



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

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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 Coun-
cil 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 MADHORA 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 Secretary, 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.

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 Gold 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 filled 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 6½ per cent. instead of 7½ 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	×	$12\frac{1}{2}\%$
Balance on 30th June 1938	1,736	1,086	..

4

Outstanding Interest on 30th June 1938 consists of.

Interest of 37—8=217 at $12\frac{1}{2}$ per cent.

Interest of 36—7=217 at $12\frac{1}{2}$ per cent.

Interest of 35—6=217 at $12\frac{1}{2}$ 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.

$$651 \times \frac{6\frac{1}{4}}{12\frac{1}{2}} = 325-8.$$

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 Principal.	2 Interest.	3 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) on 4,197 ($1\frac{7}{35} - 31\frac{5}{37}$) = 403—15.

on 3,967 ($1\frac{6}{37} - 3\frac{6}{37}$) = 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.
	<u>625—2</u>	

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	×	15½ 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 15½ per cent.
Interest of	36—7=7—13	at 15½ per cent.
Interest of	35—6=7—13	
	23—7—reduced to 7½ per cent.	
Interest of Earlier period	32—1	written off.
	<u>55—8</u>	

5

Reduced as per concession to.

$$23-7 \times \frac{7\frac{1}{2}}{15\frac{1}{2}} = 11-4.$$

Final form of Ledger entry.

	Principal.	Current Interest.	Deferred Interest.
Balance on 30th June 1933	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 Principal.	2 Interest.	3 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	..

Outstanding Interest on 30th June 1938 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).

Reduced as per concession to.

$$86-7 \times \frac{7\frac{1}{2}}{15\frac{5}{8}} = 41-8.$$

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 1938	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

Earlier period	37—2—reduced to 7½ per cent.
	50—10—written off.

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 collectings 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 $7\frac{1}{2}$ 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 of

1 Serial No.	2 Name of Circle.	3 No. of Societies.	4 No. of members.	Loans outstanding the time of compromise.		7 Rate of Interest which was charged before compromised.	Details of concession given.					Demand			
				5 Principal.	6 Interest.		8 Amount written off in principal from old debt.	9 Amount written off in interest from old debt.	Concession given in interest.		1934-35.		1935-36.		
									10 Rate of interest reduced (General).	11 Interest totally stopped in.	12 Annual instalment fixed.	13 Demand.	14 Recovery.	15 Demand.	16 Recovery.
1	Ajmer .	30	270	81,076	17,579	12%	...	853	8%	12 Societies.	8,121	3,168	2,543	6,523	4,516
2	Nasirabad .	30	419	1,47,035	38,822	12%	165	4,832	6%	13 Societies.	10,980	1,968	1,410	7,967	2,208
3	Beawar.	29	212	46,890	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%	...	7,858	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	27,186	15,432

Co-operative Societies Ajmer-Merwara.

and Recoveries.						Balance on 1-7-1939.		Land owned in possession of the members.						Remarks.
1936-37.		1937-38.		1938-39.		Principal.	Interest.	Chahl.	Talabi.	Abi.	Barani.	Total.	Value.	
Demand.	Recovery.	Demand.	Recovery.	Demand.	Recovery.									
17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
9,010	4,444	8,548	3,823	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	10,980	2,501	1,29,635	31,564	1,732	1,829	991	2,823	7,375	2,55,113	
5,341	3,325	2,778	2,167	2,286	1,146	38,179	21,087	738	351	342	607	2,128	1,48,603	
7,679	2,807	7,591	1,910	7,631	1,507	46,813	14,216	771	644	343	1,238	2,996	77,625	
31,068	13,463	23,404	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	2	3	4	5	6	7	8	9	10	11	12
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	3,686
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

in Jiner-Merward.

1937-38.		1938-39.		1938-39.		Remarks.
13	No. of members who kept their promise.	16	No. of members who kept their promise.	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	7,506	19	3,865	...	...
35	692	18	460	3	892	
7	108	4	144	2	348	
93	10,007	68	5,594	27	6,075	
	9,021		6,080		6,741	
				22	Effect of this concession whether it encouraged the defaulters to make payment or discouraged the payment by Good members i.e., increase the No. of Defaulters.	
				23	Effect on the neighbouring Societies showing whether it encouraged the default or discouraged it.	
				24		

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	3,09,878	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. 1,09,516. 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.			
1930-31	46,025	1,09,316	No	figures available	
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. 53.80 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 $5\frac{1}{2}\%$ 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 $3\frac{1}{2}\%$. The lending rate of primary societies does not generally exceed $7\frac{1}{2}\%$, and in some cases it is as low as $6\frac{1}{4}\%$.

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 $6\frac{1}{4}\%$ 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 or 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 factions, 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 overdue 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	8.72
	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.