

The first step in the process of rehabilitation of the Co-operative movement in North Orissa will be the re-calculation of demands of societies and central banks in accordance with the recommendations of Government as published in the communiqué dated the 6th June 1939 which all the central banks in North Orissa have now accepted. Detailed instructions about this recalculation are given in Annexure 'A' to this circular. Inspecting Clerks should immediately start on this work which must be concluded by the end of November 1939. Monthly progress statements should be submitted to this office through the Assistant Registrar of the Circle.

2. All demands under awards and all debts due from members of liquidated societies shall be re-calculated and revised in accordance with the terms of the Government communiqué.

3. *Haisyat* statements of members should be carefully revised along with this work of recalculation of interest.

4. Balance sheets of the central bank and of societies as on 30-6-39 should be prepared afresh on the basis of this recalculation of interest.

5. The audit of societies and central banks should be conducted on the basis of these revised balance sheets and the audit notes must show these revised balance sheets. Auditors must check this recalculation of interest during their audit. When an auditor visits a society in which interest has not been recalculated by the inspecting clerk according to terms of Government communiqué he should recalculate the interest himself and prepare a fresh balance sheet and incorporate it in the audit note. Balance sheets in audit notes of societies already audited should be corrected by the Inspecting Clerks and copies of these revised balance sheets should be sent to the Assistant Registrar of the Circle and the Central Bank.

6. While recalculating interest in societies, the Inspecting Clerks will classify the defaulting members into 3 classes. (1) members who have defaulted with a view to cheat the society (2) members who have made wilful defaults in expectation of concessions, (3) members who defaulted due to want. A little intelligent enquiry in the society will reveal the members who belong to classes 1 & 2. A list of members of societies divided into the above three classes should be submitted by the Inspecting Clerk to the Agent as he completes recalculation of interest and revision of *Haisyat* in each society.

7. Members belonging to classes 1 & 2 should be asked to pay up the revised demand in full and in case of failure of payment, coercive action should be brought in to realise the dues. Members who have defaulted due to want should (now that they have been given such large concession) show their earnestness by making a lump payment in the coming collection season whereafter it will be decided what kists he should get. No *kist* will be granted to members of classes 1 & 2. In order to decide amount and period of *kist* to be given to members of class 3 enquiries into their repaying capacities will be made by the Agent personally. He may employ his staff in obtaining figures which he must, however, check in every case and he will be personally responsible for the estimates. Enquiries will be directed to the debtors' *haisiyat* his outside debts, his crops and their value, his other earnings not excluding those of his family. Based on these, a rough and ready estimate should be made. If these enquiries are conducted openly in the presence of a large body of villagers, members and non-members, it should not be very difficult to make a fair estimate of what a member should pay. No set forms should be used in estimating a debtor's income and repaying capacity. Such set forms have a tendency to become too mechanical whereas what is wanted is human touch, native intelligence based on experience of lands which an Agent is expected to possess. Short notes should be written in the case of each society and in these the basis of Agent's estimates must be given. These notes should mention whether the society is situated in protected or flood tract and whether the land is irrigated or rain-fed and whether it is single or double cropped area.

8. The Agent shall also divide the societies in a Bank's area into 4 classes as under :—

- (a) Societies owing nothing to central banks;
- (b) Societies, indebtedness of which to central banks is only 25 per cent or below of the loans outstanding from their members;
- (c) Societies, indebtedness of which to central banks is between 26 per cent. to 50 per cent of the loan outstanding from their members;
- (d) The remaining societies. Our attempts should first be directed to revive societies in class (a) & (b) and new business with them shall start as soon as money is available. The bad societies will be ruthlessly discarded after conducting a searching enquiry into them to see if possibilities of reviving them exist.

9. *Awards and liquidation.*—Awards and liquidation proceedings should go on after revision of demands according to the concession granted by the banks.

10. *Lands.*—All lands should be sold back to the original owner on the hire-purchase system annual hire to be paid in advance. Each Bank will have to work this out in individual cases and obtain orders from the Registrar in the first six cases so that the latter may know what system is being followed and what terms are finding general acceptance.

11. *Panchayats.*—The Inspecting Clerks while going round making recalculation of interest should hold general meetings for electing fresh panchayats. They should take care to see that good members are elected as office-bearers of societies.

12. *Deposits.*—All collections of principal must be kept separate to cover deposits.

13. Some banks declared various concessions to members and societies in order to stimulate collection in previous years. All such concessions will become in-operative from the date the banks accepted the Government recommendations as published in the communiqué, dated the 6th June, 1939.

ANNEXURE 'A'.

INSTRUCTIONS FOR RECALCULATION OF INTEREST AS PER CONCESSIONS RECOMMENDED IN GOVERNMENT COMMUNIQUE DATED THE 6TH JUNE 1939.

The concessions recommended by Government are as follows :—

I. Take the interest outstanding on 1st July 1938 and determine (a) what part of the interest is for the period previous to 1st July 1935 (b) what part of it is for the period 1st July 1935 to 30th June 1938 and then write off (a).

II. Reduce (b) as calculated above in the ratio of $7\frac{1}{2}$ per cent. (in the case of members of societies) to the then rate of interest.

In the case of interest due from societies to central banks, the interest is to be reduced in the ratio of $6\frac{1}{4}$ per cent (not $6\frac{1}{2}$ per cent which is a misprint) to the then rate of interest.

The interest so reduced will be called deferred interest and will be noted down in the Loan Ledger in the column provided for principal and under it.

III. Recalculate interest for 1938-39 from 1st July 1938 to 30th June 1939 at $7\frac{1}{2}$ per cent. in the case of loans due from members to societies and $6\frac{1}{4}$ per cent. in the case of loans due from societies to central banks. This revised interest and interest accruing subsequent to 30th June 1939 at the same rate constitute the current interest.

IV. If any payment has been made by a member or a society after 1st July 1938, reappropriate collections as follows:—

- (i) First towards cost etc.,
- (ii) secondly to current interest due as calculated according to III above by the date of collection;
- (iii) thirdly the balance, if any to principal and
- (iv) lastly the balance left, if any, to deferred interest.

In future also all collections will be appropriated in the order above named.

V. Smaller rates of interest than recommended in the Government communiqué need not be increased.

A few illustrations are attached as a guide.

ILLUSTRATIONS.

SOCIETY'S ACCOUNT IN CENTRAL BANK.

Extract from Ledger.

	1	2	3
	Principal.	Interest.	Rate of Interest.
I.—Balance on 30th June 1935	1,736	×	$12\frac{1}{4}\%$
Balance on 30th June 1938	1,736	1,086	..

4

Outstanding Interest on 30th June 1938 consists of.

Interest of 37—8 = 217 at $12\frac{1}{4}$ per cent.

Interest of 36—7 = 217 at $12\frac{1}{4}$ per cent.

Interest of 35—6 = 217 at $12\frac{1}{4}$ per cent.

651 reduced to $6\frac{1}{4}$ per cent.

Interest of Earlier 435 written off.
period.

1086

5

Reduced as per concessions to.

$$651 \times \frac{6\frac{1}{4}}{12\frac{1}{4}} = 325-8.$$

Final form of Ledger entry.

	Principal.	Current Interest.	Deferred Interest.	Remarks.
Balance on 30th June 1938	1,736	1,086	..	..
As per concessions demand on 1st July 1938	1,736	..	325—8	× is put in where the exact figure is not necessary for purposes of this calculation.
At 6½ per cent. 1st July 1939	1,736	108—8	325—8	
		1	2	3
		Principal.	Interest.	Rate of Interest.
II.—Balance on 23rd March 1935		37	×	11 Per cent.
Balance on 30th June 1938		37	10·3	..
Collection on 28th February 1939 . . . . .		..	3·5	..

4

Outstanding Interest on 30th June 1938 consists of.

Interest of 37—8=4—1 at 11 per cent.

Interest of 36—7=4—1 at 11 per cent.

Balance of Interest 35—6=2—1 at 11 per cent.

10·3—reduced to 6½ per cent.

5

Reduced as per concessions to.

$$10-3 \times \frac{6\frac{1}{2}}{11} = 5-13.$$

6

Final form of Ledger entry.

	Principal.	Current Interest.	Deferred Interest.
Balance on 30th June 1938	37	10—3	..
Demand on 1st July 1938	37	..	5—13
At 6½ per cent. Demand on 28th February 1939	37	1—9	5—13
Collection on 28th February 1939	1—12	1—9	..
Balance on 28th February 1939	35—4	..	5—13
At 6½ per cent. Demand on 1st July 1939	35—4	0—12	5—13

	1	2	3
	Principal.	Interest.	Rate of Interest.
III.—Balance on 20th May 1935	4,197	×	10½ upto
Balance on 31st December 1935	4,197	733—5	1st July
Collection on 18th August 1936 . . . . .	..	234—14	1937
1st November 1936 . . . . .	..	297—3	11 per
1st March 1937 . . . . .	..	190—8	cent from
1st April 1937 . . . . .	..	10·12	1st July
31st May 1937	230	..	1937.
Balance on 30th June 1937	3,967	658·6	..
Balance on 30th June 1938	3,967	1,094—12	..

4

Outstanding Interest on 30th June 1938 consists of.

Interest	37—8=436—6	at 11 per cent.
Interest	36—7=438—10 (a)	at 10½ per cent.
Balance of Interest	35—6=219—12	at 10½ per cent.

1,094·12 reduced to 6½ per cent.

$$(a) \text{ on } 4,197 \left(1\frac{7}{36} - 31\frac{5}{37}\right) = 403-15.$$

$$\text{on } 3,967 \left(1\frac{6}{37} - 3\frac{6}{37}\right) = 34-11$$

438—10

5

Reduced as per concessions to.

$$436·6 \times \frac{6\frac{1}{2}}{11} + 658·6 \times \frac{6\frac{1}{2}}{10\frac{1}{2}} = 639-15.$$

6

Final form of Ledger entry.

	Principal.	Current Interest.	Deferred Interest.
Balance on 30th June 1938	3,967	1,094—12	..
Demand on 1st July 1938	3,967	..	639—15
At 6½ per cent. Demand on 1st July 1939	3,967	247—15	639—15

Member's account in society.

	1	2	3
	Principal.	Interest.	Rate of Interest.
I.—Balance on 30th June 1935	360	×	12½ per cent.
Balance on 30th June 1938	360	625 2	12½ per cent.

4

Outstanding Interest on 30th June 1938 consists of.

Interest of	37—8=45	at 12½ per cent.
Interest of	36—7=45	at 12½ per cent.
Interest of	35—6=45	at 12½ per cent.
Interest of Earlier period	135—reduced to 7½ per cent. 490—2 written off.	
	625—2	

5

Reduced as per concession to.

$$135 \times \frac{7\frac{1}{2}}{12\frac{1}{2}} = 81.$$

6

Final form of Ledger entry.

	Principal.	Current Interest.	Deferred Interest.
Balance on 30th June 1938	360	625—2	..
As per concession Demand on 1st July 1938	360	..	81
At 7½ per cent. Demand on 1st July 1939	360	27	81

	1	2	3
	Principal.	Interest.	Rate of Interest.
II.—Balance on 30th June 1935	50	×	15⅔ per cent.
Balance on 30th June 1938	50	55—8	..

4

Outstanding Interest on 30th June 1938 consists of.

Interest of	37—8=7—13	at 15⅔ per cent.
Interest of	36—7=7—13	at 15⅔ per cent.
Interest of	35—6=7—13	
	23—7—reduced to 7½ per cent.	
Interest of Earlier period	32—1 written off.	
	55—8	

5

Reduced as per concession to.

$$23-7 \times \frac{7\frac{1}{2}}{15\frac{2}{3}} = 11-4.$$

Final form of Ledger entry.

	Principal.	Current Interest.	Deferred Interest.
Balance on 30th June 1938	50 0	55 8	..
As per concession Demand on 1st July 1933	50 0	..	11 4
At 7½ per cent Demand on 1st July 1939	50 0	3 12	14 4
	1	2	3
	Principal.	Interest.	Rate of Interest.
III.—Balance on 30th June 1935	186 0	×	15 5/8 per cent.
Collection on 5th January 1936	2 0	×	..
Balance on 30th June 1936	184 0	×	..
Balance on 30th June 1938	184 0	279 0	..

4

Outstanding Interest on 30th June 1933 consists of

Interest of	37—8=28·12 at 15 5/8 per cent.
Interest of	36—7=28—12 at 15 5/8 per cent.
Interest of	35—6=28—15 (a) at 15 5/8 per cent.
	—————
	86—7 reduced to 7½ per cent.
Interest of Earlier period	192—9 written off.
	—————
	279—0

(a) On 186 (1st July 1935 to 5th January 1936).
On 184 (5th January 1936 to 30th June 1936).

5

Reduced as per concession to.

$$86-7 \times \frac{7\frac{1}{2}}{15\frac{5}{8}} = 41-8.$$

6

Final form of Ledger entry.

	Principal.	Current Interest.	Deferred Interest.
Balance on 30th June 1938	184 0	279 0	..
As per concession Demand on 1st July 1933	184 0	..	41 8
At 7½ per cent. Demand on 1st July 1938	184 0	13 13	41 8

	1	2	3
	Principal.	Interest.	Rate of Interest.
IV.—Balance on 31st December 1934	99 0	x	12½ per cent.
Balance on 30th June 1938	99 0	87 12	..
Collection on 1st May 1939	99 0	32 11	..

4

Outstanding Interest on 30th June 1938 consists of

Interest of	37—8=12—6 at 12½ per cent.
Interest of	36—7=12—6 at 12½ per cent.
Interest of	35—6=12—6
<hr/>	
Earlier period	37—2—reduced to 7½ per cent.
	50—10—written off.
<hr/>	
	87—12

5

Reduced as per concession to

$$37-2 \times \frac{7\frac{1}{2}}{12\frac{1}{2}} = 22-4.$$

6

Final form of Ledger entry.

	Principal.	Current Interest.	Deferred Interest.	
Balance on 30th June 1938	99 0	87 2	..	Excess
As per concession Demand on 1st July 1938	99 0	..	22 4	Collec-
At 7½ per cent. Demand on 1st May 1939	99 0	6 3	22 4	tion of
Collection 1st May 1939	99 0	6 3	26 8	Rs. 4-4 to be re- funded.

	1	2	3
	Principal.	Interest.	Rate of Interest.
V.—Balance on 30th June 1935	36 0	×	12½ per cent
Balance on 30th June 1937	36 0	7 3	..
Collection on—			
21st April 1938	14 0	7 0	..
2nd May 1938	1 0	..	
6th May 1938	5 0	..	..
Balance on 30th June 1938	16 0	4 4	..

4

Outstanding Interest on 30th June 1938 consists of

Interest of 37—8=4—1 (a) at 12½ per cent.

Balance of 36—7=0—3 at 12½ per cent.

4—4 reduced to 7½ per cent.

(a) Balance of Interest on 30—6—37=7—3

Collection of Interest on 2—5—38=7—0

0—3

Balance of Interest on 30—6—38=4—4

So Interest of 37—8 = 4—1

5

Reduced as per concession to

$$1-4 \times \frac{7\frac{1}{2}}{12\frac{1}{2}} = 2-9.$$

6

Final form of Ledger entry

	Principal.	Current Interest.	Deferred Interest.
Balance on 30th June 1938	16 0	4 4	..
As per concession Demand on 1st July 1938	16 0	..	2 9
At 7½ per cent Demand on 1st July 1939	16 0	1 3	1 9

W. V. V. B. RAMALINGAM.

The 18th July 1939.

CIRCULAR MEMORANDUM No. 6123 C. S. DATED CUTTACK, THE 14TH SEPTEMBER, 1939,
FROM THE DEPUTY REGISTRAR, CO-OPERATIVE SOCIETIES, ORISSA.

SUBJECT:—*Rehabilitation of the co-operative movement in North Orissa—procedure of
—further instructions issued.*

Some Central Banks have asked for further instructions on the procedure of rehabilitation of the co-operative movement in North Orissa. The following instructions are issued to elucidate the points raised by them.

1. *Dues under dispute or award.*—The concessions announced in the Government communique will apply to dues under dispute or award. In the case of disputes pending for decision with the Assistant Registrars, the applicant Central Bank or the Society will file revised demands. In the case of awards already granted which are under execution or which are lying in the Central Banks' offices pending execution, the decree-holder society or the Central Bank will reduce the demands under these awards in accordance with the terms of the Government communique and communicate the reduced demands to executing courts. These need not be sent again to the Assistant Registrars for revision. The Agents in charge of Central Banks and the Honorary Secretaries (so long as the Registrar does not assume charge of the banks) be responsible for revising the demands according to the terms of the Government communique.

2. *Dues from the liquidated societies and their members.*—The concessions announced in the Government communique will also be available to societies under liquidation and their members. The interest outstanding against liquidated societies and their members on the 1st July, 1935, which has not been realised shall be wiped off. Interest accruing between 1st July 1935 and 30th June 1938 which has not been realised shall be recalculated and realised at $7\frac{1}{2}$ per cent. from the members and at $6\frac{1}{2}$ per cent. from the societies. All further interest will be at the above rates. Where requisitions for certificates have already been issued, Liquidators should submit immediately draft revised requisitions for certificates calculated according to the above orders for approval.

3. *Acceptance of the Government communique by societies.*—All the Central Banks in North Orissa have now accepted the recommendations made in the Government communique. A decision made by the General Meetings of Central Banks is binding on their affiliated societies. It will not be necessary to ask the General Bodies of Societies to accept these recommendations formally.

4. *Retrospective effect of the recommendations of the Government communique.*—The Government communique lays down that recommendations made therein should effect retrospectively all collections made since the 1st July, 1938. In the year 1938-39, several Central Banks finding themselves unable to meet their cost of establishment on account of poor collections granted concessions which went beyond those now announced by Government. It would be a hardship on the members who made payments in pursuance of the concessions announced by Central Banks, if these larger concessions are annulled in favour of concessions now recommended by Government. Therefore no retrospective effect will be given to Government concessions in the case of collections made since the 1st July, 1938, in Banks where concessions have already been given to societies and members and the Government communique will take effect only from the date of the publication of the communique. In cases of doubt, the Agents or Honorary Secretaries of Central Banks will submit individual cases for orders.

The concessions recommended by Government will be given retrospective effect from the 1st July, 1938, in case of collections in cash only and not in case of collections by adjustments. In some Central Banks, collections were made by adjustments on account of purchase of lands from members of societies by the depositors. The Sale prices of these lands were adjusted in the books of the society towards the member's dues and ultimately in the account of the depositor concerned in the Central Bank. These cases should not be reopened for the purpose of recalculation of interest.

The Kendrapara Central Co-operative Bank has reported that in consideration of the circumstances of members of certain societies, their entire interest due had been remitted and only principal amounts had been realised in full satisfaction of their dues. The concessions given by the Bank should be honoured and no further demand made. A statement showing the details of these cases should be sent to me through the Assistant Registrar concerned for information.

Some Central Banks *e.g.*, Banki and Khurda Banks have appropriated all collectins from certain societies to principal only on account of apprehended losses in the societies. The cases of these societies will be examined in detail by the Agent after he has taken charge.

5. *Retransfer of lands on hire-purchase system.*—All lands purchased by the Banks should be returned to the original owners on hire-purchase system. The lands should be re-valued at the current village prices and these revised prices should be payable by the hire-purchaser in six annual instalments—six years having been fixed as the period of rehabilitation. The annual hire purchases rent should include, besides the one-sixth value of the land, the annual rent and interest at 7½ per cent. on the value of the land

6. *Deposits.*—In societies which have got deposits from non-members, the Agents will see to it that the depositors are paid *pro-rata* along with the Central Banks. Deposits of members of societies should be adjusted towards their dues.

The question of payments to depositors, whether principal or interest, has been deferred for a year by Government. No interest on deposits or on the loans from the Provincial Bank should be shown in the revised balance sheets of societies or Banks for the year 1938-39. This, of course, will not apply to the Balasore Central Bank where according to the terms of compromise with the depositors, the Bank is liable to pay interest at 3 per cent. on the amounts of original deposits. Interest should be calculated here at the agreed rate and interest remaining unpaid should be shown in the balance sheet of that Bank.

Banks which are still doing the Savings Bank business may continue to do so.

7. *Legal proceedings.*—The Honorary Secretaries or Agents when appointed will continue to advance money for the execution of awards and to liquidators for continuing liquidation proceedings.

8. *Classification of societies.*—In paragraph 8 of the Circular Memo. No. 5542 C. S. dated the 29th August, 1939, instructions were issued to divide the societies into four classes. In modification of the above orders, it is now laid down that societies falling under class 'D' should be further divided into two classes:—

'D. 1'.—Societies whose assets calculated according to Government formula exceed their correspondingly reduced liabilities to Central Banks and depositors, and

'D. 2'.—Societies whose reduced assets fall short of their reduced liabilities.

If there is no chance of reviving the last class of societies and they cannot be worked profitably, proposals should be submitted for their immediate liquidation.

AJMER-MERWARA.

MEMORANDUM No. 815 OF 1940, DATED AJMER, THE 27TH FEBRUARY 1940.

REFERENCE:—*Express letter No. F, 316 (148)/38-A, dated 20th December 1939, from the Secretary 13th Conference of Registrars Co-operative Societies.*

I submit herewith the statement of Rehabilitation with the following remarks:—

In 99 societies, concession was given to 1161 members. Rs. 1,812 on account of principal and Rs. 14,067 of interest were written off as a result of compromise. In several cases further charging of interest was stopped while in other cases it was reduced after taking into consideration the repaying capacity of the members. In many cases the recoveries were credited towards principal leaving interest outstanding.

During first year of compromise only 140 members out of 1161 paid their instalments while in 5th year only 27 members paid the instalments. Thus 1134 members failed to keep their promises.

Similarly the Central Banks and Unions gave concession to 36 societies. During first 3 years the societies paid instalments according to their promises. After 3rd year the repayments began to fall every year and in 1938-39, the societies could pay only Rs. 1,426 out of the total demand of Rs. 14,728 according to their compromise.

These concessions were given by the Inspectors and the Registrar by personally discussing with the members in the general meetings of each society.

From the above it is evident that the net result was failure of concession and compromise. Number of defaulters in D. societies increased after this experiment as the good members realized that default brings concession either in total stoppage of interest or in reduction of rate of interest. The members of neighbouring societies were also adversely affected knowing that defaulters get concessions and good repayers have to pay interest in full and thus they are the sufferers. The result was that number of defaulters began to swell in societies. Since the last one year I have begun to give concession only to those who pay something in cash but its results too are not found satisfactory as members do not pay, for the idea that further resistance will produce further concessions is ingrained in them and also because they know the executions of the co-operative awards can be evaded in one way or the other both in the Revenue and Civil courts. I am definitely of opinion that in this part besides giving legitimate concessions the Rural Co-operative Societies can only be saved by following the method of executions of co-operative awards in force in Madras as already advised by the various Inspecting Officers of the Punjab.

Statement showing rehabilitation scheme with members c

1 Serial No.	2 Name of Circle.	3 No. of Societies.	4 No. of members.	5 Loans outstanding the time of compromise.		7 Rate of Interest which was charged before compromised.	8 Details of concession given.				12 Annual instalment fixed.	Demand			
				5 Principal.	6 Interest.		8 Account written off in principal from old debt.	9 Amount written off in interest from old debt.	10 Concession given in interest.			13 1934-35.		15 1935-36.	
									10 Rate of interest reduced (General).	11 Interest totally stopped in.		13 Demand.	14 Recovery.	15 Demand.	16 Recovery.
1	Ajmer .	30	270	81,078	17,579	12%	...	853	8%	12 Societies.	8,121	3,166	2,543	6,523	4,518
2	Nasirabad .	30	419	1,47,035	38,822	12%	165	4,832	6%	13 Societies.	19,980	1,968	1,410	7,967	2,208
3	Beawar .	29	212	48,890	20,393	9%	251	5,648	5%	...	1,800	2,410	3,111	5,039	5,075
4	Masuda .	10	260	53,645	10,514	12%	1,396	2,734	5%	...	7,953	2,305	527	7,656	3,633
	Total .	99	1,161	3,28,646	87,308	...	1,812	14,067	...	...	28,759	9,849	7,591	27,185	15,432

Co-operative Societies Ajmer-Merwara.

and Recoveries.						Balance, on 1-7-1939.		Land owned in possession of the members.						31 Remarks.
1936-37.		1937-38.		1938-39.		Principal.	Interest.	Chabl.	Talahi.	Abl.	Barani.	Total.	Value.	
17 Demand.	18 Recovery.	19 Demand.	20 Recovery.	21 Demand.	22 Recovery.									
9,010	4,444	8,548	3,828	8,249	2,162	70,180	16,846	1,259	72	365	2,705	4,401	1,81,544	
9,038	2,387	9,487	3,900	10,930	2,501	1,29,635	31,564	1,732	1,829	991	2,823	7,375	2,55,113	
5,341	3,825	2,778	2,167	2,266	1,146	38,179	21,087	738	351	342	697	2,128	1,48,603	
7,679	2,807	7,591	1,910	7,631	1,507	46,813	14,215	771	644	343	1,238	2,996	77,625	
31,068	13,463	28,404	11,805	29,126	7,316	2,84,807	83,712	4,500	2,896	2,041	7,463	16,900	6,65,890	

Statement of Rehabilitation

Serial No.	Name of Circle.	No. of Societies whose members kept their promises.	1934-35.			1935-36.			1936-37.		
			No. of members who kept their promises.	Demand.	Recovery.	No. of members who kept their Promises.	Demand.	Recovery.	No. of members who kept their promises.	Demand.	Recovery.
1	Ajmer . . .	14	32	994	1,241	46	1,967	2,819	38	2,074	2,204
2	Nasirabad . .	30	58	3,861	2,658	44	6,467	5,007	35	3,624	3,666
3	Beawar . . .	26	43	1,082	2,414	64	2,101	3,381	17	2,868	3,072
4	Masuda . . .	10	7	47	94	36	643	1,769	17	414	1,068
	Grand Total .	80	140	5,984	6,407	190	11,178	12,976	107	8,980	10,030

1937-38.		1938-39.		1938-39.		22	23	24
13	No. of members who kept their promise.	16	No. of members who kept their promises.	19	No. of members who kept their promises from 1934-35 to 1938-39.			
14	Demand.	17	Demand.	20	Demand.
15	Recovery.	18	Recovery.	21	Recovery.
25	1,611	22	1,125	22	4,925
26	7,596	19	3,865
28	5,953	10	3,493
33	692	18	460	3	802
7	108	4	144	2	348
286	286	432	432	300	300
93	10,007	63	5,594	27	6,075
	9,021		6,080		6,741

BARODA SCHEME OF RECONSTRUCTION OF SOCIETIES.

The biggest item in the programme of the Department was a close scrutiny into the affairs and reconstruction of 145 societies during the year 141 of these societies were affiliated to the various banks and 4 worked with their own capital. Of the 141 societies 29 with loans amounting to Rs. 46,512 were reconstructed after the season and their instalments are to begin from 1st January 1940. The remaining 112 societies were indebted to the banks to the extent of Rs. 3,23,366 as principal and Rs. 33,837 as interest recoveries from which for a number of years had either been nil or only nominal. After a close inquiry the repaying capacity of each individual member and of each society was ascertained and instalments ranging from 2 to 20 were allowed to them. Their debts, especially arrears in interest were written down on a fixed plan and the rate of interest on outstanding loans for the future also adjusted in each case, on condition that the instalments so fixed were paid regularly. The first instalment that fell due to the banks during the year under report amounted to Rs. 38,911 principal and Rs. 12,240 interest. The repayment against the instalment was Rs. 37,677 principal and Rs. 12,202 interest. As a result of the reconstruction of societies the banks were prevailed upon to write off Rs. 2,524 principal and 12,817 interest, on regular payments of instalments. Rs. 961 were thus written off during the year under report. These societies were advanced fresh loans to the extent of Rs. 3,879. The banks have specially reduced the rates of interest in the case of these societies and they vary from 3 to 5½ per cent. This reduction is calculated to result in profit to members to the extent of above Rs. 4,000

Recoveries from members of reconstructed societies.

At the beginning of the year the dues of the reconstructed societies from the members were Rs. 5,69,543 principal and Rs. 2,16,673 interest. The first instalment to be recovered from the members by the societies was fixed at Rs. 60,542 principal and Rs. 23,365 interest of which Rs. 57,601 principal and Rs. 25,568 interest were realised. Out of the amounts due from members Rs. 7,297 were written off by the societies. The following tables give the details of reconstruction of societies.

Serial No.	Item.	Number of reconstructed societies.	Amount due on 1st August 1938.		First instalment due.		Realised amount of the first instalment.		Amount written off.	Percentage of recovery on the first instalment.	
			Principal.	Interest.	Principal.	Interest.	Principal.	Interest.			
				<i>Banks' dues from societies.</i>							
1	The Baroda Central Co-operative Bank.	80	2,29,414	21,889	27,920	7,048	32,330	8,364	682	15 per cent. more.	
2	Mehsana District Co-operative Bank.	8	33,566	7,923	4,110	1,321	1,356	974	59	33 per cent.	
3	Amreli Agricultural Bank.	11	28,018	1,471	3,919	2,589	1,004	1,304	202	25.4 per cent.	
4	Navsari District Co-operative Bank.	10	25,165	1,008	2,844	911	2,855	1,434	..	100.	
5	Jamnagar Co-operative Bank.	3	7,203	1,546	118	371	132	126	18	100.	
6	Kodinar Co-operative Banking Union.	29	46,512	All the societies have been reconstructed after the season and the instalments will begin from 1st January, 1940.							
	Total	141	3,69,878	33,837	38,911	12,240	37,677	12,202	961	..	
				<i>Societies dues from members.</i>							
1	Baroda District . . .	81	3,24,704	1,29,619	36,998	18,072	34,402	21,728	7,297	92.	
2	Mehsana District . . .	8	55,520	27,421	7,878	..	4,044	..	..	51.5
3	Navsari District . . .	13	61,730	11,057	5,751	1,579	8,053	3,840	..	More than cent. per cent.	
4	Amreli District . . .	43	1,27,599	49,576	9,915	3,714	11,102	..	..	More than cent per cent.
	Total	145	5,69,543	2,16,673	60,542	23,365	57,601	25,568	7,297	..	

It will be seen from the above figures that while the results of reconstruction in the Baroda and Navsari have been more than satisfactory, those in the Mehsana and the Amreli districts are not as anticipated. The reason for this is that after orders had been passed concerning reconstruction in these two districts the season proved a failure and relief on a large scale in land revenue had to be given by the Government. The department, therefore allowed the societies to consider its instalments as commencing from this year. In spite of these, several societies paid a part of their instalments. Not a single society failed to pay its instalment in the Navsari district and hardly half a dozen in the Baroda district.

MADRAS.

In the first decade following the introduction of the Montagu Chelmsford Reforms, there was a great increase in the number of societies, their membership, working capital and transactions. Indeed, the progress was too rapid, and in some cases societies were rather hastily organized. There was, as it were, a tendency to accede to the demands of ryots for accommodation through societies rather than to consider the requirements of financial safety and the limitations of the organisations. The Agricultural primary credit society is the foundation-stone on which the whole co-operative edifice is built. If these societies are generally in a good condition, confidence may be felt that the structure is generally sound. But if they are generally unsound nothing can prevent the ultimate collapse of the edifice, however, good parts of the superstructure may be. There were, on 30th June 1927, about 11,000 agricultural primary credit societies with a working capital of Rs. 489.52 lakhs, of which Rs. 375.56 lakhs had been lent by Central Banks. The total amount of loans outstanding against members of agricultural primary societies was Rs. 431.68 lakhs. Unfortunately, however, many members of these societies had not realised that borrowing involved repaying. This fact was reflected in the percentage of overdues, which swelled both under principal and under interest. On 30th June 1927, the overdues amounted to Rs. 121.30 lakhs, which was 45.65 per cent. of the total demand. The percentage under interest was 46.18. Anxiety began to be felt about these overdues, and according to the Townsend Committee's report (1927-28), the principal reasons for the increase in overdues were:—

- (1) Bad harvests,
 - (2) Illiteracy and ignorance of co-operative principles in primary societies and indifference of panchayatdars, who were in many cases themselves defaulters;
 - (3) Lack of proper supervision due to ill paid and ill-equipped non-official staff;
 - (4) The sudden withdrawal, without due notice, of the Department from supervision;
 - (5) Failure to recognize their financial and co-operative responsibility on the part of Central Banks;
 - (6) An exaggerated sense of security in the minds of financing institutions, which was based on a wrong impression of the implications of unlimited liability, and failure to realise the seriousness of the results of enforcing that liability;
 - (7) Lack of proper attention to the granting of extensions;
 - (8) Granting of loans without proper consideration of the purpose, and of the repaying capacity of members;
 - (9) Benami transactions;
 - (10) Failure to take prompt and sufficient steps for the recovery of overdues.
- Another feature of the movement at the time of its review by the Townsend Committee was that there was a large number of dormant societies. According to their report, more than 3,000 societies had not borrowed from the Central Banks for two years and more. Several of these societies had done nothing since the receipt and disbursement of the first loan. The Townsend Committee considered the position

serious and recommended that immediate attention be given to the rectification, if possible, of all dormant societies, or, failing this, to their liquidation. The question of consolidation was, therefore, taken up in right earnest.

2. In 1928-29, the question of stopping registration of new societies altogether was discussed at a conference of the Deputy and Assistant Registrars, and it was agreed that new societies organized should deal only in short term loans and provide for an individual maximum borrowing power of Rs. 250 ordinarily. It was also considered essential, that, in districts with heavy overdues, the question of registration of societies should be examined with care and as occasion arose. A warning was issued against the registration of societies formed hastily, where there were no suitable persons with the necessary knowledge and training in co-operative principles, and registering officers were instructed to register societies only after satisfying themselves that there were fair chances of the successful working of the societies. Greater attention was paid to the rectification of bad societies than to the formation of new societies, and vigorous steps were taken to weed out all useless and dormant societies which were doing no good to anybody and which could not be rectified. The following comparative figures for four years will show to what extent the registration of new societies was restricted, and the weeding out of existing societies undertaken.

Year.	Number of societies registered.	Number of societies cancelled.
1926-27	1455	71
1927-28	1200	107
1928-29	726	150
1929-30	534	383

3. In 1929-30, the Madras Provincial Co-operative Conference urged on co-operative organizations the imperative need for undertaking on a systematic and comprehensive scale the work of rectification of rural societies, and a programme was drawn up to ensure the completion of that work in each district within a reasonable period. It was suggested that a triple classification of societies in each district might be made as regards (1) societies started after the publication of the Townsend Committee's report (2) Old societies in which the work of rectification had been attempted and (3) other societies. The statistics compiled showed that, out of 12,064 old and 1,673 new societies that were actually working on the 30th June 1929, 6282 of the former and 185 of the latter accounted for overdues from members exceeding 40 per cent. of the total demand. Of the 6282 old societies, only a third were taken up for rectification, the work being distributed between the field staff employed by Central Banks, the federations and the supervising unions. The percentage of societies in which the arrears were reduced to less than 40 per cent. by the above 3 agencies was 45. Of the 1673 societies started subsequent to the Townsend Committee's report, only 185 societies had overdues from members exceeding 40 per cent. Ninety-two of these societies were selected for rectification work, and the arrears in 74 of these societies were reduced to below 40 per cent. Towards the cost of this work, the Central Banks contributed Rs. 45,271, and the federations Rs. 39,390. The M. C. U. B. (now the Madras Provincial Co-operative Bank) gave a special grant of Rs. 3,000 to one Central Bank. Later, it drew up a scheme of subvention to Central banks for carrying on rectification and consolidation work under which it proposed to give grants to central banks to the extent of one half of the expenditure incurred by them subject to a maximum of Rs. 2,500 in each case. During the next year, the Provincial Bank set apart a sum of Rs. 50,000 for grants to Central Banks under this scheme. Twenty-six Central Banks availed themselves of this scheme and were given a subsidy of Rs. 45,025. The Central Banks spent an equal amount, and in some cases more, and the total amount spent including the subvention was Rs. 1,09,316. The Central Banks appointed additional field staff of inspectors to visit bad societies, made a detailed examination of their affairs.

and took steps to rectify the defects noticed in them. A good deal of useful spade work was done in many districts. The scheme of subvention was continued, and the following figures exhibit the results in the subsequent five years :

Year.	Subsidy paid by Madras Provincial Co-op. Bank.	Amount spent by Central banks.	No. of Societies marked as requiring rectification.	No. of particularly bad societies distributed among the staff of C. B. S. Federations and Unions.	No. of societies in which the percentage of arrears was reduced to 40.
	Rs.	Rs.	No	figures available	
1930-31	46,025	1,09,316			
1931-32	35,848	1,07,542	7742	4790	541
1932-33	36,624	84,817	8930	3177	537
1933-34	17,130	1,31,728	8191	2444	421
1934-35	17,160	1,38,626	6424	3884	1034

4. With the onset of the economic depression the position of societies, particularly in respect of overdues, became definitely worse. The percentage of overdues from members to agricultural societies was 59.31 in 1930-31, as against 40.72 in 1928-29 and 46.00 in 1929-30. The slump in prices of agricultural commodities reduced considerably the repaying capacity of the agriculturists, who in consequence defaulted in the repayment of their loans. The depression brought prominently to notice the defective loan policy followed in the pre-depression days. It became abundantly clear that greater care was needed in the sanction of loans with reference to the repaying capacity of the borrowers and that greater control was necessary over the utilisation of loans advanced. By the year 1933-34, the overdues in societies had risen to very high proportions, as will be seen from the following figures :

Percentage of overdues from members to agricultural societies.

1931-32	62.95
1932-33	67.09
1933-34	70.28

Owing to the precipitous fall in the value of lands and of agricultural produce, not only the repaying capacity of the ryots but also the value of the security for the loans had fallen considerably. The movement was admittedly passing through critical times, and a thorough examination of the assets of primary societies was urgently called for with a view to ascertain, in the interests of the financing banks, to what extent the value of the securities had fallen and to take steps either to obtain additional securities for the loans concerned or, if this was not possible, to provide for losses that might occur as a result of the bad debts, by creating sufficient reserves. A few sporadic attempts at a scrutiny of loans in societies had been made by Central Banks in some areas. In 1930-31, a scheme had been suggested to pull up bad societies and to prevent good societies from falling into an unsatisfactory condition. The essential feature of the scheme for pulling

up bad societies was a triple classification of borrowers in societies into (1) those who could repay their loans out of their income within 1 year, 2 years, 3 years and 5 years.

- 2 (a) those who would not pay out of income, but had to borrow elsewhere and pay, and,
- 2 (b) those who could not pay without selling their property.

In respect of members coming under class (1) the suggestion was that arrangements should be made to collect the dues at the time when they would get their income, be revising if necessary, the existing terms of contract, or to take custody of the harvested produce, while in respect of the other two classes of members the suggestion was to take action either by persuasion or by coercion.

In order to prevent good societies from falling into an unsatisfactory condition, the following suggestions were made:—

- (1) Careful selection of members;
- (2) Grant of loans only to such extent as could be repaid out of income;
- (3) All loans should be made repayable at the time of harvest;
- (4) Generally all loans should be made payable within 1 year and no loan should be given for more than 3 years, 5 years loans being rare;
- (5) Loans should be given invariably on good sureties, mortgage loans being the exception;
- (6) Wherever possible, panchayatdars should be elected from among non-borrowers or persons who had put in deposits.

5. The above scheme was, however, not generally taken up because it contemplated strong action against defaulters without any distinction. In 1933-34, therefore, the scheme was suitably altered. The principal features of the revised scheme were:—

(1) Every loan in every society was to be examined with a view to ascertain whether it was adequately secured and whether action was to be taken at once to collect it or time could be given to enable the borrower to pay it of his own accord. For this purpose a classification of borrowers under the following heads was suggested:—

- (a) Those whose loans stood on good security and who could be expected to pay out of income within the period given or within the additional time allowed;
- (b) those whose loans stood on inadequate security but who could give and were willing to give additional security and who could pay out of income within the period given or within the period of extension; and
- (c) those against whom action was to be taken at once either on account of their inability to pay out of income or on account of their inability to give additional security or for other reasons.

The idea was that the history of each loan should be noted and suitable action suggested in each case, and also that the amount of debt that might prove bad or was doubtful of recovery should be ascertained. It was suggested that action was to be taken *at once* in respect of loans classed under (c). The panchayat was to be advised to file references under section 51 against defaulters, obtain awards and promptly execute them through the Department. It was suggested that penal interest on loans might be waived and that, if the circumstances of a borrower justified further concessions such as a reduction in the original contract rate of interest, etc., the question might be examined by the general body and suitable bylaws passed. In very bad cases, if a society paid the Central Bank loan in full, collecting the amount proportionately from the borrowers, the balance of money due might be written off with the sanction of the Deputy Registrar. Where the interests of the Central banks would be affected, the consent of the banks was also to be obtained. In respect of loans which stood on inadequate security but which could be properly secured, the borrowers were to be asked to produce fresh security, the production of encumbrance certificates being insisted on where necessary. The additional security was to be taken by means of a supplemental bond without varying the original conditions. Short extensions were permitted in deserving cases, but it was laid down that, extensions should not ordinarily be given to borrowers who could raise credit elsewhere or sell their property of their own accord.

(2) The work was to be entrusted to a special staff under the control of a small committee appointed by the Central Bank. The head of the staff was to be the 'executive officer' and the subordinate staff was to work under his direction and control.

(3) The scheme was to be worked in one compact area after another and the examination of all loans in a society was to be completed before another society was taken up.

(4) The previous approval of the Central Bank was to be obtained for giving extension of time for repayment of loans.

(5) When it was not possible to rectify or revive a society, the question of super-session or liquidation was to be considered.

All the Central Banks in the Province worked this scheme of intensive rectification. It may be said that the first stage in the rectification work is practically over and that the Central Banks are in the second stage; viz., that of obtaining additional securities for the ill-secured loans and of recovering the arrears. The following figures show the results obtained up to the end of the year 1938-39.

(1) Number of societies in which the examination was conducted	6981
	(Rs. in lakhs)
(2) Total amount of loans including interest involved in them	295.47
(3) Of the above sum, the amount which stood on adequate Security	213.47
(4) The amount which stood on in adequate security	82.00
(5) Of this the amount either collected or for which additional security was obtained	22.72
(6) Balance ill-secured	59.28
(7) Estimated bad debts in these societies	33.53
(8) Of this, the amount that would affect the Central Banks.	6.80
(9) Amount of loans collected during rectification work.	77.74

6. The above scheme of rectification work has enabled Central Bank to ascertain the probable extent of their losses. There are bad debts in societies, and it is certain that a part of the bad debts will ultimately affect the Central Banks, because a portion of the debts due from the societies to the Central Banks will prove irrecoverable. Before 1929-30, not much attention was paid by Central Banks to the question of bad debts, and they generally assumed that all their investments were good until the contrary was proved. While the arrears under principal and interest were increasing, the Central Banks were distributing all their income, excepting the statutory contribution to Reserve Fund, as "profits", ignoring the fact that in quite a large number of societies the repayments towards interest were being made out of principal collections from a few good members. In view of these considerations and in view of the inadequacy of the general reserve funds in most banks, a beginning was made in 1929-30 in providing specially for bad and doubtful debts in a few banks in which an examination of overdue debts showed that such a step was desirable. The policy was continued in the subsequent years, and a portion of the profits of Central Banks was set apart for a Bad-Debt-Reserve every year before declaring the net profits available for distribution. In the earlier years, there were protests from certain quarters mainly for the reason that the reputation of the banks would suffer if they did not declare a dividend of 9% to the share-holders and that a low dividend would shake the confidence of the depositors. The desire for high dividends gradually disappeared, and Central Banks began to realise the wisdom of strengthening their Bad-Debt-Reserves. The maximum dividend admissible has also now been reduced to 5% by amendment of the Rules. On 30th June 1939, the Central Banks had a total Bad-Debt-Reserve of Rs. 20.06 lakhs. Apart from the Bad-Debt-Reserve, the statutory Reserve Fund of the Banks was Rs. 33.80 lakhs, and both the reserves put together were Rs. 53.86 lakhs. The bad and doubtful debts in Central Banks amounted to Rs. 41.32 lakhs, and the reserves held by the banks as a whole thus more than covered these debts.

Besides the creation of the Bad-Debt-Reserve, another important line in which action was taken to prevent losses in the case of societies where the debts had become frozen was the following. It was suggested to the Central Banks that they might credit collections from societies towards principal first and then to interest in the case of those societies where the realisation of the principal assets was doubtful. This procedure was suggested to be adopted in the case of the following classes of societies :—

(1) Societies in which the outside liabilities were far in excess of their assets as revealed by the Registrar's scheme of rectification work;

(2) societies which had not been able to pay anything towards interest for 2 years and more;

(3) societies which had not paid anything towards principal for three years and more. A suggestion was also made that all collections from members under principal might be credited by Central Banks to principal and that collections under interest might be credited to interest only.

Central Banks amended their bylaws suitably and gave effect to this procedure in several cases. Side by side with the creation of the Bad-Debt-Reserve the policy of augmenting the Reserve Fund of Societies was pursued. The Reserve Fund that remained uninvested separately amounted to Rs. 19.67 lakhs on 30th June 1937. Central Banks were, therefore, advised to credit a portion of the collections to Reserve Fund and pressure was brought to bear on societies to remit their Reserve Fund arrears before sanctioning loans to societies, etc.

7. During the process of rectification work, coercive action had to be taken against defaulters for the realisation of arrears. Before the passing of the Madras Act VI, of 1932, the Department had no powers of executing decrees and execution proceedings were being taken either through the Revenue Department under the Revenue Recovery Act or through the Civil Courts. This resulted in delay in taking action against the defaulters. Societies generally found it difficult to cope with the work involved in executing decrees through Civil Courts. The need for the Department itself taking up the work, in order that the work of collecting the arrears could be speeded up, was keenly felt. The Act VI of 1932, therefore, conferred this power on the Department. Departmental Inspectors were appointed as sale officers and thenceforth execution of decrees through the Department became the general rule. On 30th June 1939, there were 31,854 execution applications pending disposal, involving Rs. 49.18 lakhs. The Departmental execution has helped to a large extent in speeding up the recovery of arrears.

8. While coercive action was taken for the recovery of arrears, co-operative societies were not slow to extend concessions to defaulters. For one thing, the ryots had been hard hit by the economic depression. For another, the interest rates in the money market had fallen and it was but proper that the benefit of the reduction in the rate should be extended to the ryots. Societies were therefore advised to abolish penal rates of interest, to reduce their lending rates and also to collect interest on outstanding loans at reduced rates. After the passing of the Agriculturists' Relief Act, 1938, Central Banks and societies have been taking steps to follow up the provisions of the Act notwithstanding the fact that they have been exempted from the operations of the Act. On 30th June 1939, as many as 25 of the 30 Central Banks in the Province charged not more than 5½% on new loans to societies, and the rate did not exceed 5% in 15 of them. On outstanding loans, 18 banks charged not more than 6%. The rates charged for sale societies were generally less than the rates for other societies, and in 12 banks they did not exceed 3½%. The lending rate of primary societies does not generally exceed 7½%, and in some cases it is as low as 6¼%.

Besides the abolition of the penal rates and a general reduction in the lending rates, special measures of relief were also suggested, and the following were the principles governing the grant of this concession :

(1) No member was to be asked to pay in all more than double the principal originally borrowed by him;

(2) No member was to be asked to pay more than the principal plus interest calculated at 6¼% from the date of disbursement of the loan;

(3) 25% of the amount might be remitted;

(4) A further remission of principal at a fixed percentage of the loan might be offered to those who paid their loans either immediately or within 3 months, and to those who could not pay within 3 months, one year's time might be given to avail themselves of the concession.

This concession was suggested for the first time in 1937-38, and in that year it was confined only to the special class of societies known as 'D' class societies. This class of societies comprises bad societies which are likely to go into liquidation if they fail to show some improvement within a period of two years. In the subsequent year, the concession was extended to all societies, subject to the provision that the general bodies of the societies concerned and the Central Banks agreed to the course in each case and that the financial condition of the societies permitted it. Statistics called for in March last show that 684 societies afforded this special concession to over 1,600 members and that loans amounting to Rs. 3.35 lakhs were scaled down to Rs. 2.11 lakhs, thereby benefiting the members to the extent of Rs. 1.24 lakhs. This concession should, however, be given by societies with great care and caution, as otherwise there is the risk of their financial position being affected. The question whether to continue or stop this concession during the present year is under my consideration.

9. In the process of rectification work, attempts were made with a view to see if the over-dues representing virtually long-term loans in the ordinary village credit societies could, to the great relief of the debtors, be transferred to the Central Land Mortgage Bank through the local land mortgage banks. An instructive enquiry in this behalf was undertaken by the Central Land Mortgage Bank in the districts of Tanjore, Bellary and East Godavari during 1932-33. The staff appointed by the Madras Provincial Co-operative Bank for the purpose made an intensive investigation, and the results were as follows :—

District.	Total debts.	Amount of debts fit for transfer.
East Godavari District (All the villages in the area of 4 land mortgage banks).	8,42,189	1,32,268
Tanjore (all the villages in the area of 2 land mortgage banks).	2,36,406	19,413
Bellary (all the villages in the area of 1 land mortgage bank).	63,458	500

The results of the investigation forcibly demonstrated that most of the debtors had not enough repaying capacity and that a transfer of debts from the village credit societies was not possible on any large scale. The test for repaying capacity applied by the Central Land Mortgage Bank was that the income from the mortgaged land should be sufficient to pay the annual instalment including interest and that the income from other lands other reliable sources should be enough for the maintenance of the borrower and his family. Not many borrowers in societies were able to satisfy this test. Nevertheless, steps towards the transfer of these overdue debts to Land Mortgage Banks are being taken wherever possible. The progress in this direction is also being reviewed by getting quarterly reports from District Officers.

10. As part of the rectification work, Central Banks and societies were advised to dispose of properties which had come into their possession in the course of execution proceedings against defaulters, as quickly as possible, with a view to the speedy realisation of the assets. It was found that the societies could not properly administer the properties, which in consequence were unremunerative to them. On 30th June 1939, the properties purchased in the execution of decrees and held by societies consisted of 14,433 acres of lands and 2,726 houses, valued at Rs. 14.95 lakhs. The question of trying the 'rent purchase system' for their disposal is under consideration.

11. One of the effective methods for the revival of societies is in the supersession of committees. This was a new provision introduced in the Madras Act VI of 1932. This is ordinarily applied to Central Banks and urban banks, and has been useful in reviving such institutions. After the Registrar took power under the Act for the supersession of the Committees of Central Banks, it was applied in the case of the following Central Banks :—

- (1) Hospet Central Bank.
- (2) Guntur Central Bank.
- (3) Vizianagaram Central Bank.
- (4) Christian Central Co-operative Bank.
- (5) South Arcot Central Bank.

Except in the case of the Hospet Central Bank where the Committee was under supersession for 3 years, the period of supersession did not exceed 2 years in any case. Of the 5 central banks mentioned above, the registration of the Christian Central Bank was cancelled, while normal constitution has been restored in the first three banks. The South Arcot Central Bank is the only central bank whose committee is at present under supersession. The period of supersession extends to the 2nd July 1940 in this case. During the period of supersession, the management of central banks is generally entrusted to a Departmental officer who is empowered under the Act to exercise all the powers and functions of the Committee. Where possible, a small advisory committee of local influential men is also appointed to advise the Departmental Special officer on matters relating to the administration of the banks concerned. It must be said that the provision for the supersession of committees of central banks has been very effective in setting right the affairs of central banks, particularly where the management of the affairs has been hampered owing to dissensions among the members of the committee or the existence of factious, etc. The power of supersession is, however, very sparingly exercised and only when matters have come to a head and call for immediate action.

In the case of primary societies the desired end is achieved by the enactment of a by-law (by-law 62) whereby the general body is empowered to supersede the panchayat and appoint a single person, either a member or non-member to be in sole charge of the affairs of the society. The man so appointed is given all the powers of a panchayat under the by-laws. This voluntary suspension of the panchayat with out the application of the statutory provision has greatly helped in the recovery of arrears and in the revival of societies, particularly where the panchayats were recalcitrant and where there were no possibilities of constituting a proper panchayat. These societies are restored to normal panchayats after one or two years, if their working has improved in the meantime. This is an effective step which has saved rural societies from liquidation and has given a fresh vigour of life in most cases. Very bad societies which could not be revived even by this method were recommended for liquidation. There were, on 30th June 1939, 961 societies under the management of managers under by-law 62. The assets to be collected in societies amounted to Rs. 45.15 lakhs under principal and 7.27 lakhs under interest on the date of replacing the panchayat. Before the close of this year, the agents collected Rs. 17.60 lakhs under principal and Rs. 3.52 lakhs under interest. There was a fall in the number of societies managed by agents during the year, which signified their revival.

12. In this connection, it is necessary to mention the part played by supervising agencies. Supervision has been from the very beginning in the hands of local supervising unions. The efficiency of these unions has not greatly improved. The Townsend Committee on Co-operation had favoured the formation of District Federations for co-ordinating the activities of these unions. These Federations were started in almost all the districts; the district supervision funds were pooled by them and they controlled the supervisors. Owing, however, to their inefficiency and the antipathy of Central Banks towards them, they had to be liquidated one after another; the last of them was liquidated in 1937. District Central Banks have now taken over the work of supervision. The District Supervision Funds are now pooled with them and they control the supervisors through their administrative sections assisted by Executive Officers who in some cases are officials of the Department, whose services have been lent to the Central Banks. These Executive Officers, especially those who are lent by the Department and who have been invested with powers of arbitration and execution under the Act, have in a large measure succeeded in checking the growth of overdues and in pulling up bad societies. The present system of supervision by Central Banks assisted by local unions required, however, to be strengthened. The

working of a large number of unions has generally been unsatisfactory. This has been due to the want of enthusiastic and disinterested men on the Governing Body of unions with sufficient leisure and readiness to serve their fellow co-operators. A suggestion has been made that the Central Bank or the Registrar should be empowered to make nominations to the governing bodies of unions, and this question is under consideration.

13. Central Banks and unions are not the only agencies that are at present employed in the scheme of rectification and consolidation. In recent years, the departmental officers have definitely taken up a part of this work themselves, as it was felt that such co-ordination of activities was essential to improve the condition of societies in the district. In the earlier years, such of the Inspectors who could be spared from their audit work were deputed for collection work during the closing months of a co-operative year. In 1934, however, after the scheme of intensive examination of loans was launched, District officers were asked to devote greater attention to the carrying out of the plans of rectification work drawn up by Central Banks and unions. The district is divided into three areas—one for the Deputy Registrar, the other for the Co-operative Sub-Registrar (who works under the Deputy Registrar) and the third for the Executive Officer or the Secretary of the Central Bank. These officers are expected to visit unions in their respective areas, convene meetings, study the working of each society in the union, suggest lines of improvement and also visit as many societies as possible, moving about from village to village, and thus keep themselves in close and constant personal touch with the working of the societies in each union-area. The administrative staff in the districts should in addition to their statutory duties of enquiries stimulate action on the part of societies and unions. The district officers draw a plan of work in consultation with the Central Banks every year, and this is followed by them. During the last 4 years, they have also assisted unofficials to stimulate collections towards the closing months of the year by deputing their audit and administrative staff to visit societies for the purpose. As a result of the combined efforts of both the non-officials and the officers of the Department and of the several steps mentioned above, there has been a steady improvement in the recovery of arrears, as will be seen from the following figures:—

Percentage of Balance to Demand.

		Under Principal.	Arrear Interest.	Current Interest.
Due to Provincial and Central Banks.	1935-36	51.59	45.34	10.03
	1936-37	45.26	37.80	8.73
	1937-38	45.02	52.11	6.53
	1938-39	33.25	64.15	5.07
Due to Agricultural societies	1935-36	65.35	71.35	47.62
	1936-37	58.76	72.48	43.49
	1937-38	55.45	75.33	38.27
	1938-39	47.17	76.70	35.35
Due to Non-agricultural societies.	1935-36	23.24	61.45	20.63
	1936-37	21.90	60.92	19.40
	1937-38	20.86	59.06	18.78
	1938-39	19.94	64.44	17.03

14. During the last 10 years this process of rectification and consolidation of societies has been in progress. Side by side with this, the movement has also generally expanded in various directions, especially in the last few years, and it is fast coming up to the level of the pre-depression days. The number of societies rose to 13,759 on 30th June 1939, and the membership to a million and forty thousands. Apart from the registration of new societies wherever possible, Central Banks have been advised to issue loans to deserving members of existing societies even where the societies concerned have been in default to them, provided the investments already made by them in the societies are sound. The loans issued by agricultural societies, including land mortgage banks and sale societies, during 1938-39 amounted to Rs. 307.79 lakhs, which exceeded the figure for 1937-38 by about a crore of rupees and even topped the figures for 1929-30—the highest in recent years—by about Rs. 50 lakhs. The loans advanced by non-agricultural societies during 1938-39 also rose by Rs. 18 lakhs over that of the previous year. To meet the growing demands of societies, the Central Banks in their turn resorted to more borrowings from the Madras Provincial Co-operative Banks, and so these borrowings rose from Rs. 32.79 lakhs in 1937-38 to Rs. 64.88 lakhs in 1938-39. In the sphere of mortgage credit for discharge of prior debts, also, there was noticeable progress during 1938-39 and a sum of Rs. 59.43 lakhs was advanced.

15. In the scheme of expansion of the movement, the lessons taught by the depressions were not lost sight of. One of the features primarily brought to notice was that greater care should be exercised in the grant of loans and over the use to which they were put. A scheme of controlled credit was, therefore, put into operation. According to this scheme, the requirements of the ryots are classified into three distinct stages :—

- (1) Loans for cultivation expenses.
- (2) Loans on standing crops.
- (3) Loans on the pledge of produce.

Loans for cultivation expenses are given by the village credit society on condition that the borrower agrees to sell the produce through the loan-and-sale society to which the village society is affiliated. Out of the sale proceeds the loan amount will be recouped. In the second stage, the loan is given by the village society only for payment of kist—preferably directly into the Treasury by the society itself—and for other similar urgent expenses. The loan, in this case, is advanced on the security of standing crops. All loans given for cultivation expenses and on the pledge of standing crops should be recovered at the next harvest. As far as possible these self-liquidating loans are arranged according to a forecast system, prepared well in advance. Loans on the pledge of produce are granted when it is advantageous to hold up the produce for a better market. Such loans are either disbursed outright or the existing loans on standing crops are automatically converted into loans on the pledge of produce. The produce loans are given either by village societies (wherever they have facilities for arranging for the safe custody of produce) or by such sale societies as have warehouses. The existence of a land mortgage bank near the headquarters of a sale society will carry this process of controlled credit a step further. The land mortgage bank clears the ryot's prior debts with a long term loan for twenty years. The ryot thus redeemed is given loans by the rural credit society for agricultural operations and other domestic expenses. Later, when the produce is harvested, it is taken into the sales society's warehouse where it is sold at once or held up for a better market. The sale proceeds are devoted firstly to the discharge of the loans given by the village society and secondly to the payment of the loan instalment due to the land mortgage bank. The surplus is handed over to the ryot. If the produce cannot be sold owing to unfavourable prices prevailing at the time of harvest, the sale society advances a loan on the security of the produce kept in its godowns. Out of this loan, the sale society discharges the rural credit society's loans and the land mortgage bank loan instalment and gives the balance to the ryot. The entire produce loan should be recovered by the sale society when the produce is sold. This scheme is designed to link up the land mortgage bank, the rural credit society, and the neighbouring sale society, and secure for the ryot the best price for the proceeds of his harvest, and independence from harassing middlemen at the moment when he is hard pressed to find money for Government kist, seasonal needs, etc. The success of the scheme depends largely upon the extent of the supervision exercised over the borrowers. The results so far achieved have been encouraging. The scheme is now in operation in 18 districts. It has been recognised that one of the chief methods by which the rehabilitation of rural credit societies can be brought about is to extend the scheme on a far wider scale and work it out intensively.

As the essential feature of the scheme is to link up rural credit societies with sale societies, more sale societies have been organised, and there were 134 such societies on 30th June 1939. They disbursed loans to members to the extent of Rs. 95.86 lakhs on the security of produce pledged with them. Where it is not possible to link credit societies with sale societies, credit societies themselves grant loans to their members on the pledge of produce.

16. Another important direction in which reform has been effected is in the matter of societies confining themselves to the supply of short-term credit. In the earlier years of the movement, Central Banks and societies were granting loans for periods extending up to 10 years. It was later recognised that the mistake on the part of societies in redeeming the prior debts of their members by the grant of long-term loans for 10 years was in no small measure responsible for the growth of overdues. With the inauguration of the Central Land Mortgage Bank and the Primary Land Mortgage Banks, a policy was evolved whereby Central Banks and societies were required to confine themselves only to short-term and medium-term loans not exceeding six years. In their preliminary report, the Reserve Bank of India suggested that the period of loans in societies should be restricted to a maximum of 2 years. Medium-term loans for purposes auxiliary to agricultural operations are as necessary to the ryots as short-term loans for cultivation expenses, and these loans usually require a longer period of repayment than 2 years. There is no agency to deal with this form of credit more suitable than the primary credit society, and so the policy already evolved is being continued. Attempts are, however, being made to see that central banks and societies developed more short-term than medium-term loans. It has been suggested that societies might apportion their borrowing power and also the borrowing power of their members separately for short-term and medium-term loans and restrict their medium-term requirements to 35% of the borrowing power, so that the remaining 65% might be available for short-term loans. While the application of a hard-and-fast rule would not be practicable in all cases, the adoption of the idea underlying this principle would enable societies to restrict their medium-term transactions as far as possible.

17. In conclusion, it may be pointed out that the question of the rehabilitation of the co-operative societies ultimately resolves itself into a question of increasing the income of the ryot and improving his economic condition. The supply of cheap and timely credit, however, necessary for the agriculturist, cannot by itself bring about a marked improvement in his life. It has to be supplemented by other activities, and the question of the improvement of the ryot has to be approached as a whole. The main methods by which this economic improvement may be brought about are, in my opinion, an intensive system of agricultural production through the adoption of up-to-date agricultural methods and technique, including the raising on a larger scale of industrial crops, the pursuit of occupations subsidiary to agriculture during the villager's spare time, and improved arrangements of agricultural marketing so as to secure a better price for his produce. For this all-round improvement in his economic condition, an organization is necessary, and co-operative societies have admittedly been the most suitable organisation for the purpose. The Department has begun to concentrate its attention on this threefold programme of development, and a sustained 'drive' will be kept up, with the help of all the agencies concerned. It should be possible for village societies, with the help of the officers of the Co-operative and the Agricultural Departments, to see to the proper utilization of loans by their members for improved agricultural production under a system of controlled credit. In recent years, societies of various types have been organized, which are intended to promote the two other objects. Better Living Societies, sale and marketing societies, consolidation-of-holding societies, milk supply societies, etc., aim at eliminating the social and economic waste which is too marked a feature of village life, and ensuring better farming, better business and better living.

APPENDIX III.

PROCEEDINGS OF THE MEETING OF THE MULTI-UNIT SOCIETIES SUB-COMMITTEE OF THE 13TH CONFERENCE OF REGISTRARS OF CO-OPERATIVE SOCIETIES HELD AT NEW DELHI ON THE 23RD AND 24TH MARCH 1940.

PRESENT :

1. Diwan Bahadur C. M. Gandhi.
2. Rai Bahadur Pandit Radhe Lal Chaturvedi, Registrar, Co-operative Societies, United Provinces.
3. Khan Bahadur A. M. Arshad Ali, Registrar, Co-operative Societies, Bengal.
4. Mr. M. R. Bhide, I.C.S., Registrar, Co-operative Societies, Punjab. N. W. F. P. and Delhi (Convenor).

1. The question of the necessity of having Central Legislation for regulating the operations of co-operative societies working in more than one unit of the Federation was discussed. It was unanimously decided that Central Legislation was necessary and that the task should be undertaken by the Central Government.

2. The question of the form of Central Legislation and of having a Central Registrar was discussed. It was decided that Central Legislation was necessary on the lines of the draft (Annexure) proposed by the Hon'ble Mr. Pantulu. It was felt that there was no necessity for a Central Registrar as the work could be done by the Provincial Registrars concerned under the Central Act. In Section 5 of Mr. Pantulu's draft a provision is made that the Provincial Registrars may call such returns and information as may be prescribed, and exercise powers of audit, inspection and supervision, etc., etc., K. B. Arshad Ali, R. B. Chaturvedi and Mr. Bhide were of the opinion that the wording was satisfactory. Diwan Bahadur Gandhi however felt that the point of audit may be clearly mentioned in the rules to be framed. In his opinion it was necessary to say clearly that the statutory audit by the Registrar of the Province in which the society was registered must continue and that the local Registrar should be given the power to have an additional audit if necessary.

ANNEXURE.

COPY OF A LETTER DATED THE 20TH MARCH 1940, FROM THE HONOURABLE MR. V. RAMADAS PANTULU.

I intended to attend the Sub-Committee meeting on the 23rd; but owing to unforeseen and unavoidable circumstances I had to cancel my journey to Delhi with great regret. I enclose herewith two notes expressing my views on the multi-unit societies. I have also redrafted the bill dealing with these societies incorporating certain amendments, which I consider essential. I hope you will receive these papers in time and will be able to consider my suggestions.

NOTE I.

MULTI-UNIT CO-OPERATIVE SOCIETIES.

Need for Central Legislation.

By The Hon'ble V. Ramadas Pantulu.

The opinions of the several Provincial Governments in regard to action to be taken in respect of multi-unit societies are now before the Committee. Many of the provinces which communicated their views to the Central Government agree that recourse to central legislation is the most suitable mode of dealing with the question.

This view seems to me to be justified, in the light of the specific provisions of item 33 of the Federal Legislative List (Schedule VII to the Government of India Act, 1935). The first part of the item seems to exclude completely from the scope of federal legislation 'co-operative societies.' If that were the effect of item 33, then each Provincial Legislature would have power to pass its own supplementary legislation to govern multi-unit societies and make it part of the law governing co-operative societies. But unfortunately, the last 14 words of item 33 seem to include co-operative societies also, if they are multi-unit societies. These words run thus: "and of corporations, whether trading or not, with objects not confined to one unit." These words, according to their literal interpretation, will include also co-operative societies for co-operative societies are corporations, because they are incorporated under some Act in force in British India. Then Federal Legislature alone can legislate for multi-unit co-operative societies. If this is the correct interpretation of the last fourteen words, then it follows that the words, "co-operative societies" occurring immediately before these 14 words must be deemed to refer only to co-operative societies other than multi-unit societies, that is to say, to only societies operating in the province in which they are registered. It is in this view that this controversy has come to the forefront particularly after the passing of the Government of India Act, 1935. So, on the whole, giving a literal interpretation to the last 14 words, it will be both desirable and expedient to invoke the aid of the Central Legislature which now functions as the Federal Legislature until the provisions of the federal part of the Government of India Act are brought into force.

I find that in some of the notes put up by Provincial Governments some question is raised about the continuance of the validity of incorporation of multi-unit societies registered under the old Act outside the province in which they were registered. There is absolutely no room for such a doubt. There is nothing in Act II of 1912 to prevent the registration of societies with sphere of operations extending to more than one province. Any contention that corporation validly constituted lose their character of valid corporations outside the province of registration simply because a central statute is replaced by a provincial or state statute cannot be sustained for a minute. If authority is wanted, I believe there are rulings of the Privy Council in cases which went up to that Tribunal from Canada. Some of the States modified or repealed the law of the Dominion Legislature under which some corporations were registered. Even subsequent to the repeal of dominion Statute by a Statute of the State, it was held that the original incorporation was valid. These decisions are on all fours with the question now under consideration. Nevertheless, other questions besides validity of original incorporation such as the regulation of the working and dissolution of societies registered under Act II of 1912 may arise. Act II of 1912 cannot probably be invoked in dealing with such questions in certain provinces where that Act is not now in force, e.g., Madras, Bombay and Madras, which have now their own Provincial Acts. So, to provide for such cases also, it will be desirable to make it clear that multi-unit societies registered under Act II of 1912 shall be deemed to be registered under this Act and to make specific provision for their regulation, control and dissolution in the manner stated in the bill (copy enclosed) with the amendments proposed by me to bill circulated with notice of meeting of the Committee.

NOTE II.

ON THE DRAFT BILL AND AMENDMENTS PROPOSED THERETO.

The draft bill relating to multi-unit societies which has been circulated to the members of the Committee seems to require modifications in two important respects :—

Firstly :—the bill must not only provide for registration of multi-unit societies in future but should also provide for regulating the working of such societies as have already been registered and which are described in the lists furnished by the several Provincial Governments. So, the preamble should be suitably altered and a new section should be added for this purpose. The following words have therefore been added to the preamble :

"and to regulate the working of similar societies registered before the passing of this Act."

and a new clause (6) has been inserted, and the existing clause 6 has been renumbered as (7).

Secondly—clause (5) which deals with the law which governs multi-unit societies coming into existence hereafter and the extent of control to be exercised over them by Registrars of the provinces other than that in which the Society is registered, seems to require radical modification. While the law governing the registration, control and dissolution will be that of the province in which the society is registered, powers of audit, inspection and supervision to be exercised by the Registrars of the Provinces in which the multi-unit society establishes a branch or place of business can more appropriately and conveniently be carried out in accordance with the system prevalent in each of such provinces. It will not be appropriate or convenient to ask the Registrar of Bengal to adopt the system of audit, supervision or inspection obtaining in the Punjab or *vice versa*. At the same time, it is now difficult to define exactly the scope, nature and extent of such powers. They may vary not only from province to province but also with the type of society concerned. What may be suitable for a co-operative store may not suit a co-operative credit society, and what suits either of these types of societies may not suit a co-operative insurance society. So, on the whole it is desirable to leave the definition of these additional powers to be exercised by Registrars of provinces other than that in which the multi-unit society is registered to rules to be made by the Central Government or Provincial Governments with the previous concurrence of the Central Government and not inconsistent with the provisions of the law governing co-operative societies for the time being in force in the province in which the rules are to be enforced. Any attempt on the part of this Sub-Committee of the Registrars' Conference to lay down more definitely the scope of such functions may lead to conflict of opinion and controversy which may only result in delaying the passing of this law. When rules are to be made, the Provincial Governments and the Provincial Registrars will necessarily be consulted and the rules will be suitably framed in accordance with such opinion.

A new clause (8) has been added to provide for rule making power of the Central Government or of the Provincial Governments with the previous concurrence of the Central Government.

DRAFT BILL.

A BILL

TO SUPPLEMENT THE LAW RELATING TO CO-OPERATIVE SOCIETIES FOR A CERTAIN PURPOSE.

Whereas it is expedient to supplement the law relating to Co-operative Societies in order to provide for the registration as Co-operative Societies of societies whose sphere of operations extends to more than one Province (unit) and to regulate the working of similar societies registered before the passing of this Act, it is hereby enacted as follows :

1. (1) This Act may be called the Co-operative Societies (Supplementary) Act, 1932.

(2) It extends to the whole of British India.

2. In this Act, unless there is anything repugnant in the subject or context, "society" means a society which under the provisions of the Co-operative Societies Act, 1912, or of any Act of a local Legislature by which this Act has been or may hereafter be replaced in any province, is eligible or would, if its sphere of operations and membership were confined to one province, be eligible for registration as a co-operative society.

3. Where a society is of such a nature that its sphere of operations or membership extends to more than one province, or that component branches of the society are established in more than one province, the society shall, for the purpose of registration as a co-operative society, be deemed to be situated wholly in the province in which its principal place of business is for the time being situated, and may, notwithstanding any limitations imposed by the law in force in that province, be registered by the Registrar of Co-operative Societies of that province, in accordance with the law for the time being in force in that province.

4. When a society has been registered under the provisions of section 3 in any province, the society shall, subject to the provisions of section 5, be deemed in any province, to which its sphere of operations or membership extends or in which any component branch of the society is established, to be a registered society for all purposes of the Co-operative Societies Act, 1912, or any Act of the local legislature by which that Act has been or may hereafter be, replaced in such province.

5. A society registered under section 3 as a co-operative society shall be subject, for purposes of registration, control and dissolution, to the provisions of the law relating to co-operative societies in force for the time being in the province where such society is registered; but the Registrars of provinces outside that in which it is registered and where such society establishes a branch or place of business, may call for such returns and information as may be prescribed and exercise powers of audit, inspection and supervision in respect of business done in such province to the extent and in the manner prescribed by the rules to be framed under this Act either by the Central Government or the Provincial Governments concerned with the previous concurrence of the central Government and not inconsistent with the provisions of this Act or any other Act governing co-operative societies for the time being in force in any province to which the rules are made applicable.

6. (1) Every society registered before the commencement of this Act under the Co-operative Societies Act, 1912, or an act of any Provincial Legislature by which the said Act has been replaced and which has established or may hereafter establish a branch or place of business in any province other than the province in which it is registered shall be deemed to be registered under this Act.

(2) Every such society shall within six months from the commencement of this Act or from the establishment of such branch or place or business file with the Registrar of the Province in which such branch or place of business is established a certified copy of its registered bylaws and amendments and shall submit to the Registrar of such province such returns and information pertaining to the business done in that province as may be prescribed by rules made under this Act in addition to the returns and information submitted to the Registrar of the Province in which the Society is registered.

The provisions of section 5 in regard to exercise of powers of control, supervision, inspection and audit by Registrars of Provinces other than those in which a society is registered shall also apply to societies falling under this section.

7. Where any question arises as to the province in which a society is to be deemed to be situated for the purposes of registration under the provisions of section 3, the question shall be referred to the Governor General in Council whose decision shall be final.

8. (1) The Central Government or the Provincial Governments with the previous concurrence of the Central Government, may make rules to carry out the purposes of this Act.

(2) In particular and without prejudice to the generality of the foregoing power such rules may prescribe the forms of return and information, and define the scope, extent and nature of control, supervision, inspection and audit under sections 5 and 6.