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# CO-OPERATION

COMPARATIVE STUDIES  
AND THE  
CENTRAL PROVINCES  
SYSTEM

BY

H. R. CROSTHWAITE

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Without the patient labour and unselfish devotion of a small band of unpaid workers there could never have been a Co-operative Movement in the Central Provinces and Berar. The gift of this book to the Movement is a small token of the writer's deep respect and admiration for the work of the unpaid Co-operator.

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## P R E F A C E .

To understand the meaning and importance of the Co-operative Movement in India, requires a knowledge of certain historical facts and some acquaintance with co-operative achievement in other countries. That is the reason for Parts I and II of this book.

In compiling a volume of reference it is legitimate to follow the example of Molière and to take what is good from where it is to be found. Accordingly, it is not so much in the character of an author as in that of an amanuensis that I tender my apologies to Messrs. Cahill, Fay, Hewins, Wolff, Dicksee, and Conant, for my borrowings from their standard works. I have also made much use of the admirable Bulletins issued by the International Institute of Agriculture in Rome, of the writings of Nicholson and Holyoake, and of the articles by that exceedingly well-informed expert "Home Counties," published in *The World's Work*.

It must be understood that nothing contained in this book is, in any sense, a declaration of Government policy. Such declarations are contained in Government Resolutions, and not in a book prepared by a humble co-operative worker for the use of his fellow-workers.

H. R. CROSTHWAITE.

June 15th, 1916.



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## INTRODUCTION.

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“ Co-OPERATION leaves nobody out who works. Those who do not know this do not understand co-operation ; those who do know it and do not mean it, are traitors to the principle. Those who mean it and do not take steps to secure it, or are silent when others evade it, or do not advocate it when occasion offers, are unseeing or supine. Co-operation touches no man's fortune ; seeks no plunder ; causes no disturbance in society ; gives no trouble to statesmen ; enters into no secret associations ; it contemplates no violence ; needs no trades union to protect its interests ; it subverts no order ; envies no dignity ; it accepts no gift, nor asks any favour ; it keeps no terms with the idle, and it will break no faith with the industrious. It is neither mendicant, servile, nor offensive ; it has its hand in no man's pocket, and does not mean that any other hands shall remain long or comfortably in its own ; it means self-help, self-dependence, and such share of the common competence as labour shall earn or thought can win.” These are the words of that great English co-operator, George Jacob Holyoake, and they may be commended to all workers in the cause as an epitome of what “ Co-operation ” really means. Co-operation is mutual help ; and a co-operative society begins in persuasion, proceeds by consent, seeks success by common efforts, incurs risks, and shares losses, intending that all its members shall proportionately share whatever benefits are secured.

Co-operation produces equality ; but this equality is the result not the beginning. Any co-operative movement must start with inequality and authority, and must steer steadily towards self-government and independence. It will take time,

co-operators must remember, to regenerate the world. Co-operation is a religion which, though weak in creeds and collects, renders humanity service. The main creed of co-operation is that all co-operators should mean well, work well, and neither beg, steal, nor annoy.

Leslie Stephen has recorded that "Robert Owen was the most conspicuous figure in the early part of the nineteenth century." And when Robert Owen originated "Co-operation" most men said that the idea was contrary to human nature. What was new to them they concluded was new to humanity. But Aristotle tells us of nations who held the land in common and divided the produce, and of others who divided the land and stored the produce in common. Minos the Cretan would not suffer any of his people to lead an indolent life. Persons of all classes sat at common tables, partook of the same diet, and at the public expense. The laws of Minos remained in force for nearly a thousand years. When Lycurgus governed Sparta obedience to the law and *the dread of living for himself* were the earliest lessons imprinted on the mind of a Lacedemonian. Robert Owen was born in 1771, and thus was a contemporary of Wellington and of Napoleon. From being a humble draper's assistant he became a wealthy cotton manufacturer. Owen purchased and worked up the first bale of cotton imported into England, foreseeing at once the future importance to the spinning trade of England of encouraging the foreign supply of raw material. Owen's scheme of administering his factories shared with his labourers and their families a portion of the common gain. Amongst other arrangements for the welfare of his people Owen provided model schools for their children, and thus it came to pass that the education, or formation of character, of members of the co-operative body has always been deemed a part of the co-operative scheme amongst those who rightly understand it. A co-operative store was a mere detail of Owen's factory management. Huxley has written thus of Owen: "I think that every one who looks closely into the problem of popular education must be led to Owen's conclusion that the infants' school is, so to speak, the key of the position. Robert Owen discerned this great fact,

and had the courage and patience to work out his theory into a practical reality." Owen was the first who looked with practical intent into the kingdom of the unborn. He saw that posterity—the silent but inevitable judge of us all—if left untrained may efface the triumphs, or dishonour, or destroy the great traditions of the race. Robert Owen put infant schools into the mind of the world; and he, when it seemed impossible to any one else, proposed national education. Moreover, Owen was not a sentimental, speculative, or barren reformer. He was for submitting every plan to experiment before advising it. He cared for no cause that reason could not win; and whatever he commended he supported with his purse. He saw, as no man before him did, that environment is the maker of men. Robert Owen died in his 88th year, on the 17th November, 1858, at Newtown, Montgomeryshire, the place of his birth. In 1902 the co-operators of England and Scotland subscribed to erect a handsome screen round Owen's tomb.

{ Although England is the parent-country of the co-operative idea, Germany is that of co-operative banking and credit. } The German pioneers were Herr Schulze, Mayor of Delitzsch, and Herr F. W. Raiffeisen, Burgomaster of a group of villages round Neuwied. Both were men who had seen government service. Schulze-Delitzsch was a Judge and a member of the Prussian National Assembly of 1848. Raiffeisen, ex-soldier and wine merchant, who even to the age of eighty, when he was sick and blind, had a marvellous facility for arithmetical calculation, directed the building of the railway on the left bank of the Rhine. Both these great reformers broke entirely new ground, although Schulze-Delitzsch had learnt the powers of thrift from the English Friendly Societies, and Raiffeisen had seen from the public savings-banks and Schulze-Delitzsch's own institutions how some of the larger farmers could be accommodated with credit. Both began with an individual effort to relieve the distress in their particular districts. Both ended with the conviction that improvement was only possible when it depended upon and came from the people themselves. 1848 was a year of distress general throughout Europe. In 1849 Schulze-Delitzsch founded a Friendly Society for relief in

sickness, and in the same year an association of shoemakers for the purchase of raw materials. In 1850 he founded in Delitzsch-Eilenberg his first loan society with ten members, all artisans, and remodelled it two years later as a self-supporting institution with a capital and shares. He saw that the lack of good credit was at the root of the small man's helplessness, and that this credit could only be provided if the small man by self-help organized himself to obtain it. In 1848 Raiffeisen founded at Weyerbusch (Coblenz) a co-operative society for distributing potatoes and bread to the poor. In the year after he founded at Flammersfeld, in the Westerwald, a loan society for the support of small farmers ; but, let us note, the members of this society were rich philanthropists who sold cattle at easy rates to the farmers, they were not the farmers themselves. In 1862—mark the long interval—Raiffeisen founded, at Anhausen, his second society. This was a co-operative credit society, and in it the borrowing farmers were themselves the members. It was at this stage that Raiffeisen discovered that the poor required no donations of money but the organization necessary to command this money for themselves.

Neither Schulze-Delitzsch nor Raiffeisen had a government commission to establish credit banks. Their sympathy stirred them to efforts of relief: their experience showed them the conditions under which permanent improvement was alone possible: their genius created triumphantly the conditions which their contemporaries thought to be unattainable. Schulze-Delitzsch was first in the field, but Raiffeisen worked out his own organization. Schulze-Delitzsch blinked suspiciously, when he detected certain variations from his own regulations, Raiffeisen held boldly to his position. Both observed that they had solved a great problem by principles essentially the same; neither understood that their differences of method were due to, and justified by, differences of environment. Now the German mind is peculiarly prone to proceed by formulæ. It draws from observation or study conclusions which in their place are correct. It celebrates their discovery by promoting them to an "ism" which, applied regardless of environment and context, is incorrect. An "ism" is to its disciples a universality;

variation from that "ism" is heresy and not an intelligent application of one principle to different conditions. The party of Schulze-Delitzsch railed at Raiffeisen for methods which in the town would have been insecure: the party of Raiffeisen reproached Schulze-Delitzsch for methods which in the country would have been impossible. Schulze-Delitzsch was right in raising share capital for his town banks, Raiffeisen in rejecting it for his country banks. Being Germans it did not occur to them to conclude, or if they concluded to confess, that each was right in his own line. To-day if you question a member of a Schulze-Delitzsch bank about Raiffeisen institutions, he turns up his nose and patronizes them as unsafe "charity" banks in a tone of contemptuous pity. If you question a member of a Raiffeisen bank about Schulze-Delitzsch institutions he shakes his head and apologizes for them, as for heretics convicted of capitalism and exclusiveness.

One word more. It is necessary for the student of co-operation to understand that there are two aspects of the movement and that they are linked inseparably together. The one aspect is material, the other moral. But morality is not a cloak which unsound business ought to wear. The moral enthusiast, blinded by the refulgence of his ideals, is apt to be impatient in his haste to reach the Promised Land. His head is amongst the stars, while his feet are stumbling in the gutter; and there will always be people vulgar enough to take advantage of him. But if the moral enthusiast is wise he will build up his scheme of reform on the solid foundation of material progress secured by sound business. Good economy is apt to produce good morals. And if the movement is to destroy the forces of ignorance and waste co-operators must be conscious of the efforts and sacrifices which their cause requires.

**PROGRESS OF THE CO-OPERATIVE MOVEMENT IN INDIA,  
1907—1915.**

|   | 1907. | 1908. | 1909. | 1910. | 1911. | 1912. | 1913.  | 1914.  | 1915.  |
|---|-------|-------|-------|-------|-------|-------|--------|--------|--------|
| Number of Societies ... ..                | 834   | 1,357 | 2,008 | 3,498 | 5,432 | 8,177 | 12,324 | 15,673 | 17,327 |
| Number of Members. (In thousands) ...     | 91    | 149   | 184   | 231   | 314   | 403   | 574    | 744    | 824    |
| Working Capital. (In lakhs of rupees) ... | 24    | 44    | 81    | 124   | 204   | 336   | 534    | 772    | 897    |

**CENTRAL PROVINCES AND BERAR.**

|                                       | 1907. | 1908. | 1909. | 1910. | 1911. | 1912. | 1913. | 1914. | 1915. | 1916. |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Number of Societies ... ..            | 70    | 80    | 100   | 152   | 300   | 584   | 1,450 | 2,213 | 2,297 | 2,685 |
| Number of Members. (In thousands) ... | 3     | 4     | 6     | 7     | 9     | 12    | 27    | 42    | 46    | 63    |
| Working Capital. (In lakhs) ...       | 80    | 1.50  | 2     | 3     | 5     | 10    | 34    | 65    | 73    | 87    |



## CHAPTER I.

### SOME PAGES OF COMMERCIAL HISTORY.

THE student of economic questions cannot neglect the experience of commercial history. We, for instance, cannot understand the forces which are developing our Province by merely concentrating attention on the phenomena of the last few years. It is necessary to take a long period of time. The English purpose has, throughout the centuries, found expression in the desire to secure all reasonable liberty of thought, opinion, religion, and action to the subject, and equal justice for all. The voice of Robert Owen preaching Co-operation was that of the spirit of the English people. Carved on the marble of the beautiful building of the famous People's Bank in Milan is the name "Robert Owen." And if the Italian people thus pay tribute, it is but right for every co-operator to try and understand something of the national environment which produced so great a man. Let us, therefore, pause to examine certain features of English economic development before passing on to the history of our own times.

There are few subjects of greater importance to the student of economics than the history of inventions, for in it he has the key to the most far-reaching changes in industry and commerce. But for the inventor of the wheel, for instance, we should still be without roads, railways, and many other things besides. If, however, the inventor of the wheel had been granted a perpetual patent, or, worse still, if the State or the Crown, or whatever the paramount authority of the time might be, had been in the position to reserve for itself and for its licensees the exclusive right to make and sell wheels, there can be no doubt that this monopoly would have retarded the progress of civilisation. In the time of Queen Elizabeth the limits of the Royal prerogative in the regulation of English trade were not even

defined. When, in 1597, the House of Commons petitioned against the Royal claim to monopolies, Elizabeth "hoped that her dutiful and loving subjects would not take away her prerogative, which was the chiefest flower in her garden, and the principal and head pearl in her crown and diadem; but that they would leave that to her disposition." The Bill against Monopolies, of 1621, was rejected by the House of Lords mainly on the ground that it encroached on the Royal prerogative. It was held that the Queen, by virtue of her prerogative, might set at liberty things restrained by Statute Law or otherwise; restrain things that are at liberty,—for example, grant a monopoly for a new invention, or when there was "a glut of things"; and grant a license of transportation to one man when there was a scarcity. The idea of diverting a share in the gains of commerce into the Royal Exchequer was, at this time, at the root of some of the characteristic principles of the mercantile system; and the grant of a monopoly by the Crown was a favourite method of rewarding the services of courtiers. Thus, the Earl of Essex had a monopoly of the sale of sweet wines. At last the sense of injustice, the inconvenience entailed by the monopolies, and the belief that they were granted for the gain of individuals, and not for the benefit of the people, aroused popular indignation. This first found expression in the Parliament of 1597, when a motion was introduced "touching sundry enormities growing by patents of privilege and monopolies." In 1601 the Commons made another attack upon the monopolies. "There be many commodities in this realm" said one speaker "which, being public for the benefit of every particular subject, are monopolized by patent from Her Majesty, only for the good and private gain of one man." The list of the commodities complained of included salt, steel, tin, starch, stone bottles, glass pots, etc., and, shortly afterwards, Elizabeth issued a proclamation, recalling some of the most obnoxious patents. Four days after his accession to the throne, James issued a proclamation, restraining the monopolies. He also spoke strongly against them in his first Parliament. He declared monopolies to be contrary to the laws, but was favourable to patents *for new inventions*. At last,

after prolonged agitation, the Commons obtained in 1624 the Statute of Monopolies. By this famous statute, which is still the basis of English Patent Law, to confer on any individual the exclusive right of carrying on a particular trade or manufacture was in general declared to be beyond the limits of the prerogative and contrary to common law. An exception, however, was made in favour of new inventions, for which a monopoly might be granted for fourteen years, on the ground that the practice encouraged ingenuity and encroached on no right of which others were in possession. The Act also did not extend to certain municipal privileges, to trading companies, to the manufacture of gunpowder which was the monopoly of the Crown, or to the monopolies of glass-making, smalt, and smelting iron. The Statute of Monopolies left untouched some of the most vexatious restrictions on trade; but from this statute dates the development of the unrestrained right to trade as now expressed, for instance, in the Indian Contract Act,\* which merely repeats the English law declaring contracts in restraint of trade to be illegal. And, *what is most important of all*, the statute left the way open for an attack upon the exclusive trading corporations; for though they were excepted from its operation it was open to discussion whether their charters, when they expired, could be renewed without Parliamentary sanction.

In the sixteenth and seventeenth centuries, an English merchant who wished to engage in foreign trade had little chance of success unless he became a member of one of the great companies. For the companies had extensive powers of fine and imprisonment, and could bring the influence of the law to bear upon the private trader who would not submit to their regulations. Amongst the most interesting passages of English commercial history are the records of the attempts made by the private trader to break down the monopoly of the trading companies. But for the wise restrictions imposed by the Government of India there might be some analogy between private railway companies in this country and the

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\* Section 27, Act IX of 1872.

English trading companies of the seventeenth century, especially if we imagine the principles of private railway organization extended to the whole foreign trade of India at the present time. Let us picture the condition of things at the beginning of the reign of James I. The Russia Company had the monopoly of the trade to Russia, Armenia, Media, Hyrcania, Persia, and the Caspian Sea. The trade to Norway, Sweden, and the Baltic was under the control of the Eastland Merchants. The Merchant Adventurers employed the monopoly of the trade from the Cattegat to the mouth of the Somme. Then came the Levant Company with its monopoly of the trade of the Mediterranean and the East. In the newly-discovered lands the Guinea Company traded to the West Coast of Africa, while the East India Company's charter included the islands and continents beyond the Cape to the Straits of Magellan. In North America, the South Virginia Company monopolized the trade of Maryland, Virginia, and Carolina; and the Plymouth Adventurers Pennsylvania, New Jersey, New York, and New England. Here and there, bodies of merchants had rights which infringed the charters of these companies; for instance, the Hull merchants were protected against the Muscovy Company; Sir Edward Michelborne and others had privileges against the East India Company; while private traders might have been found over the whole field trying their best to break down the monopolies. The French trade was the only one free and open to all Englishmen.

Twenty years before the Statute of Monopolies received the assent of the Sovereign, public discontent with the trading companies led to the introduction of Free Trade Bills in the House of Commons. It was urged that freedom of trade would lead to (i) the increase and *the more equal distribution* of wealth, and (ii) the growth of shipping and of revenue. The arguments against the Bills were of the feeblest description. It was stated that there was monopoly only when the liberty of trade was confined to one man, and that, if trade were free, "the rich would eat out the poor, who were not able to sell at the instant, to make themselves savers, and so there would grow a worse monopoly." To this it was replied that "the contention

showeth thus much, that a crafty head, with a greedy heart and a rich purse, is able to take advantage of the need of his neighbour, which no man doubteth of." At the third reading the Bill was "three days debated and passed with great consent and applause." It was thrown out by the Lords.

The monopoly of the trading companies had a political rather than an economical basis. Indeed, it may be doubted if there was ever any economical justification for the existence of the trading companies. Their organization was rendered necessary by the political conditions under which the foreign trade of the country had to be developed. And because political conditions are far from immutable, internal as well as international trade policies are not based upon principles so much as upon necessity and expediency.\* The conditions of the period were unfavourable to economic progress, for, although in a time of general insecurity and want of confidence, an individual or a nation may be stimulated to greater exertions, and may snatch certain advantages at the expense of others, trade can only flourish in peace, reverence for the law, security to person and property, mutual confidence and integrity in commercial dealings. The power of England in the sixteenth and seventeenth centuries was not that which she enjoys at present; Birmingham buttons were just beginning to be known, of Birmingham firearms nobody had yet heard. In 1685 the English army consisted of seven thousand foot and seventeen hundred cavalry. In 1684, Samuel Pepys, the ablest man in the English Admiralty, reported that the ships of the King's fleet were made of rotten timber and unfit to go to sea. "Some of the new men-of-war are so rotten," he said, "that, unless speedily repaired, they will go down at their moorings." No wonder the Dutch fleet was able to sail up the Thames and burn British ships! Traders knew well that the Government of the day had not the power to protect its subjects abroad. In the leading ports, therefore, to which the companies traded they

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\* Here is a passage from a book written by a German economist. "Where would be the German sugar industry, the textile, the iron industry now created throughout the German empire, without the rich English market always ready to receive our goods? On the back of Free Trade England we have tried to grasp the trade of the world."

had their own consuls, agents, and ambassadors. These officers, the companies appointed and paid ; and thus, what we now regard as the ordinary functions of Government were delegated to companies of merchant adventurers. "*The Company*," therefore, became the central authority to which, through its officials, the individual trader could appeal when disputes or difficulties arose. Not until Government was able to assume the responsibility, to control the appointment of consuls and ambassadors, and to pay the expenses out of the general taxes of the State, did the great trading companies cease to occupy a position which was, in its relation to Parliament, very similar to that of a modern colonial government.

The first East India Company came into existence on December 31st, 1600. Even so early as 1652 this company had its enemies in England, for in that year a pamphlet was published entitled "*Strange News from India*," complaining that "the Company was a destructive monopoly, for our people in the beginning of the East India trade have made particular running voyages thither only to enrich a few." The pamphlet was followed by many others contending for a free and open trade ; and a stormy agitation went on for many years. At last, in 1706, and under Parliamentary sanction, was incorporated the "United Company of Merchants of England trading to the East Indies."

The history of British influence in India may be divided into three periods. There was first a commercial period ; then a period of wars and territorial expansion ; and finally a period of consolidation and internal progress. Of course these periods were not clean cut ; their limits were more or less indefinite. In each of them there was much commerce and much fighting, and some internal progress. But each had a distinct keynote. Commerce was the keynote of the first, which lasted from the time of Queen Elizabeth to nearly the end of the eighteenth century. During that time the British in India were represented by "the Company," and the welfare of their trade was their primary object.

The trade of the East has always been most valuable, and there has always been fierce competition for it. The British

Company was constantly at war with the Portuguese, the Dutch, or the French. The Portuguese were soon worn down, and after some severe fighting the British ousted the Dutch from the trade of the Indian mainland; but the contest with the French was long. When it began in earnest, shortly before the middle of the eighteenth century, a great change had come over India. The Mughal Empire, so powerful and splendid a hundred and fifty years earlier, had practically fallen to pieces. The Emperor still held his Court, and exercised a nominal sovereignty over the greater part of India; but Delhi itself, his capital, had been sacked by a Persian invader, Nadir Shah, the Napoleon of Asia, and the Mughal dominions had broken up into a number of virtually independent chiefships.

"As our business is trade," wrote the Directors of the Company, "it is not politic for us to be encumbered with much territory." The Company had some small tracts of land round its factories, but these had been got by grant from the country powers, for value received; and the heads of the factories were discouraged from obtaining further cessions. If it had not been for the French, this commercial point of view would probably have been maintained, but the French looked at the matter in a different light. They were by no means content with the idea of trade, and their proceedings soon forced the British Company into a course of action which resulted in its becoming against its will a political and military power. In 1741 the famous Dupleix was appointed Director-General of the French East India Company, and he speedily came to the conclusion that the proper course for his countrymen was to form alliances with some of the Indian rulers, to attack and destroy with their aid the British settlements, and then to found a territorial empire. In the end he failed, because the British were too strong at sea.\* In 1754 Dupleix was recalled to France in undeserved disgrace, but fighting with the French went on during the Seven Years' War of 1756-1763, and it was during this war that the future of the British Company was decided.

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\* On the wall of the Cathedral of St. Thomas in Bombay, on the left-hand side as you enter the door, there is a memorial tablet to the captain of a British man-of-war which disposed of a French "Emden," then "the terror of the Indian Ocean:"

The British Company had long possessed a factory at Calcutta. At this period Bengal was held by an Afghan adventurer, who after the break-up of the Mughal Empire had established himself as a practically independent chief. Just as the Seven Years' War broke out he died, and was succeeded by his son, Suraj-ud-Doulah. When, fearing an attack by the French, the British fortified Calcutta, the new ruler objected, marched against them with a large force and took the factory. Then followed the tragedy of the Black Hole, when more than a hundred English were brutally done to death. They were soon avenged by Clive, who, coming up from Madras with a small body of European and Indian troops, advanced against the Bengal ruler and routed him at Plassey. One of his officers who had turned against him was then set up in his place, and thus the British became predominant in Bengal. In 1765 the Mughal Emperor granted to the British the direct administration of Bengal, nominally under his sovereignty. From this time the Company stood forth as a territorial power.

The second period of the British connection with India, that of territorial expansion, had now opened. By this time the Mughal Empire had practically ceased to exist. The territories over which it had once held sway had fallen away one by one, and India had been parcelled out among a number of chiefs, most of them still nominally owning the sovereignty of the Mughal, but all acting as if they were independent, and making war upon each other as they pleased without reference to their overlord. Indeed the Emperor had for long been little more than a prisoner in the hands of any of those chiefs who happened to be strongest at the moment. Most of them, moreover, were adventurers, foreign to the soil and the race of their subjects. India, in fact, was one great field of war, over which numerous armies marched and fought and plundered in all directions. It has been estimated that perhaps two millions of armed mercenaries were gathered about the standards of the various leaders; and all lived at the expense of the peasantry and trading classes, who submitted to every conqueror in turn. Let us glance at the map of India as it was in 1790. Immediately to the north-west of the British province



of Bengal was the Nawab Wazir of Oudh, originally a minister of the Mughal, now an independent Mahommedan prince, ruling large and fertile districts inhabited mainly by Hindus. Beyond him again was a remnant of territory held by the Emperor in person, or some of his officials. Still further to the north-west was the Punjab, over which the Sikhs were establishing their supremacy. On the western coast of India were the Marathas, a loose but powerful confederacy. Their leaders had seized upon various tracts in the centre of India, and founded principalities there; but in truth the Marathas had no geographical limits, for their swarms of horsemen roved India from sea to sea, exacting their tribute, a nominal quarter of the revenue, but often much more, from every ruler not strong enough to resist them. A considerable number of more or less ancient chiefships still existed in the deserts and jungles of Central India; but all, or almost all, were periodically harried by the Marathas. In the south two great Mahommedan chiefs, each ruling a Hindu population, were the most formidable among the competitors for supremacy. These were the Nizam of Hyderabad and the famous Hyder Ali, who had seized the Hindu kingdom of Mysore.

Among all these competing chiefs, with their large but ill-armed and untrustworthy armies, stood the British Company with its more efficient administration and much more efficient military force—a force regularly paid, well led by European officers, and able to draw from England supplies of arms and munitions of war. It seemed likely that if the British entered the lists they would eventually prove stronger than any of the other country powers; and there was little probability that these powers would have sufficient self-control to avoid acts of aggression which would force the British hand. A policy of isolation and non-interference such as the Company favoured could not be easy to maintain. It was the less easy to maintain because the possession of Bengal by the British had now literally thrown open to them the gates of empire by bringing them into the valley of the Ganges, which for more than two thousand years had been the seat of the great Indian kingdoms. They were no longer a trading company with small possessions in the

remote south, but a territorial power in immediate touch with the heart of India. But the Company, true to its trading instincts, shrank with something like terror from the idea of conquest. It was, indeed, expressly declared by Act of Parliament that "to pursue schemes of conquest, and extension of dominion in India, are measures repugnant to the wish, the honour, and the policy of this nation." Such was the spirit in which the British entered upon the second period of their history in India, the short period of seventy years which was to end in supreme domination.

In dealing with this second period we need not, in this book, go into detail. But it is important to remember that throughout the wars against Mysore, the Marathas, the Gurkhas, the Pindaris, and the Sikhs, the British were animated by one desire and one alone, namely, to bring peace to the country. These wars were waged mainly with Indian troops who fought, not against their countrymen, but against enemies who had for generations plundered and tormented them. Again, during the Mutiny of 1857, a military mutiny and a partial one, the armies of Bombay and Madras never wavered in their allegiance to the British. Of the great ruling chiefs of India not one threw in his lot with the rebels. It is the truth, never to be forgotten, that many thousands of Indian soldiers fought, with the most devoted fidelity, against the mutineers. They were "faithful to their salt," and this Englishmen, all over the world, will remember to the end of time. At the close of this second period the British had, in little more than seventy years, risen to supreme dominion by the willing aid of the people of India. They have retained supreme dominion by the same willing aid. And not only has India been loyal to the British, but the British have been loyal to India.

"When by the blessing of Providence internal tranquillity will be restored, it is our earnest desire to stimulate the peaceful industry of India, to promote works of public utility and improvement, and to administer the Government for the benefit of all our subjects resident therein. In their prosperity will be our strength, in their contentment our security, and in their gratitude our best reward. And may the God of all power

grant to us, and to those in authority under us, strength to carry out these our wishes for the good of our people." With these words closed the famous proclamation in which Queen Victoria informed the Indian chiefs and people that the administration of the country had been taken over by the Crown. And thus, little more than half a century ago, opened the third period, that of consolidation and internal progress. To this period we belong. It is for us to carry on the work for which our fathers gave their lives, preserving jealously the spirit of patient, sturdy, and equitable co-operation, and the humane desire for general progress and enlightenment, which had their birth in the hearts and in the sufferings of the English people and for which Robert Owen stood as the first articulate apostle.

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## CHAPTER II.

### THE GENESIS OF THE CENTRAL PROVINCES AND BERAR.

THE twenty-two districts of the Central Provinces and Berar cover an area of almost one hundred thousand square miles, thus being rather larger than England, Scotland and Wales put together. Over the greater part of this considerable tract of country the dawn of the epoch of authentic history may be placed at a period not much more than three centuries ago. Here, in what is now part of our Province, was the mysterious Gondwana, an isolated and unexplored country of inaccessible mountains and impenetrable forests, inhabited by savage aboriginal tribes. Into portions of this wild region early civilisations succeeded in penetrating. Neolithic implements of red chert from the Jubbulpore District have been found a few miles north of the Tambrapani river in South Tinnevely (Madras); and in speculating as to how these ancient chipped stones got so far afield we may, perhaps, be permitted to conclude that even in the Stone Age, or about 400,000 years ago, there was some communication between the Central Provinces and the distant outside world. Once, in the heart of our densest forests, there were busy cities; but

they have disappeared leaving only a few carved stones behind them. From the rock edict at Rupnath in the Jubbulpore District, from coins, and from a few inscriptions on copper and stone, we get glimpses of the extent of Asoka's empire (300 B.C.), of the raids of the White Huns, of the rise and fall of a succession of Hindu principalities (100-1100 A.D.), and of the career of the great Mandla dynasty which, founded about 664 A.D. by Jadho Rai, an adventurous Rajput who married the daughter of an old Gond chieftain, first became important in 1480 and was finally extinguished by the Marathas in 1781.

As we have seen, it was in the year 1600 that the first East India Company came into existence. In that year Akbar, the Great Mughal, captured the Faruki fortress of Asirgarh, in the Nimar District, and Bakht Buland, King of Deogarh, proceeded on a visit to Delhi. Of old Gondwana there were four great divisions or kingdoms,—Garha Mandla,\* Kherla,† Deogarh,‡ and Chanda. The flood of Mahommedan invasion, which swept away the Hindu kingdoms of the Deccan, passed westward through Malwa, Berar, and Khandesh leaving Gondwana practically undisturbed. But, speaking generally, it is to Mahommedan influence that must be attributed the earliest attempts to civilise the Province. Where the Mughal conquered, as in the case of Berar, he took his civilisation with him. Where he exacted tribute, as in the case of Gondwana, he made his influence felt; for when Bakht Buland returned from Delhi he was a convert to Islam. Moreover, he brought back with him, to teach his Gonds, large numbers of artificers and agriculturists both Hindu and Mahommedan. This enterprise added to his revenue and power, and annexing territory from the rival states of Chanda and Garha Mandla, he founded the city of Nagpur on the site of a hamlet known as Rajapur Bharsah. Bakht Buland was succeeded by Chand Sultan who made Nagpur the capital of the Deogarh kingdom.

In 1739 Chand Sultan died, and Wali Shah, an illegitimate son of Bakht Buland, seized on the vacant throne. In this

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\* Garha, once a Gond capital, is now a suburb of Jubbulpore.

† In Betul, in ruins.

‡ In Chhindwara, in ruins.

year the Marathas first obtained a footing in Nagpur ; and at this period the Central Provinces and Berar were distributed amongst the Gonds, the Mughals, the Hindu house of the Haihaivansis, the Bundelas, and the Marathas. Buffeted by successive tides of invasion, the economic progress of the country was (as we shall see) at last broken to pieces on the rocks of internal confusion and misrule between 1803 and 1817.

When Chand Sultan died Raghujī Bhonsla, the descendant of one of Sivaji's troopers, was in charge of the Maratha interests in Berar, a province which the Peshwa of Poona had practically wrested from the Mughals. To Raghujī, the widow of Chand Sultan sent an invitation to oust Wali Shah and to place her sons Buran Shah and Akbar Shah upon the Nagpur throne. This Raghujī did ; but dissensions between the two brothers ripened into civil wars. There was some fierce fighting, and on one occasion, in 1742, twelve thousand Gonds were massacred in the fort of Patunsaongi.

In 1743 Buran Shah called in the expectant Raghujī, and Akbar Shah was driven into exile. Raghujī took his opportunity, made himself master of the Deogarh kingdom, and established his government at Nagpur. On Buran Shah and his descendants the Maratha conferred "by treaty" the empty title of Raja and a State pension.

The fiction that the Bhonslas held as Protectors only was studiously observed. The deposed Gond princes were compelled to affix the "tika," or mark of investiture, on Raghujī and his successors and to impress their seals upon certain revenue papers. In this there was deep policy ; for the Bhonslas wished it to appear that they held their territory from the Gonds, and not subject to the paramount power at Poona. Their aim was a position superior to that of other military chiefs of the Maratha empire who owed their elevation to the Peshwa, and held their fiefs by his favour. So, when the Maratha power was broken at Panipat, the Bhonslas sustained no loss but, from the disasters which overwhelmed the other Maratha princes, became relatively stronger.

Raghujī was succeeded in 1755 by his eldest son Janoji, but not without opposition from another brother Mudhaji. It

was expedient, though scarcely consistent, to refer the dispute to Poona. Janoji was confirmed in the sovereignty of Nagpur ; while Chanda and Chhattisgarh were given to Mudhaji. In 1762, the Nizam of Hyderabad, whose position in Berar and the Deccan was being perpetually menaced by the Marathas, seeing his advantage in the minority of the Peshwa, Madho Rao, took up arms. Janoji was bought off by the Nizam from an alliance with the Peshwa by the promise of the *Sirdeshmookhi* of Berar, and full liberty to attack his brother at Chanda. The Nizam, in that year, was successful, and dictated peace almost at the gates of Poona. But in 1763 we find the Nizam and Janoji in alliance, and together they sacked and burned the capital of the Peshwa. With such rapidity did the politicians of the day shuffle their cards that in 1765 the armies of the Nizam and of the Peshwa advanced together and burned Nagpur. Two years later Janoji retaliated by joining forces with the Gaekwar and, assisted by the treachery of Raghoba, the Peshwa's uncle, he devastated the Poona country-side.

It might be supposed that these exploits would have caused the final rupture of friendly relations between the Bhonslas and the Peshwa. But the times were disturbed ; and the balance of power rested with no great central authority but with combinations of rival despots anxious to save their thrones. In 1771 we find Janoji at the Court of Poona obtaining sanction to adopt Raghaji, the son of his brother Mudhaji of Chanda, and in 1772 he died on his way home. Before Mudhaji, with his son Raghaji, could reach Nagpur, Senaji, another brother of Janoji, had usurped the government. For almost three years civil war raged until the struggle was decided on the battlefield of Panchgaon, six miles south of Nagpur. The fortune of the day had declared for Senaji, and Mudhaji was being surrounded by his brother's troops. Flushed with the fight and with victory, Senaji drove his elephant against that on which his brother was seated, and called on him to surrender. A pistol shot was the only reply. One brother had slain the other and gained the undisputed regency on behalf of his son. In 1788, Mudhaji, after having still further extended the Bhonsla dominions, died and was succeeded by his son

Raghuji II. In 1777, it is important to note, Mudhaji had entered into certain engagements (concerning the Company's trade routes and agents) with the Honourable East India Company; and this is the first indication in history of the approach of English influence into the Central Provinces. For a time Raghuji's fortunes went well and he remained at peace with Poona. In 1791 he seized upon Hoshangabad and the lower valley of the Nerbudda, and captured the forts of Chouragarh, Tejgarh, Mandla, and Dhamoni from the Bundelas. In 1798 Mr. Colebrooke came as the first British Resident to Nagpur. Raghuji's relations with the British were, however, becoming strained, and in 1801 the Resident was recalled.

A year or two later, however, we find another British Resident, Mr. Mountstuart Elphinstone, at the Nagpur Court. In 1803 Scindia and Raghuji united together to oppose the British. Their complete defeat by Wellesley, at Assaye and at Argaon, was the immediate result; and from this time onwards the Maratha power rapidly declined. In this same year a terrible famine afflicted the Province, and grain sold at half a seer to the rupee. As the misfortunes of Raghuji increased the control of the central government became weaker and weaker. In order to fill his depleted treasuries the Bhonsla had recourse to many unworthy expedients. He owned whole rows of shops in the bazaar. He first kept his troops out of their pay, then lent them money from his own banking establishments; and at last, when he did pay them their arrears, he would oblige them to accept, in settlement, goods from his own stores. From his ministers and bankers heavy exactions were made. Adultery Courts were established, and these, furnished with stocks and false witnesses, provided an easy means of bleeding men who had saved any money. Widows were sold for the benefit of the State, one-fourth of the proceeds of all house sales was paid into the treasury, grain was taxed at every stage of its progress through the country, and every industry had, as a matter of course, to bear its special burden. In short, a poor man could not shelter himself, or clothe himself, or earn his bread, or eat it, or marry, or rejoice, or even ask his gods for better weather, without contributing separately on

each individual act to the necessities of the State. In the remoter parts of the Province in lieu of pay villages were made over to the soldiery to loot, while crops were seized directly by the government officials without any pretence of form or reason. If the people complained Raghujī summoned the official at fault, fined him heavily, and then sent him back to collect the fine from those who had lodged the complaint. Thus Narayan Rao, the Subah of the Patan Taluq (Jubbulpore District) was fined a lakh of rupees, and, in consequence, the people of the Taluq had their entire stock of cattle confiscated and sold so that Narayan Rao might pay the "fine." Maddened by systematic oppression the cultivators called in the assistance of Amir Khan, the notorious Pindari leader, preferring to trust themselves to his mercy rather than that of a government tottering to its fall. "There are men still alive," wrote Sir Charles Grant in 1867, "who can tell us of the hard lot of those days, how they sowed in sorrow, with little hope of seeing the harvest, and how, whenever they did reap, they buried the corn at once in the ground." Raghujī Bhonsla died in March, 1816, and was succeeded by his son Pursoji, a man blind, lame, and paralyzed. Soon after his succession, the new Rajah became totally imbecile, and Mudhaji, Raghujī's nephew, was appointed Regent.

Bruised and cowed by the whips of Raghujī the people were stung to desperation by the scorpions of "Appa Sahib" Mudhaji and large tracts of country became altogether desolate. After poisoning the Rajah, Mudhaji entered into secret and treacherous agreements with the Peshwa, with Scindia, and with the Pindaris, thus violating his treaty obligations to the British with whom he had previously entered into a defensive alliance. This conduct led to the signal defeat of the Appa Sahib and his forces at the battle of Nagpur on the 26th and 27th of November, 1817, and to his final deposition in 1818.

The country was now in a condition of intolerable confusion and disorder, and the people were anxious to welcome a strong and just government. By the treaties of 1817 and of 1826 the Bhonsla ceded to the British the districts on the Nerbudda and the Tributary or Feudatory States on the Mahanaddi, as



well as the two small hills of Sitabaldi and a few square miles of ground for a cantonment in Nagpur. At this same period, after the conclusion of the second Maratha War in 1817-1818, the Saugor and Damoh Districts were ceded by Daulat Rao Scindia. The Tributary States were placed under the Government of Bengal, while the districts of Saugor, Damoh, and those on the Nerbudda were formed into the "Saugor and Nerbudda Territories." These territories were governed, for a time, by a Commissioner subject to the Resident at Nagpur, were next placed under an Agent to the Governor-General with headquarters at Jubbulpore, and afterwards attached to the North-West Provinces on their formation in 1835. In 1842 occurred the Bundela rising which affected the Saugor District and part of the present Narsinghpur District. This rebellion lasted about a year, and on its suppression the Saugor and Nerbudda Territories were separated from the North-West Provinces and placed once more in charge of an Agent to the Governor-General. This arrangement did not work well, so, in 1852, the Territories were handed back once more to the Government of the North-West Provinces.

In 1818 the remnant of the Bhonsla dominions consisted of the Nagpur Province. After the deposition of the Appa Sahib, Raghuji the third, then a minor, was placed on the throne by the British. During the long minority and regency which ensued the Government was virtually conducted by the British Resident, Sir R. Jenkins. Some European officers were appointed to superintend the several districts, and a regular Government service was created. This administration, if not quite equal to that of regular British provinces, was suited to the usages and circumstances of the country and superior to anything known previously. Under it the cultivation of large tracts of country lying desolate and waste was gradually resumed. In 1830 Raghuji attained his majority and assumed the reins of Government until 1853, in which year he died without heirs begotten or adopted. The Nagpur Province then lapsed to the paramount power in India, the British Government.

The province of Berar was assigned to the East India Company by the Nizam of Hyderabad in 1853. Once part of the

empire of Asoka, Berar came under Mahomedan rule in the year 1294 and for centuries remained a theatre of fierce and constant warfare. In 1600 Akbar conquered the province. By 1718 the Mughal rule had become so weak that the Marathas were paid one-fourth of the revenue (*chauth*) to refrain from devastating the country; and to indemnify them for their trouble in collecting the *chauth* they were permitted to collect one-tenth of the revenue in addition (the *Sirdeshmukhi*). Wherever the Mughals appointed a *Jagirdar* the Marathas appointed another, and both claimed the revenue, while foragers from each side exacted forced contributions; so that the harassed cultivator often threw up his land and helped to plunder his neighbour. In 1748 we find the Bhonslas of Nagpur with an established claim to a share of the Berar revenues, and the Melghat and its two fortresses, Narnala and Gawilgarh, in their hands. In 1803 the power of the Marathas came into direct conflict with the British, and, although assisted by Daulat Rao Scindia, they were defeated by Wellesley at Assaye and at Argaon. It is worth while recording the composition of the British army at the battle of Argaon:—

*Cavalry*.—The 3rd, 4th, 5th, 6th, and 7th Madras Cavalry.

*Infantry*.—The King's 19th Light Dragoons, the 74th Highlanders, the 78th Highlanders, the 94th Foot, and the following battalions of Madras Infantry.—1st Battalion 2nd Infantry (now the 62nd Punjabis), 2nd Battalion 2nd Infantry (now the 80th Carnatic Infantry), 1st Battalion 3rd Infantry (now the 63rd Palamcottah Light Infantry), 1st Battalion 4th Infantry (now the 64th Pioneers), 1st Battalion 6th Infantry (now the 66th Punjabis), 2nd Battalion 7th Infantry (now the 79th Carnatic Infantry), 1st Battalions 8th, 10th, and 11th, and 2nd Battalion 9th Infantry (now the 81st Pioneers), and the 2nd Battalion 12th Infantry (now the 84th Punjabis).

*Artillery*.—Some batteries of the Honourable East India Company's Artillery.

It may be observed that the King's British troops were fighting, not for the first time, nor for the last, side by side with Indian soldiers. After the Maratha influence had been crushed Berar was ruled by the Nizams of Hyderabad, the descendants

of Chin Kiliz Khan, Subahdar of Berar and the Deccan, a Mughal officer who, as the central control weakened, established himself in virtual independence of Delhi. The assignment of 1853 was made in return for certain promises of military protection. It was not until 1903 that Berar was brought under the same administration as the Central-Provinces, which had long been formed by the union of the Nagpur Province and the Saugor and Nerbudda Territories, on the 20th of November, 1861.

### CHAPTER III.

#### A CENTURY OF PROGRESS.

MOST of us know what it is to glance over the pages of an album of old photographs and to reflect, as we look at the fading records of the past, on the difference between "then" and "now"—on the many changes which the years have brought with them. Selecting, more or less at random, some of the word pictures to be found in old books and papers, let us contrast them with our present surroundings.

Not quite a hundred years have elapsed since 1818. In that year, Major O'Brien, the provisional head of the Government newly installed in Jubbulpore, penned the very first order to be found on the records of British rule in the Central Provinces. "Musammat Purneah," runs the order, "a widow woman who was sold by auction a few days ago for fifteen rupees must be set free."\* In 1824 Sir John Malcolm found Nimar barren and deserted, exhausted by the Pindari hordes, the villages in ruins. "Manpoor has not paid revenue for sixty years, and in 1817 had not one inhabitant." Even in 1846 Captain French described Nimar as "nearly a depopulated desert." In 1864 (so Sir Richard Temple tells us) the Pindaris were "still freshly remembered," and the devastated country was recovering slowly. How many of the present inhabitants of the Sohagpur Tahsil in the Hoshangabad District know that there is not one of their peaceful villages which the Pindaris

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\* Jubbulpore District Gazetteer, page 311.

did not plunder and burn? And it is certain that the village forts which are so prominent a feature in the districts of Berar were not constructed for purposes of amusement. In truth, the injury caused to Berar by the wars of the eighteenth century must have been wide and deep. Described in the *Ain-i-Akbari* as highly cultivated and in parts populous, supposed by M. de Thevenot in 1667 to be one of the wealthiest portions of the Mughal Empire, Berar fell on evil days before the close of the seventeenth century. Cultivation fell off just when the finances were strained by the long wars; the local revenue officers rebelled; the army became mutinous. "The Nizam's territories," wrote General Wellesley in January, 1804, "are one complete chaos from the Godavari to Hyderabad"; and again, "Sindhked is a nest of thieves; the situation of this country is shocking; the people are starving in hundreds; and there is no Government to afford the slightest relief."

The first great task before the British was the destruction of the Pindaris and of the numerous gangs of dacoits which infested the country. The operations against the Pindaris were, of course, not of a merely local kind. They covered a large part of India; and, as the Pindaris were helped by the Marathas and by a large contingent of Afghans from beyond the frontiers of India, thus constituting a force of 150,000 men with 500 guns, the British had to make use of an army of 120,000 men. Of this number only 13,000 were Europeans.

Among the noxious weeds which flourished in India during the first half of the nineteenth century was the barbarous crime of Thuggi, or organized assassination for plunder. Indigenous in all lands since the time of Cain, the crime of murder had grown rapidly in India with the growth of the Company's territory. By the year 1830 it had assumed ghastly proportions. "In that year," wrote Colonel Meadows Taylor, of the Thug Suppression Department, "and for some years previously, Thuggi seemed to have reached a frightful pitch of audacity. Assassins—Mahomedan and Hindu—preyed on innocent people, and numbered by thousands, hunted like wolves in packs through the length and breadth of the land—from Bengal to Bombay, from Cape Comorin to the foot of the Himalayas."

The success of the Thugs was appalling. Quietly and without bloodshed they strangled or poisoned parties of travellers on every main road. Stripping their victims, they buried them with extraordinary rapidity in graves already prepared by their scouts; and, free from all suspicion on the part of the Company's magistrates, they carried on their diabolical trade even within sight of the Company's cantonments. The passion for garrotting, like other vices—and happily like many virtues—grew by exercise; and a Thug found it difficult to forsake a vice of which he had become proud. When enlisted as a soldier, he would use his few days' leave to join a Thug band. We are told of apparently respectable men in good social positions who were in reality Thugs. Amir Ali, an informer who had turned King's evidence, and whose disclosures were all verified, confessing to 719 murders, exclaimed "If I had not been in prison twelve years the number would have been a thousand."

In 1831, Major Sleeman of the Bengal Army, whom Lord William Bentinck had posted to Jubbulpore, was at first inclined to discredit some disclosures which had been obtained from an informer by Mr. F. C. Smith, then Agent to the Governor-General for the Saugor and Nerbudda territories. But when, as an object-lesson, thirteen bodies of murdered men had been exhumed near his own tent, sickened at the sight, he stopped further excavations, and armed with special powers bestowed on him by Lord Bentinck he set to work to exterminate the gang. Informers obtained in the Central Provinces, on condition that their lives were spared, freely denounced their companions, some of whom, on arrest, gave fresh information. And so the circle widened until it was found that the ghastly crime extended over the whole of India; and the disinterment of victims disclosed the truth. "Few," records Meadows Taylor, "who were in India in 1832, will ever forget the excitement which the discovery occasioned in every part of the country. It was utterly discredited by the magistrates of many districts."

The able officers appointed by Bentinck for the suppression of the Thugs did their work well. Many hundreds of arrests were made. Hunter gives the number as 1,562, Wilson at

about 2,000; while in some tables compiled by Captain Reynolds, a Superintendent of the Thuggi and Dacoity Department, the number of arrests between 1830 and 1837 amounted to more than 3,000. By the end of 1837 about 1,500 Thugs had been hanged, imprisoned, or transported to Penang, and 483 had been accepted as informers. One item, "In jail—not yet tried, 936," incidentally gives an insight into the state of the Honourable East India Company's Courts of Justice. When we are told that in addition to those arrested, 1,800 notorious Thugs were still at large when Captain Reynolds wrote, we begin to understand the magnitude of Sir William Sleeman's achievement. A host of innocent travellers lie buried near Laknadhao and other places on the present Nagpur-Jubbulpore road. Along the old and now almost disused track between Jubbulpore, Damoh, and Saugor, there may well wander the ghosts of many unhappy victims of Thuggi. And where are the Thugs to-day?

At the time of their formation the Central Provinces were particularly inaccessible for outside traffic, and there were no very large towns to supply a local market for surplus produce. The old Saugor-Nerbudda territory consisted, roughly speaking, of an outlying spur of the Malwa plateau and of the valley of the Nerbudda river, forming a long strip of fertile land closed on all sides by hills and jungles. The Nagpur country was formed by two large plains—those of Nagpur and Chhattisgarh,—lying east and west and roughly parallel to the Nerbudda valley. The Chhattisgarh plain was completely locked in by hills, and the Nagpur plain was open only on the western or the Berar side. Parallel to and between the Nerbudda valley and Nagpur country stretched the formidable barrier of the Satpura hills, a southerly spur from which separates the Nagpur from the Chhattisgarh plain. Not only were the Provinces extraordinarily secluded from outside influences, but owing to the configuration of the country internal traffic was almost impossible. Nagpur was separated from the Nerbudda by a belt of hills and jungle, over 100 miles in width and rising in places to a height of 2,000 feet above the plain. Across this no carts could struggle; and a similar though smaller belt separated

Nagpur from Chhattisgarh. The Nerbudda wheat districts were cut off by long stretches of roadless country from the markets of Western India, and the Hoshangabad and Narsinghpur salt supplies had to come on pack bullocks from Rajputana. The carrying trade of the country was in the hands of the Banjaras, and dense indeed had to be the jungles which these hardy people failed to penetrate. 2,500 pack bullocks, it may be remarked, can carry about as much as a small train load; and the same number of bullocks and 1,250 carts would draw about four ordinary train loads. Carts, however, were very few in those days, for there were no metalled roads and all the cartmen came from the Poona District. In the early years of the Central Provinces Administration the roads, railways, telegraph, and postal system of the Province had yet to be constructed. "How can measures of intellectual and moral advancement be carried out," complained Sir Richard Temple, "if districts are isolated from each other for want of easy and rapid intercommunication?"

By 1865, however, something had been done and the Central Provinces showed signs of economic progress. The export trade was rapidly increasing. In 1866 the value of the exports made was Rs. 434 lakhs as compared with the Rs. 165 lakhs of 1863, while, during the same period, the value of imports increased from Rs. 98 lakhs to Rs. 464 lakhs. But the problem of moral progress was then, as it is now, a far more difficult one than that of material progress. "The people in these Provinces," declared one of the first Administration Reports, "are at present thoroughly uneducated. In no part of British India can there be found a population lower or darker in this respect. There are no places of native learning and no learned classes. There is not one indigenous school to fifty villages. There are no educated youths anywhere. In many countries the Maratha State produced classes of Brahmins, second to none in aptitude and intelligence. But our Maratha predecessors have bequeathed us no such class to fill our public employments. The majority of our greater offices, and even a proportion of the smaller, are held by natives of other parts of India. Among the great agricultural community the complete preservation

of the upper and middle classes is, perhaps, a happy circumstance. They are, indeed, rude and uninstructed, but they exist and maintain their relative position. In all districts there is a middle class, a degree below the upper class, but clearly above the mass of the rustic people. If this middle class can be gradually enlightened and civilised, it will serve as a lever to lift up the mass of the people from the slough of ignorance and apathy."

Of arts, manufactures, and industries there was, at the time the Central Provinces were formed, more than an ordinary deficiency. The use of thatch for roofing was general, and the first efforts made to induce the people to substitute tiling for thatch—and thus protect their dwellings from frequent destruction by fire—were hampered by the great difficulties experienced in finding tile-makers. During these early years law and order had to be established; and it should not be forgotten that even in the late sixties there was still more dacoity in the Central Provinces than in the Punjab, Oudh, and the North-West Provinces all put together.

In 1868 the Great Indian Peninsula Railway reached Nagpur and the East Indian Railway Jubbulpore. In the same year "the system of pressing cotton for export at the markets of the interior made great progress." In 1870 the opening of the Suez Canal imparted a tremendous stimulus to Indian trade. In that year, also, His Excellency the Viceroy, Lord Mayo, visited the now rapidly developing Province, travelling on horseback over the road from Jubbulpore to Nagpur, and thence to Chanda and Hinganghat, "riding across some fifty miles of cotton country." The Viceroy then went to Berar, and "after a short stay in that Province, he returned into the Central Provinces by the main line of the Great Indian Peninsula Railway, through Nimar and the Nerbudda Valley and at Jubbulpore, the junction of the railway systems of northern and western India, His Excellency, and His Royal Highness the Duke of Edinburgh, declared the railway from Calcutta to Bombay to be open." Forty-two years later another Viceroy, Lord Hardinge, after laying the foundation-stone of the Legislative Council Chamber at Nagpur—the erstwhile



hamlet of Rajapur Bharsah—travelled up to Jubbulpore by motor car and thence, by special train, to Delhi. When Bakht Buland made his trip from Deogarh to Delhi in 1600 his journey must have taken several months to accomplish. Lord Mayo's march from Jubbulpore to Nagpur took some days, while Lord Hardinge travelled over the same length of road in a few hours. We may pause to wonder whether the dreams of Wellesley or of Malcolm, of Bakht Buland or of the Bhonslas, conjured up prophetic visions of long railway trains carrying the gallant soldiers of the Indian Army to fight for the Empire, and for all that the Empire stands for, in France and Belgium, in Africa and China, in Thrace and Mesopotamia, and on the banks of the Suez Canal.

Turning the pages of our album we remark that in 1870, although there were no vernacular newspapers in the Province, societies for the diffusion of useful knowledge and conferences of schoolmasters had made their appearance on the scene; and by 1871, the post office had firmly established itself in popular favour, for no less than 5,503,000 letters were sent by post in that year. In 1872, there were five Government Savings Banks in which the people had placed deposits amounting to Rs. 44,600; but in 1879, or but thirty-six years ago, the only printing press was maintained by the Educational Department, and that press was lithographic.

There are many people alive to-day who remember the once familiar name of the notorious dacoit Tantya. In 1882, we find the Chief Commissioner regretting "that he is yet unable to report the capture of Tantya. In this case the police have failed to secure the hearty co-operation of the people, and the difficulties in the way of securing Tantya's capture have been increased by the fact that he has been able to rush from one district to another and from British to foreign territory." There was no Criminal Investigation Department in those days, and very little co-operation between the police of different provinces. In 1882, let us note, there were 577 miles of railway in the Central Provinces including the first section of the Chhattisgarh \*

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\* Now part of the great system of the Bengal-Nagpur Railway.

Railway which had been opened two years before. Chhattisgarh, as a whole, was still untapped by the export trade, and from the annals of the eighties we find that the Chhattisgarh cultivator, being unable to market his crops, in good years left them to rot on the ground. But the communications of the Provinces were rapidly improving, and, what is more, the people were making increased use of them. Between 1868 and 1872, 565,446 railway tickets were issued; between 1882 and 1887 the number was 2,380,357.

Between 1882 and 1892 the Provinces made steady progress. The seasons were favourable and crops were good. In 1892 Sir Bampfylde (then Mr.) Fuller reviewed the progress made by the Central Provinces during the preceding 30 years. The cropped area had risen, he pointed out, by 23 per cent. "The area under wheat has increased by 18 per cent.—that under oilseeds has doubled. Cotton cultivation has declined from the pitch to which it was stimulated during the American War of Secession, and the growth of sugarcane has also fallen off owing to the cheapening of sugarcane by the competition of Northern India and Bengal produce introduced by the railway. The area under the grains which are principally grown for local consumption—rice and millet—has increased by 5 per cent., and the extension of crop grown for export has not been obtained by a contraction in the cultivation of crops which yield the main food supply of the general population. Though there are no longer great possibilities for the extension of cultivation, there can be no question that the produce of the present area could be immensely increased by better and closer cultivation, quite apart from what is generally called high farming. A very large proportion of the lands are now distinctly under-cultivated."

During this period of thirty years there were two striking failures of rainfall, in 1868 and in 1886. The former produced widespread distress, the latter considerable scarcity in the south and east of the Provinces. "It would seem," wrote Sir Bampfylde, "that the Provinces are tolerably secure from failure of rainfall. Their position enables them to profit by the Calcutta as well as the Bombay monsoon current, and indeed it

would seem that their southern districts share to some extent in the current which reaches the Madras coast in October. Their hills and forest are of immense assistance in condensation, and it may be due to this cause that in both years of scarcity—1868 and 1886—things were rescued from desperation by timely falls of rain in the late autumn, which enabled ryots who had lost their monsoon crops to sow for the spring harvest." In 1873 and 1888 respectively communication by railway was established *via* Khandwa and Ajmere, and *via* Itarsi and Jhansi, with Central and Upper India, and by 1892 there were 1,133 miles of railway in the Provinces. In the course of 29 years the export trade of the Provinces increased to eight times its original size and in money value from 155 lakhs to nearly 5 crores of rupees. During the same period the total weight of imports increased by 129 per cent., and the total value by 78 per cent., the disproportion being due to the fact that the prices of European and certain other commodities remained almost stationary. Between 1872 and 1892, for instance, the amount of salt imported rose from 965,456 maunds to 1,346,595 maunds, yet the sum spent in its purchase increased by 21 per cent. only. During the four years 1889—1892 the annual balance of trade in favour of the Provinces was Rs. 165 lakhs.

In 1892 there were 1,908 schools in the Central Provinces, attended by 114,000 pupils of whom 8,000 were learning English. Primary education reached an inconsiderable proportion of the population of school-going age. Only 7 per cent. of the male population over 15 years of age could read and write, and the amount of education amongst the female population was very trifling.

It is almost a truism that a sudden accession of income is accompanied, in the case of the improvident cultivator, by an increase of unproductive expenditure. Did not the Kunbis of Berar once shoe their bullocks with silver? And here I must warn the student of rural economics not to base his conclusions on the false theory that every cultivator is in debt. There have been many enquiries into agricultural indebtedness in the Central Provinces, and from them there have always emerged a very large number of individuals altogether free from

debt, as well as many with considerable savings. The mingling of Eastern and Western waters in the Suez Canal, the opening of through railways to the ports of India, and the construction of roads transformed the agricultural trade of the Central Provinces and Berar. Markets which had been governed by purely local and even parochial circumstances were now swayed by the harvests of the world. World conditions in the eighties and early nineties were, however, very different from those at present in existence. The areas under wheat in the Argentine and in Canada (to take two instances only) were but small fractions of the areas now sown by those two countries. Indian wheat was first placed on the world's market at a time when there was exceptionally keen competition to secure it for Western requirements, and from 1880 onwards the wheat-producing areas of the Provinces were lifted high on a sudden wave of prosperity. The price of wheat rose, the price of land rose. The money-lender, dazzled by the prospect of large cultivating profits, dangled the bait of unstinted credit before the deluded peasant whose fields he coveted. Nor was the price of wheat alone affected. For the man who produced cotton, the temporary stimulus of the American Civil War turned into something more permanent; the grower of oilseeds purveyed no longer only to the local Teli but to the pressing mills of Marseilles and of Hamburg. In short, there was between 1872 and 1892, an enormous increase in the value of agricultural and even of forest produce, an increase which added greatly to the material prosperity of all classes save those on fixed wages and those engaged in cottage industries such as weaving and cotton spinning.

It is always easy to be wise after the event; and looking back, it seems clear enough that in 1892 the people of the Central Provinces were in a state of dangerous complacency. The turn of Fortune's wheel, rather than any great efforts or sacrifices of their own, had brought them money; but it had not brought them the wisdom to put that money to the most profitable use. "It was an accepted doctrine that the Central Provinces were secure from famine." Thrift was to be found amongst the people even more seldom than it is now.

And some of the next pictures from the review of the decennial period 1892—1902, are sombre in tone.

“Famine,” wrote Mr. Sly, “is the dominant note in the history of the past decade, and its black shadow has been cast over almost every section of the community.” Indeed the record of 1892—1902 is one of an almost continuous succession of bad seasons, culminating in two of the severest famines ever experienced. Out of the twenty harvests reaped four were almost complete failures, and eight were poor or very poor. On four occasions the *kharif* crop was good; but of the ten *rabi* harvests not a single one reached a high level. In the first three years of the decade the damage was caused by excessive and untimely rain, and then followed a series of years of drought. “The people have only enjoyed during this decade,” recorded Mr. Sly, “three-fourths of an average crop off the land which they sowed ten years ago.” Although the decade witnessed a great boom in cotton, the area under wheat decreased very much. Rice and oilseeds were also ousted to a considerable extent by the inferior millets. During the seven leanest years the people of the Central Provinces lost produce to the value of forty crores of rupees; crime increased, and the progress of education suffered a serious reverse, which, however, proved to be of a temporary nature. On the other hand, the area occupied for cultivation actually increased from 19,792,778 acres in 1892 to 22,065,312 acres in 1902. For the first time in its history, the balance of trade was against the Province in 1897—1898, but though the export trade in wheat and rice collapsed the exports of cotton increased in value, during the ten years, from 4½ millions to 12 millions of rupees. And yet, remarkably enough, the purchasing power of the people remained as large as ever and there was no decline in the imports of cotton fabrics, salt, spices, dried fruits, and kerosine oil. In the important matter of communications the Province went steadily ahead; Saugor was connected with Katni by rail, Jharsogra with Sambalpur, Raipur with Dhamtari, and Mohpani with Gotitoria. The Jubbulpore-Gondia line, with branches to Seoni, Chhindwara, and Mandla was placed under construction. The length of first class road was almost trebled, of second class

road doubled, and great progress was made in laying out fair weather roads to be raised in class in course of time.

The extension of the cotton belt is a matter which depends very much upon the improvement of communications, and, for this reason, feeder railway lines are bound to take an increasingly important part in the economy of the cotton-producing districts. Given improved communications their influence rapidly becomes evident, and between 1892 and 1902 the number of cotton mills in the districts of Nagpur, Wardha, and Nimar increased from 3 to 7, their capital from Rs. 35½ lakhs to Rs. 87½ lakhs, their spindles from 72,080 to 141,010, their looms from 805 to 2,144, and their employés from 4,202 to 9,000. Cotton gins and presses also greatly multiplied in-number. "Indigenous village industries presented a very different picture of gradual decay." "Allowing for the general decrease of population, the census still disclosed deterioration in most of the village industries. The number of workers in cotton had fallen from 617,168 to 390,608."

The last few years of the decade witnessed the development of important mining operations for manganese of which there are particularly rich deposits in Nagpur, Bhandara, Balaghat, and Chhindwara. The coal mines of Warora and Mohpani greatly increased their output, and though the proportion of phosphorus in the iron deposits of the Central Provinces renders the ore unsuitable for the Bessemer process of steel manufacture, experts have declared \* that these deposits will, at some future date, become of great importance.

Turning once more to the cultivating classes, we find that although these years of depression drove them to pawn their ornaments, to contract heavy debts, and to cut down (but only to a small extent) their ceremonial expenditure, they emerged with stout hearts and a stronger spirit of enterprise. "The unstinted liberality of Government with its famine relief, its remissions, its abatements, its conciliation proceedings, has inspired all classes with a feeling of hope. Disaster has rudely shaken the idea that whatever is, is best; a promising spirit

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\* Messrs. E. P. Martin and Henry Louis on behalf of Sir Ernest Cassel.

is afloat, and the tide is setting strongly towards agricultural improvement and industrial advance."

It is not surprising, therefore, to find that the note which dominates the view of the decennial period 1902—1912 is one of awakening strength. "The Province must be allowed to take its place as fully typical of the rest of the Indian Empire and must not be regarded entirely as a backward tract lying outside the lines of progress along which the country as a whole is moving," claimed Mr. Low. The salient events in the Provincial history of the period were the fusion of the Central Provinces with Berar in 1903; the construction of the Satpura and other narrow gauge railways between the years 1901 and 1907, and the energetic irrigation policy pursued by Government.

The rises in prices and in wages during this decade were remarkable. The prices of the staple food grains—wheat, rice, and juar—stood at almost the same figure throughout this period, with six good years and only a single bad one, as during the preceding ten years. And yet, in spite of prices hitherto associated with years of famine, the working classes had never been more prosperous. There was a diminution in the supply of labour and an increase in the demand for it, and the causes which contributed to bring about this state of things can be gathered from Mr. Low's report. "The decline in population exhibited by the census of 1901 was 8·3 per cent., and it is clear that these famine losses must have been almost entirely confined to the labouring classes. Since then plague has been active amongst the fluid labour population of the towns. Losses from this cause have averaged 1·46 per 1,000 per annum, with a total death roll of nearly 250,000 during the decade. The demand for labour, on the other hand, has greatly expanded. The cropped area of the Central Provinces districts has increased from just under 15 million acres to 17½ millions. The expenditure on public works during the preceding decennium (omitting famine works) was 190 lakhs of rupees: between 1902 and 1911 it amounted to 597 lakhs. The expenditure on railway construction during the same period was 418 lakhs or far more than three times the amount spent between 1892 and 1902. Two and three-quarter million tons of manganese have

been mined during the past ten years at an average cost of Re. 1-8 to Rs. 4 per ton. There were 244 factories (mostly small cotton gins) in 1901 with 29,000 employés, in 1910 there were 409 with nearly 40,000 employés. The increase in private building enterprise has been great, though statistics regarding it do not exist. It is hardly surprising then that the rise in wages has been considerable. Field labour was paid at the rate of 3 annas a day at the beginning of the period; it is now impossible to obtain coolies in an average district at less than 4 annas: while the rates for weeding in Berar have risen from 3 or 4 annas to 5 or 8 annas according to the character of the season. The opening of manganese mines in the district of Balaghat raised the rate of labour within three or four years from  $1\frac{1}{2}$  annas a day to 3 or 4 annas over large areas. Labour in cotton gins receives 5 or 6 annas a day instead of 4 annas. When it is considered how much more freely labour moves at present than was once the case: how, during the famine of 1897, villagers lay starving in their houses rather than go even a few miles to a relief work, while to-day labourers from Chhattisgarh are to be found on the railways of Bengal and Assam and by the docksides of Calcutta, it is perhaps remarkable that wages have not risen even higher. Though employers still complain of the indolence and inefficiency of the Indian coolie, yet those most experienced in the management of local labour are of the opinion that its efficiency has increased: the higher rates have made the coolie physically stronger and more self-respecting, and his paymasters more exacting. The system of famine relief accustomed the labouring classes to piece-work and they are now more willing to add to their earnings by harder work. The population after falling from 14,761,534 to 13,602,592 between 1891 and 1901, rose to 16,033,310 at the census of 1911. But the proportion of children under 10 in 1901 was only 27 per cent. of the total; in 1911, it is 29 per cent. Until these children have reached years of maturity, the increase in population will not materially help the labour supply."

The most striking features of the trade returns of this decade were the steady rise in imports, and the increased value of the exports of cotton. Imports rose from  $8\frac{1}{2}$  to  $11\frac{1}{2}$  crores



of rupees. Exports increased in value from nearly 14 crores to more than 18½ crores. The value of cotton exported in 1902-03 was five crores of rupees ; in 1911-12 it stood at about 12 crores. The actual quantity exported showed no marked increase, but prices rose rapidly. The articles imported were in themselves proof of a continuous rise in the standard of popular comfort. "There is not a town deserving the name without two or three bicycles : not a large village without its sewing machine. Gramophones are often heard enlivening the monotony of a village evening or the tedium of a railway journey. Books are now frequently purchased by Indian travellers to read in the train. Rosy, if tasteless, apples are commonly sold in the bazaars of the prosperous towns of the cotton country."

Two striking facts indicate the progress made in the improvement of communications. During the four years immediately preceding 1892 the average number of railway tickets issued per head of population was 24 : in 1911 it was 73. The activity of railway transport necessarily bears a close relation to the number of carts available for bringing produce to the stations. The best measure of this is the proportion borne by the number of carts to the number of ploughs in a district. The highest proportion naturally exists in the cotton tracts, where there are often more carts than ploughs ; while it falls as low as one cart to ten ploughs in Jubbulpore, where to this day (1916) most of the export trade is carried by pack animals. But between 1902 and 1912 the proportion of carts to ploughs considerably increased, and over the Province as a whole it rose from 2½ ploughs to a cart to less than 2 ploughs, despite an increase in the cropped area from 24,100,000 to 24,900,000 acres.

In 1912 the average incidence of rural population per cropped acre was 1.27 acres per head ; in 1902 it was 1.29 acres. "Thus," commented Mr. Low, "population bears much the same relation as before to the cultivated area. The methods of cultivation are the same, and the economic results of the work of the Irrigation and Agricultural Departments have yet to show themselves. It would require a very detailed examination of their working year by year from their beginning, to make

visible the hopeful signs which are justifying the anticipations on which these departments were formed ; here it must suffice to say that those who are in closest contact with their workings, whether private persons or officials, are the most confident of the great possibilities they contain for the people of the Province. If a proof of this is wanted, it may be found in the increased price of land commanded by irrigation works in Chhattisgarh."

The eternal problem of agricultural indebtedness continued to attract attention, and between 1898 and 1905 the Administration initiated a policy of debt conciliation. In three districts alone debts amounting to 106 lakhs of rupees, were wiped off with the consent of the creditors. But debt conciliation is remedial only : and in 1905 a new and positive policy was adopted on the passing (in 1904) of the first Act for the regulation and control of co-operative credit societies. In 1912 there were 585 societies, with a turnover of nearly 15 lakhs of rupees : and something had been done to introduce co-operation amongst the classes engaged in cottage industries as well as in agriculture. "The movement has survived one year of severe scarcity without much difficulty ; and it seems destined to revolutionise many other features of rural life besides its finance."

On every side of popular and of administrative activity there were, at the close of this prosperous decade, the signs of a veritable renaissance. Old customs based on ideas once appropriate to the village economy, but no longer applicable, were beginning to lose their force. The theory of the self-contained village, with its dependent fringe of non-cultivating artisans and servants, was breaking down. The cultivator was no longer willing to allow the menial castes to take away the hides of his dead cattle, now a valuable product. The village artisan discovered that the towns offered him better wages. Relations between landlord and tenant were steadily becoming more purely economic. The practice of unpaid customary labour for the landlord was dying out, and with the increased wages for paid labour there had arisen a marked tendency to restrict the extension of the home-farm, and to give out land on premia or cash leases ; a policy much the same, in fact, as that which

landlords were compelled to adopt in England and elsewhere, after the Black Death had denuded the village of its labourers or small cultivators.

Nowhere was the conscious desire for progress so clearly shown as in the increased readiness of parents to educate their children. The first few years of the decade witnessed a gradual recovery from the decline in the attendance at primary schools caused by the famines. About the year 1905 a great and spontaneous increase set in, and in 1912 the number of vernacular scholars had risen from 153,000 (in 1902) to nearly 300,000, and the number learning English from 9,000 to 18,000. Mere figures do not represent the general improvement which had taken place. In vernacular schools, trained and certificated masters gave an entirely different turn to the teaching and atmosphere of the school; and their arrival almost invariably caused an increase in the attendance. In High Schools and Colleges, close attention was paid to the moral and physical well-being of the students. Well managed hostels, organized games, revolutionised the tone of college life. Technical education and the teaching of science made a bid for popular favour and support.

Our series of pictures of the past, showing as it does the development of our Province, comes to a close. "As regards the future" ends the review of 1912, "a heavy responsibility lies on Government in guiding and fostering the new spirit of progress. The tendency towards association and co-operation must be encouraged in finance and industry; a sense of responsibility and the need for joint endeavour must be developed in political life; and, by the provision of education and training suited to their needs, by legislative action where necessary, and by a watchful eye on such interests as may be inclined to take an unfair advantage of their wealth, social position, or intellectual prestige, all classes of the population must be helped to develop their destiny along the lines best calculated to secure their own happiness, and the prosperity and well-being of the country at large."

## PART II.

### CHAPTER I.

THE CO-OPERATIVE MOVEMENT—CO-OPERATIVE CREDIT—  
RURAL CREDIT SOCIETIES IN THE UNITED KINGDOM—  
RURAL CO-OPERATIVE CREDIT SYSTEM IN<sup>1)</sup> GERMANY—  
THE SYSTEMS OF RAIFFEISEN AND OF HAAS—THE PRUS-  
SIAN STATE BANK.

So far I have tried to suggest to the student of economic history a train of thought which he can pursue and work out for himself. Briefly, Western influences are moulding the destiny of the East ; world progress, far more rapid than it was, will, with every improvement in communications, become still more rapid ; and India cannot, any more than any other country, hope to be able to stand aloof from the struggle for existence. Organization, co-operation, the desire to work for the future rather than to dwell complacently on the achievements of the past—these are the characteristics of modern national life. Now the mere fact that a country possesses an educated class will not necessarily ensure a prosperous future for it. If the educated and enlightened are disproportionate in numbers to the mass of the population, and if, speaking generally, the people of a country are, as a body, ignorant of what is going on in the world outside their own country, there will be no widespread appreciation of the necessity for effort. People will live on in the comfortable assurance that their business, their farming, their living, are proceeding on lines which, however old-fashioned, are quiet and peaceful and, on the whole, quite satisfactory to themselves ; and this state of self-complacency will continue until the more energetic people of other countries capture for themselves *by co-operative organization* the trade and the markets of the dreamers and the

slumberers. Higher education is, of course, a necessity ; but every man cannot be highly educated, at any rate for thousands of years to come. Higher education, technical or of some other kind, will provide leaders of men and captains of industry. But something much more effective in immediate application, much quicker in widespread result, is necessary if there are to be men to be led and to be organized. General education of a kind that schools and colleges cannot possibly give is the vital need of modern India. Exactly the same statement has been made in the past by Russian statesmen about Russia, by Japanese about Japan, by Irishmen about Ireland, by Italians about Italy ; turn where you will, there is scarcely a country which has failed to create for itself a school for the moulding of popular character, for the stimulating of individual enterprise, and for the dispelling of general ignorance. It has been and is the object of these truly national schools to inculcate amongst the people, as a national asset, the virtues of self-help, thrift, honesty, punctuality, self-restraint, an ability to take the initiative, the will to work together—in short, *the spirit of co-operation*. Such a school exists where there is a genuine co-operative movement in receipt of the necessary measure of supervision from the State and of support from the people.

We may now proceed, in a series of short and not absolutely comprehensive studies, to examine some of the results obtained, remembering always that the State alone has never been able to make a co-operative movement. It is true that in almost every country—(England and Germany are notable exceptions)—the first impetus has been given either by Government or by officers of Government ; it is also true that every Government, however antagonistic at first, has eventually given its active support to the movement. But co-operation has never yet in any country become a powerful and regenerating force unless (i) attention has been devoted to the moral as well as the material necessities of the people, (ii) leaders of education and enlightenment have been found *from the ranks of the people* to preach and to work, (iii) effort has been co-ordinated, guided, and disciplined by paid professional experts, (iv) sympathetic

encouragement and assistance have been forthcoming from Government, and (v) the members of co-operative societies have been made to think, act, and carry out the essential details of the work of their societies *for themselves*. Spoon-feeding by Government is, in its way, far less harmful (because far easier to stop), than spoon-feeding by parent co-operative institutions of the societies for which they are responsible. An excellent motto for every practical co-operator is this: "Never do for another co-operator what he ought to do and can be taught to do for himself."

#### A.—CO-OPERATIVE CREDIT. 1)

In general, it must be understood that better business is followed by better farming and better industry, and that these latter produce better living. At the root of the matter, therefore, is finance; and we may commence our study with "co-operative credit." The main principle underlying all forms of co-operative credit is that if a group of persons combine to furnish a collective guarantee, they can, on the security of that guarantee, obtain money at lower rates of interest than they could obtain it individually. The collective guarantee may be that of real property. A number of landowners may obtain capital on the security of a collective mortgage of their lands. This is the basis of the German *Landschaften* or land mortgage banks and is one of the oldest forms of co-operative credit. Or, again, the collective guarantee may be a personal one. A number of persons may obtain capital by making themselves jointly responsible for its repayment. Such liability may be limited or unlimited. Upon guarantees of this kind capital may be obtained in a variety of ways. Land mortgage banks, for instance, generally issue bonds which are purchased by the public and are accepted and negotiated by commercial banks. The society which depends for its credit on the personal pledges of its members works, as a rule, under the wing of a central banking institution in which it holds shares. Societies of this type are almost invariably formed with unlimited liability, and capital flows to them mainly in the shape of deposits, attracted for the most part, by the *central banks* already referred to and,

in a much lesser degree, by the societies themselves tapping the local areas to which their operations are confined.\*

Having obtained the capital, the group of persons must be able to lend it to one another at a rate of interest only slightly in excess of the rate which they pay collectively. This requires two conditions: (1) that the expenses of management shall be small in proportion to the business done, and (2) that the risk of loss shall be reduced to a minimum. In the societies with unlimited liability the management, in so far as it is provided by the members themselves, is almost entirely gratuitous, and the payment of dividends or profits to members is prohibited altogether. To reduce the risk of loans to members, many safeguards have been devised which are adopted to varying extents in the different systems. Where the members are landowners and can give mortgages of their property, it is only necessary to ensure that the amount of the loan shall be fully secured by the mortgage, allowing for any possible depreciation in the value of the property. Loans on mortgage are, however, an inconvenient form of credit where capital is only required for a comparatively short period, and the following are the principal safeguards for loans given on *personal* security:—

- (1) Loans are only made by a society to its own members, and only trustworthy persons are elected to membership by the general meeting of the society.
- (2) Members must be personally known to each other and must reside within a small restricted area.
- (3) Members, being mutually responsible, watch and supervise each other and see that proper use is made of borrowed money.
- (4) The society, being responsible as a body corporate to the central banking institution and to its own depositors, will insist on members meeting their obligations to the society punctually.
- (5) In the event of a member failing to pay punctually the society will give such help or take such steps for recovery as may be necessary.

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\* This statement does not apply to every country. In Germany, for instance, the societies find most of their own money in the shape of local deposits.

- (6) The borrower must find sureties or give other collateral security for the repayment of the loan.
- (7) The borrower must bind himself to apply his loan to a specific purpose which will bring in a monetary return sufficient to enable him to repay the sum borrowed, to pay the interest charged, and to leave a profit for himself.

It is not to be supposed that the whole of these safeguards are adopted in all cases. For instance, loans are sometimes given on the borrower's mere note-of-hand, without any collateral security (*e.g.*, in certain Italian societies). Generally speaking, the more backward the country or people, the more rigid the precautions taken must be. The fixing of the application of the loan is of the utmost importance where the borrowers are small cultivators unaccustomed to commercial methods, and is usually relaxed as their economic education becomes more advanced. We thus find it more generally insisted upon by the Raiffeisen banks in Austria and Italy, where they are of more recent introduction, than in Germany, where the members are now familiar with the commercial uses of credit.

#### B.—RURAL CREDIT IN GREAT BRITAIN AND IRELAND.

In Great Britain the number of agricultural co-operative credit societies which has been formed is small. But with the passing of the Small Holdings Act and, further, with the change in economic and national conditions brought about by the War, increased attention is being and will continue to be given to the provision of credit facilities for small agriculturists.

Co-operative credit was introduced into Ireland by the Irish Agricultural Organization Society, aided by grants from the Congested Districts Board for Ireland and, subsequently from the Department of Agriculture and Technical Instruction for Ireland. It is characteristic of all forms of co-operation in the United Kingdom that they owe their development principally to the work of a propagandist society. Very rarely is an industrial co-operative society formed without the assistance of the Co-operative Union, and when farmers desire to co-operate, they almost invariably apply to the English, Scottish,



or Irish Agricultural Organization Society for instructions how to proceed. This is especially the case in Ireland, and it would be difficult to point to any agricultural co-operative societies which were not organized by the Irish Agricultural Organization Society or by the group of pioneers (chief amongst whom was Sir Horace Plunkett) by whom that society was founded to carry on the work they had begun. In England and Wales credit societies were promoted first by the Agricultural Banks Association and afterwards by the Agricultural Organization Society. The latter, in recent years, has received grants from the Board of Agriculture and from the Development Commissioners.

With few exceptions, the form of credit society adopted in the United Kingdom bears a close resemblance to the *Raiffeisen* society (see *Germany* below). The area of operations is limited to a parish, or to two or three adjoining parishes. The members are elected by the Committee. Loans are only given to members and for reproductive purposes approved by the Committee. There are no shares, and the liability of the members is unlimited. Each member pays a small entrance fee. In some cases "guarantee-members" have been admitted, whose liability is limited to a specified sum, but this practice is rare. A small number of agricultural credit societies in which the liability of the members is limited has been formed in Ireland, but the societies of this kind are not likely to increase.

In Ireland the credit societies have obtained working capital from the following sources:—

1. Deposits of members;
2. Advances from local landowners or other persons interested in the well-being of the small farmers;
3. Advances from the Congested Districts Board for Ireland and the Department of Agriculture and Technical Instruction for Ireland;
4. Loans from the ordinary joint-stock banks. It is stated that the last-named is now the most important source of capital, and that nearly all the large Irish banking companies have recognized that the co-operative credit societies can serve

as auxiliaries to them, doing business with people whom the large banks cannot reach without their intervention. They have, accordingly, consented to advance money to the credit societies at moderate rates of interest.

In England and Wales great difficulties have been experienced in obtaining working capital. No Government Department has made advances to the credit societies and, until recently, the large banking companies did not recognize them; lately, however, at the request of the Board of Agriculture, the principal banking companies have expressed willingness to furnish them with money on favourable terms. The Central Co-operative Agricultural Bank, Ltd., has been formed to assist the societies in finding capital. This is a co-operative society, with limited liability, containing both individuals and societies as members. Before obtaining advances from the Central Bank, a credit society must take at least five shares of the value of Rs. 15 each. The Central Bank also receives deposits from societies which have surplus capital not immediately required for lending to members. As yet the transactions of this Bank have been on a very small scale; in fact, there are considerable doubts as to its ultimate success, as there is at present no strong foundation of co-operative organization below it.

The rate of interest charged by credit societies to their members is usually in the neighbourhood of 6 per cent.; but it is already recognized that it is not *cheap* credit but credit at reasonable rates that produces the best economic and moral results, and the tendency is to increase the rate of interest and thus augment the margins available for working expenses and for reserve funds.

The statistics below are for the year 1911:—

|                     |    |    | England & Wales. | Ireland. |
|---------------------|----|----|------------------|----------|
| Number of societies | .. | .. | 45               | 236      |
| Membership          | .. | .. | 765              | 19,505   |
|                     |    |    | Rs.              | Rs.      |
| Loan capital        | .. | .. | 9,600            | 4,38,960 |
| Deposits            | .. | .. | 16,215           | 4,09,350 |
| Total Capital       | .. | .. | 25,815           | 8,48,310 |

It will be noted that co-operative credit in the United Kingdom has not as yet made great progress ; but, as we shall see later, there is a very different story to tell as regards other forms of co-operation.

### C.—RURAL CREDIT IN GERMANY.

#### *The systems of Raiffeisen and of Haas.*

The credit given by the Raiffeisen banks and societies, which are rural in character, is usually personal credit. Although they occasionally grant loans on mortgage for long terms, they generally confine themselves to the making of loans for periods which, as a rule, do not exceed one or two years, but sometimes extend to as much as five years. Renewals are, however, readily granted for good reasons, provided the security is still considered satisfactory. The fundamental principles of the Raiffeisen system are :—

- (1) Unlimited liability of the members.
- (2) A restricted area of operations.
- (3) Gratuitous management.

To these principles, which he wished to be always applied with the utmost rigour and without allowing any exception, Raiffeisen added a body of moral and educational doctrines.

In addition to the rural banks and societies which follow strictly the Raiffeisen principles and are combined in the Raiffeisen Federation, there have also arisen other organizations which, although adopting the fundamental ideas of Raiffeisen, have not accepted the excessive strictness of his rules and have treated as superfluous the mystical doctrines which he introduced into co-operation. The societies of this type, after having long hesitated between a separate organization and the Schulze-Delitzsch Federation, were finally collected under the guidance of Wilhelm Haas (*see* Appendix II to Part III) into a separate National Federation.

The Raiffeisen Federation became affiliated to the National Federation in 1905, and within the circle of the Imperial Federation thus formed, there were, in 1910, 12,797 societies with a membership of 1,209,000. Certain differences continue to exist between the pure Raiffeisen institutions and those established

on less strict lines; and of these differences we shall have occasion to speak in outlining, as we now proceed to do, the leading features of the rural system.

*Membership.*—The majority of the members are farmers, usually peasant-proprietors, and the average membership of a society is 96. This average, however, represents a very wide range of variation. Six societies indeed boast only the legal minimum, namely seven members; and one society has as many as 1,508 members. Provincial averages range between 190 and 33 members.

*Liability.*—Whilst for other forms of co-operation the system of limited liability is increasingly adopted, unlimited liability is held in Germany to be the soundest basis for rural co-operative credit. Indeed, 92 per cent. of the German societies work with unlimited liability.

*Shares.*—Raiffeisen began by excluding shares altogether in order to avoid any danger of capitalistic speculation and, in fact, up to 1876 none of his societies had shares. Being obliged in that year to comply with the Imperial law which compelled co-operative societies to have foundation capital, he sought to evade the law as far as possible and fixed shares at a maximum value of Rs. 6-4. In 1910 the average paid-up capital per member was approximately Rs. 12. In the case of a credit system which offers only personal security the necessity for share capital was brought home during the financial stringency which prevailed in Germany after the South African War.\* Deposits decreased so largely as to imperil the solvency of the societies, and the Federations have ever since that time carried on a vigorous campaign for the increase of the average share capital per member to Rs. 32 and eventually to Rs. 64. It is interesting to note, in the light of recent events, that German leaders of co-operation have been more and more insistent upon the urgent need for an adequate owned capital.

*Entrance fees.*—The pure Raiffeisen system does not admit of any entrance fees, as being contrary to the lofty conceptions of mutual help which inspired Raiffeisen's propaganda.

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\* And again in 1912 when rumours of war caused a banking crisis.

Raiffeisen wished that his societies should be open to anyone who required to have recourse to them. It is now the usual practice to levy small entrance fees which are immediately carried to the reserve fund.

*Area of operation.*—Another fundamental principle of the Raiffeisen system is that the area of operations (of a primary or borrowing society) must be limited to a commune or a parish. The system is, in fact, founded on mutual confidence and collective liability; the members must not only know each other personally, but must also be able to see from day to day the manner in which their money is employed.

*Management.*—The organization of the rural societies being founded on propinquity and brotherhood, and Germans being, as a rule, well educated people, the problem of internal management is simple. The administrative functions are divided between the Committee of Management, the Council of Supervision, and the General Meeting. The executive work is carried out by the Treasurer, who is often the only employee of the society. He is, in any case, *the* responsible person, and if there are other employees of the society he supervises them. The General Meeting appoints the Committee of Management, the Council of Supervision, and the Treasurer. The conduct of the business is entrusted to the Committee of Management, upon which often sit the best educated persons resident within the area of the society's operations, such as schoolmasters or priests; for these, however, actual farmers are being more and more substituted.

In small societies the Committee of Management usually give their services gratuitously, but the Treasurer is, almost invariably, remunerated. In large societies the members of the Committee of Management are, as a rule, paid. In proportion to turnover the internal working expenses of rural credit societies average 0·18 per cent., the highest figure being 0·48 and the lowest 0·05 per cent.

Let us now examine first the sources from which the rural societies draw their working capital and then the methods of advancing the capital so obtained to their own members.

*Working capital.*—This is composed of (a) paid up share capital (in societies working on a share basis), (b) the reserves accumulated from profits, (c) deposits by members and non-members, and (d) loans from co-operative central banks. Profits, it may be remarked, are partly carried to the reserve fund proper, which is invested in sound securities outside co-operative business, and partly to the general reserve or “foundation fund,” the purpose of which is to provide each society with its own working capital. In 1900 the average working capital per society was approximately Rs. 48,000; in 1910 it was Rs. 1,04,000. An analysis of the total working capital employed by the societies included in the Imperial Federation gives \* the following results:—

| <i>Owned capital.</i>           | Percentage. |
|---------------------------------|-------------|
| Share capital .. .. .           | 1·2         |
| Reserves .. .. .                | 2·6         |
|                                 | —           |
|                                 | 3·8         |
| <i>Borrowed capital</i> .. .. . | 96·2        |
|                                 | —           |
|                                 | 100         |

It will at once be clear that the rural societies carry on an enormous business on the foundation of an extremely slender owned capital, and the upheaval of the system which has been caused by a war for the protracted duration of which it was financially unprepared can well be imagined. The Federations, as already stated, for years urged that the value of shares taken by members should be increased and that no pains should be spared to add to the reserves and reserve funds. But what has really contributed more than anything else to the success of the system is the solidarity of organization given to it by the central co-operative banks and provincial unions, and, above all, by the Federations. Organization and widespread co-operation have, in fact, provided a moral guarantee which has successfully replaced the material securities which are generally demanded before credit is forthcoming. To this moral security must, of course, be added, in the case of the unlimited liability

\* The present tense is used in this and other cases. But the figures are only the latest available for Germany, and are, as a rule, for 1910.

societies, the liability of the members and indirectly of all the property they possess. Turning to average figures we find that the paid up share capital per society is rather less than Rs. 1,200 and the average reserve Rs. 2,650. A small number of societies only accept deposits on current account, and these may be made by members only.

The constant development of the co-operative central banks and their excellent organization has resulted in the rural societies dealing almost exclusively with them. The existence of the central banks gives elasticity to the resources of the rural societies, and, when necessary, the central banks are prepared to make advances to a rural society within the limit of the credit assigned to it. It is, however, most important to note that the societies aim at the provision of their own funds from purely local sources, and that the central banks encourage the societies to do so, understanding that increased funds are thus made available for young and weak, and also for new, societies. Thus in 1901 the societies borrowed 19·7 per cent. of their working capital from their central banks, and in 1904 16·6 per cent. In 1910 the percentage was only 8·5. Federation, in fact, wisely effected, makes for individual strength and freedom of action provided co-operators take both the broad and the long view of their duties and obligations.

*The granting of loans, etc.*—The capital obtained from the various sources just examined is employed for the most part in making advances to members, since that is the real object of the rural societies. Surplus money is devoted to safe, profit-yielding investment, and is in practice chiefly deposited with the central banks. The rural societies make loans of two kinds, *viz.*, loans on current account and loans for fixed periods. Examining the total of the credit operations for 1910 we find the following figures:—

|   | Percentage. |
|---|-------------|
| Loans on current account ..                         | 21·8        |
| Loans for fixed periods ..                          | 55·8        |
| Other assets (deposits with central banks, etc.) .. | 22·4        |

100

The loans on current account were about one-third of the total loans. There is, in fact, a general tendency to extend the practice of giving loans on current account. This is generally the most convenient form of loan for the members, for whom the small rural society serves as a banker, just as the great banking institutions do for the merchants and manufacturers. But this form of loan requires on the part of the members a somewhat advanced stage of economic education and of social conditions. And here, it must be explained, that membership in these societies is not confined to persons whose principal occupation is agriculture, *all* persons resident within the fixed area being eligible for election to membership. Besides farmers and farm-hands, local shopkeepers, artisans, local officials, and others are to be found among the members of nearly all societies; many of these have small holdings which they cultivate in their spare time. With the tendency of industrial undertakings to seek rural sites, and the extensive use of the bicycle by German workmen, as well as the system of workmen's trains, villages often contain many inhabitants working in a local factory or travelling to a factory in the neighbourhood. A large proportion of these men rent or own holdings the cultivation of which is, in their absence, carried on by their families. The simultaneous membership of one and the same person of more than one co-operative credit society is, of course, prohibited.

Various devices have been thought out to diminish the risk of loans granted. In general practice two sureties are insisted on; mortgages are taken—very frequently to avoid future entanglements contracted by the member or, in other words, to protect his interests as much as those of the society; the law requires that the General Meeting shall fix the maximum limit beyond which loans must not be made to a member; the uses to which loans are to be put must be stated and sanctioned (in all except the most advanced societies) before the money is lent; renewals are not granted as a matter of course but only for reasons which are sound and to the advantage of the member and the society alike. But, once more, the principal safeguard lies in the limitation of area and the existence of a real and lively



mutual supervision on the part of the members, the sense of responsibility being kept alive by the claims of unlimited liability.

*Assets and liabilities.*—Leaving out of account capital obtained from and loans made to third parties, we may now compare the assets of the societies with their liabilities. We shall consider on the one hand the societies own funds and the deposits; and, on the other hand, the loans made to members.

*Liabilities*—

Funds provided by members or local depositors  
Rs. 1,02,06,43,700.

*Assets*—

Loans to members Rs. 8,63,61,784.

Viewed as a whole, the system is not only in a position to provide for the wants of the societies, but to show, over and above that, a really vast sum of surplus working capital. In other words, the German rural classes as a community have succeeded by means of *organized* co-operative credit in more than meeting their own needs for credit facilities. "As a community" because, turning to individual cases, there are societies with surplus money and others existing entirely on loans from the central banks. This emphasises the great importance of the central banks, provincial and general, whose function it is to provide for the balancing of supply and demand between the societies. Moreover, as other co-operative organizations are also affiliated to the central banks, and as these have, as a rule, a deficiency of business capital they absorb, through the medium of the central banks, the major part of the surplus working capital of the co-operative rural societies.

*Total business done.*—A factor of great importance in judging the business of credit institutions is the rate of circulation of the working capital. Other factors remaining unchanged, the "total business done" depends on the rapidity with which the working capital renews itself within the year. The greater the divergence between the working capital as shown at the end of the year and the total of the whole transactions during the year, the greater the rapidity of circulation of the capital. The working capital is equal to 43 per cent. of the total business

done. For different provinces the figures range from 9 to 84 per cent. ; where loans for fixed periods prevail the rate of circulation is less, while it is higher where there is a preference for loans on current account.

*Profits.*—The object of rural co-operative credit societies is to give credit to their members on reasonable terms and not to make a commercial profit. The strict Raiffeisen system, therefore, does not admit of any distribution of dividend, all the profits being carried to the reserves, or to the creation of institutions of public utility. In share societies, however, Haas favoured a distribution of dividend at a rate not to exceed the maximum rate of interest charged to borrowers. Between 1909 and 1910 the reserves of the rural societies increased by more than Rs. 37,50,000, the system thus becoming more stable and self-sufficing to that extent.

*The rate of development.*—The table below deals with the whole of Germany, and it need only be noted that of the 15,517 rural societies existing in 1910 no less than 12,797 belonged to the Imperial Federation.

*Number of rural co-operative credit societies in Germany on June 1st in each year from 1890 to 1913.*

| Year. | Number. | Year. | Number. |
|-------|---------|-------|---------|
| 1890  | 1,729   | 1902  | 11,121  |
| 1891  | 2,134   | 1903  | 11,750  |
| 1892  | 2,647   | 1904  | 12,477  |
| 1893  | 3,040   | 1905  | 13,181  |
| 1894  | 3,850   | 1906  | 13,635  |
| 1895  | 4,872   | 1907  | 14,096  |
| 1896  | 6,391   | 1908  | 14,709  |
| 1897  | 7,612   | 1909  | 15,158  |
| 1898  | 8,595   | 1910  | 15,517  |
| 1899  | 9,208   | 1911  | 15,990  |
| 1900  | 9,793   | 1912  | 16,774  |
| 1901  | 10,487  | 1913  | 16,927  |

On January 1st, 1913, there were in Germany 26,576 registered rural co-operative societies which were grouped into ;

98 central societies (central banks and central trading associations), 16,927 credit societies, 2,409 supply societies, 3,313 dairy, and 175 milk-selling societies, and 3,654 societies of various other kinds. Rural co-operative credit societies represent two-thirds of the above total. For the whole of Germany there is, roughly, one rural co-operative society for every 2,494 inhabitants and for every 3,365 acres of cultivated land.

Having now examined the material aspect of the societies, let us turn to the moral side of their co-operative activities. Credit societies, which, it may be noted, bear almost universally the double title of "Savings and loan institutions" aim at stimulating the practice of thrift. It is their first interest to do so, the success of their work as lenders being largely dependent upon their ability to attract sufficient deposits. Not only are members urged to bring in their savings, but the savings of non-members are also welcomed; and efforts are made to reach all classes and ages within the restricted area of each society's operations. Farm-hands and servants are recommended by their masters to deposit part of their wages with their society; teachers in schools distribute savings books; savings boxes are given out free of charge; and in many cases societies employ collectors who make weekly visits to houses for the sale of savings cards of different denominations (from six annas up to Rs. 4). The Arheilgen Society, for instance, pays Rs. 300 a year to a collector, who, assisted by two sons, has sold *each week* cards to the total value of between Rs. 650 and Rs. 700. In 1908 two collectors, working for the Griesheim Society, sold cards to the value of Rs. 57,750. Small savings boxes (costing 2 annas 6 pies each) are supplied by societies to persons of very small means and to children. Generally, the boxes are distributed gratuitously. When at least twelve annas have been collected in the savings box it may be brought to the secretary of the society who breaks the seal, opens the box, credits the contents in a savings book, seals the box again and returns it to its owner. Here I would remark that boxes of exactly the same pattern have been distributed, to the number of some hundreds, to members of rural societies in the Central

Provinces and Berar ; but, unfortunately, no results of value have, so far, been observed. Before village societies were widely established in Germany, the idea of depositing at interest was unfamiliar to the rural population. But the societies have spread not only the idea of money being itself an instrument for the acquisition of future wealth, but have provided suitable means for its realisation.

By providing that no person shall possess more than one vote the law prevents concentration in a few hands of influence on the affairs of the society. The number of members in a rural society is rarely so large that the members are unknown to each other, and the business of the society is seldom or never so extensive and complicated that the members cannot grasp the points obviously at issue. Yet it is a not uncommon complaint that the meetings are poorly attended, and in very many cases societies exact small fines from members absent without cause. The usual agenda of a meeting, being concerned only with dry business matters, possess little attraction for the ordinary member who regards the just decision of business questions as within the proper sphere of the Committee of the society. With a view to stimulating interest in the meetings special addresses are given in a large proportion of societies, sometimes by members, sometimes by outsiders, on subjects likely to be of interest. But political and religious subjects are rigorously banned by the Raiffeisen Articles of Association.

Although co-operative credit societies aim at the moral betterment of their members and (when they can afford to do so) grant subventions from their profits for such purposes as libraries, schools, clubs, village institutes, village sick nurses, ambulances, surgical appliances, sick funds, fire brigades, veterinary pharmacies, telephone services, etc., it must not be imagined that undue prominence is attached to these aims. The essential objects are first and foremost to furnish rural dwellers with suitable means for obtaining money and depositing loans, and then to pursue less material objects as far as may be compatible with sound business achievement. German rural co-operation in all its branches is advancing steadily as regards commercial development, but many men

who have lent no slight impetus to the co-operative movement are loth that the ideals which animated leaders like Raiffeisen should be entirely lost, and that rural co-operation should merely represent a form of business organization.

Lastly, before we leave the rural co-operative credit society, it must be remarked that in Germany co-operative credit has been the parent of every other form of co-operation. In the towns the connection is in a sense unnatural, the mere accident of history, and it is already weakening and breaking up before the differentiation of industrial evolution. In the country the connection is natural and permanent. The study of agricultural credit includes the study of the whole of agricultural organization ; but agricultural credit may mean two different things—the credit which is built upon the village bank of individual farmers, and the credit which starts from those same men organized into a society for the supply and disposal of agricultural commodities. It must, in addition, be borne in mind that, although the most intricate part of the credit problem is the superior structure erected upon the credit unit, yet the unit is by far the most important thing of all. It is by this unit that the intelligence and hearts of the people are touched and transformed from weak ignorance to sympathetic strength ; it is in this unit that the truly co-operative elements are contained ; and it is this unit that kindles that local patriotism without which no co-operative movement can ever succeed.

## CENTRAL ORGANIZATIONS.

### I. *Unions.*

The unit of the German co-operative organization is the individual society. In pursuit of their purely business aims, groups of individual societies have been formed, namely, central banks and central trading bodies for provinces or States ; and these, in turn, have become further organized by the creation of central banks and central trading bodies which operate over Prussia or Germany.

But *apart from this organization for business purposes*, over 90 per cent. of all rural societies are attached to central

organizations which serve their common as distinct from their particular business objects. Such bodies are entitled "Unions," and, while their main business is to undertake the audit and inspection of their affiliated societies, they act in general as the intelligent organizers and regulators of co-operative effort in all its branches within their areas. Above the Unions are the Federations, to which are directly attached the Unions as well as the central banks and central trading societies.

In point of date the central banks and trading bodies have been in almost every case posterior to the Unions, having been established by the latter. The present position may be said to be the direct result of the Co-operative Societies Act of 1889, which prescribed an obligatory audit for all registered co-operative societies once within every two years, permitting duly authorised Unions of co-operative societies to carry out this audit. The Act provided that such Unions must not conduct any purely business operations, such as banking or the purchase or sale of agricultural commodities. Previous to 1889 Unions often undertook such business in addition to the work of promoting the general interests of their members, although the expediency of removing such economic functions from the sphere of their activity was generally recognized. In 1881 it was proposed that the local or provincial authorities should exercise a certain right of supervision, and should reserve the right to appoint auditors of co-operative societies. Eight years later the Government declared that for the State or the local governments to undertake, as a permanent duty, the supervision of the business of co-operative societies was neither necessary nor practicable; the number of societies was too great and their enterprises too diversified in character, while their aims were of a private, and not of a public, kind. The necessity for regular audits of societies was, however, recognized, though the exercise of this function was left either to private bodies to be duly authorised by the local governments for the purpose of appointing auditors and of undertaking the responsibility for their efficiency, or to individuals to be appointed by the courts on the motion of the individual societies. The audit by individuals appointed by the courts has proved

a complete failure, and to-day almost all the German co-operative societies are audited by Unions, the staff being properly taught and trained for the special work required.

The first Unions of societies, and those subsequently established and authorised to conduct audit, created in due course central banks and central trading bodies to serve their affiliated societies. The legal status of these Unions is that of registered associations, which implies that they do not carry on profit-seeking business; membership does not involve any mutual liability. Apart from audit and inspection and the establishment of central business organizations for the benefit of their societies, Unions undertake regular propaganda and advisory work; issue model articles of association, business rules for use by credit and other societies, general manuals of instruction for officials of local societies, leaflets on various subjects; and, in 1911, 28 Unions published newspapers, mostly every fortnight, of which the total circulation was 248,190 copies. The Unions compile and publish annual statistics respecting their societies to each of which they furnish a copy. All the most important Unions have instituted special courses of instruction for office-holders in local credit societies, such courses lasting a month, a week, five, four, three, and two days. In nearly every case public assistance is specially given to the Unions for this purpose, and the latter usually pay in whole or in part the expenses of those attending a course of instruction.

Many Unions have made agreements with important insurance companies, under which members of their affiliated societies may effect insurance (fire, life, accident, liability, fidelity, cattle) on preferential terms. Legal advice is regularly given by a number of Unions, all of which are also able to give technical advice on banking, insurance, and on most matters relating to agricultural business (*e.g.*, dairying, manures, feeding-stuffs, machinery, fixing of electricity rates, marketing of produce, etc.), as they have at their disposal the services of their own officials as well as of those employed by their central banks and their central trading societies. Unions also take an active part in promoting projects of rural social welfare. They obtain funds to carry on their work from three principal sources:

(a) the annual contributions from their affiliated local and central societies, (b) annual grants from the State or from the provincial governments, and (c) grants (or their equivalent by assignment of services or both) from the semi-State Chambers of Agriculture.

All Unions levy from their affiliated societies a fixed annual contribution which ranges from about Rs. 5 to Rs. 45 ; in addition, rates are assessed upon turnover or upon the value of goods supplied. Some Unions charge separately for audit, while others do not. Thus the societies of the Bavarian National Union pay Rs. 7-8 as the fixed annual contribution *plus* 2 per cent. of net annual profits, no further sum being payable unless, through the fault of a society, audit entails an exceptional expenditure of time. All societies affiliated to the Dantzig Union pay a fixed annual contribution of Rs. 27-8, and Rs. 16 for each day actually occupied in auditing at the premises of the society.

Central banks, central supply and sale societies and other Union institutions contribute considerable sums towards the cost of administration of their Unions, and in the case of large concerns these run into many thousands of rupees.

Until the middle of the eighties the Schulze-Delitzsch or urban societies far out-numbered the Raiffeisen or rural societies. In 1872 there were some two thousand urban and only about one hundred rural societies. Now the urban societies have always opposed State aid in any form, and this point of view is held by their particular Federation. The rural co-operative organizations, however, readily accept State aid in the limited measure in which it is offered. State assistance assumed important dimensions only subsequent to the enactment of 1889. It usually takes the form of small grants to cover the expenses of founding societies, contributions towards the cost of auditing by co-operative Unions and of propaganda, advances of capital to central banks at low rates, occasionally endowments of capital, or grants towards establishment expenses ; in a few cases it has taken the form of assisting groups of societies to secure advantageous terms at banks ; and throughout Germany public officials, especially the agricultural travelling



inspectors and district governors, are urged to promote co-operation. The knowledge that the extension of agricultural co-operation is part of the general policy of the government stimulates officials to take an active interest in it ; this is especially true of such influential officials as district governors who, in the exercise of their duty, are brought into contact with nearly every branch of public activity. The general tendency in recent years has been to reduce financial assistance to co-operative societies, or to give it with greater reserve, on the ground that the co-operative movement, having now passed out of its early difficulties and grown strong, is able to draw upon its own resources. But the conditions prevalent can easily be gathered from the two illustrations below, the Unions selected being very typical of Unions in general.

*Prussian Saxony.*—This province, which up to a few years ago made much larger grants, now gives an annual sum of about Rs. 4,700 for co-operative propaganda and the establishment of new societies, and another of Rs. 750 to the dairy school attached to one co-operative dairy. In 1894 the provincial government placed Rs. 4,50,000 (at 4 per cent. interest) at the disposal of the newly-formed Central Co-operative Bank of Halle. The Saxon Chamber of Agriculture allocates Rs. 4,900 yearly to the Co-operative Union, and its officials are always ready to promote co-operation by every means in their power. The offices of the Director of the Chamber and Director of the Co-operative Union have been held by Dr. Rabe for over ten years, and his predecessor in both offices was at once one of the great German agriculturists and an ardent pioneer of rural co-operation.

*Hanover.*—Apart from donations of from Rs. 75 to Rs. 115 to newly founded credit societies and the payment of an official charged with the promotion of co-operative cattle-selling societies, no public grants are made for co-operative purposes. In the early period of its history the Hanoverian Union, now one of the strongest in Germany, received considerable support from the provincial government ; thus, at the foundation of its Central Bank, the government placed a credit of Rs. 1,50,000 at its disposal and contributed largely to the cost of establishing

it. The Chamber of Agriculture allocates Rs. 3,000 yearly to the Co-operative Union, which also has at its disposal the services of several officials of the Chamber. The present director of both organizations, Herr Johannsen, has rendered the greatest services to rural co-operation in Hanover, having held these offices for nearly twenty years. As in Halle the office premises of the Chamber and of the Union are situated in the same building.

## 2. *The Federations.*

Simultaneously with, and indeed to some extent anterior to the establishment of rural credit societies, co-operative supply and dairy societies were formed in Western and Central Germany. After the Co-operative Societies Act of 1868, which became an Imperial Act in 1871, the latter kinds of societies became fairly numerous. In 1873 the Hessian Union of Agricultural Supply Societies was formed at Mayence by 15 societies (with 1,070 members) under the leadership of Haas. Other small Unions of such societies gradually grew up in various parts of Germany; and in 1883, as the result of an appeal issued by Haas and other leaders, a central organization was established by nine Unions comprising 239 supply societies, under the title of the "Association of German Agricultural Co-operative Societies." Special features of this organization were the decentralisation and independence of its affiliated Unions, inasmuch as all adhering societies covered limited areas and maintained their self-government; nor was emphasis laid upon the pursuit of other than purely economic aims. The articles of association restricted membership to supply, sale, and dairy societies. Credit societies were, therefore, not admissible; this limitation was principally due to the fact that regard was had to the organizations led by Raiffeisen and Schulze-Delitzsch, which provided central institutions for rural and urban credit societies respectively. But when the Raiffeisen credit societies undertook supply business for their members they came into conflict with the Haas Association which thereupon decided, in 1888, to admit credit societies to membership. Mainly by virtue of the ability and leadership of Haas his Association rapidly forged

ahead. The Act of 1889 had led to far-reaching changes in the work of the then existing Unions, for it said, in effect, to them, "Choose between the conduct of the audit of your co-operative societies and the transaction of ordinary business operations. You cannot do both things." The result was that the Unions undertook audit and dropped ordinary business; they became propagandist, supervisory, and administrative in character, and created independent central societies for the purpose of conducting business operations, such as adjusting monetary needs, or effecting sales and purchases, for their affiliated local societies.

Between 1889 and 1899 the Association, which changed its name in 1890 to that of the "National Federation of German Agricultural Co-operative Societies," was joined by many important provincial and State Unions: *e.g.*, those for the provinces of Saxony, Hanover, and the Rhine Province in 1889, for Posen in 1891, for Pomerania in 1892, and for Brandenburg and Silesia in 1894, while the Union for the Kingdom of Saxony joined in 1891, and that for Bavaria in 1893. On August 1st, 1900, there were 7,137 societies affiliated to the Federation. In 1902 two important Unions of Peasant Proprietors' Associations, in Westphalia and Silesia respectively, became members, and in 1903 another of these Unions with over 500 societies in the Rhine Province also joined. The last and most significant addition to the strength of the Federation was that of the 12 Unions of the Raiffeisen Federation (having a total of over 4,000 societies) in 1905. After this addition, the organization founded by Haas in 1883 comprised about 83 per cent. of all the registered rural co-operative societies in Germany.

I now propose to turn to the Raiffeisen Federation, which, was between 1905 and 1913,\* affiliated to and acting in consort with the Imperial Federation, as an autonomous unit of a co-operative body. I do so, because the application of co-operative principles is, the student must understand, not a process which can be effected without a proper appreciation of environment. What is suitable for parts of Germany has proved to

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\* Haas died in 1913. His strong hand had held the two Federations, the National and the Raiffeisen, together; and when it was removed a split occurred.

be unsuitable for other parts ; and, further, methods that will give satisfactory results in one Indian province may, if blindly followed, prove disastrous in another Indian province.

At the root of the differences between the methods of Haas and the methods of Raiffeisen was "centralisation *versus* decentralisation." Decentralisation suited the Unions following the system of Haas ; they still follow the system. Centralisation suited the 12 great and powerful Unions of the Raiffeisen persuasion ; and they still find that it suits them, despite the storms of controversy. But, as we shall see, the form of centralisation which the Raiffeisen Federation still adheres to is a mild and modified form. Raiffeisen, after the dissolution of the German Agricultural General Bank—co-operation in Germany has had many a failure to contend with—which had been constituted out of the three central banks established respectively for the Rhine Province, Hesse, and Westphalia, founded in 1876 at Neuwied, a town on the Rhine near Coblenz, the present German Central Loan Bank to serve the rural credit societies in the Rhine Province. As a department of this institution he constituted an agency through which these societies might obtain advice and assistance. In 1877 he created the Neuwied Union of Rural Co-operative Societies as an independent concern for the defence and furtherance of the general interests of its members. This Union consisted at its foundation of 24 credit societies in the Rhine Province. Societies from other districts were, however, soon included in the Union, which in 1883 comprised 212 societies. At this date there were only about 500 rural societies in the whole of Germany. In June, 1912, 5,146 societies owned allegiance to the Raiffeisen Federation, a number slightly over one-fourth of all German rural credit societies.

The Agricultural Central Loan Bank served as the centre for the Raiffeisen credit societies—no society except a credit society with unlimited liability may become a shareholder of the Bank—and there was practically complete identity of persons in the management of the Bank and the Federation. In order to provide the credit societies with a central source for the supply of those agricultural necessities which they were

went to procure for their members, Raiffeisen established, in 1881, a commercial company. This firm was not profit-seeking in the ordinary sense, inasmuch as its articles provided that profits were to be appropriated, in accordance with the decision of the Federation, to the furtherance of rural co-operation. Previous to the establishment of this company the individual credit societies of the Raiffeisen Federation made direct purchases from wholesale dealers, seeking beforehand at Neuwied the advice of Raiffeisen.

With the extension of its area of operations separate units of administration were created within the organization. But the Neuwied headquarters office alone possessed the power of appointing auditors; and the various provincial banks of the credit societies, which were formed as time went on, were merely branches of the Central Loan Bank. The representation of the Unions on the Committee and Board of Supervision of the central organization, which was resolved upon at the General Meeting in 1899, lessened the disadvantages of such centralised administration, but did not formally recognize the independence of provincial organizations.

It was not until 1905 that complete decentralisation was determined upon; in that year the administrative Unions were made independent bodies with their own articles of association and independent right of audit, and became affiliated to the Imperial Federation, at the same time remaining members of the Raiffeisen Federation, which was to continue to safeguard the special principles of Raiffeisen and to maintain a uniform method of audit for the societies within those Unions. In 1909 it was decided that the Central Loan Bank should dissolve its supply and sale department, which up to this date centralised the supply business of the Raiffeisen Unions, and that this business should be transferred to independent provincial institutions to be constituted for this purpose.

The present constitution of the former highly-centralised Raiffeisen organization is, therefore, as follows: each Raiffeisen Union, for general co-operative purposes and for auditing is independent; in each Union area there is, for credit societies, a branch of the Central Bank (the director of each branch is a

member of the Board of Supervision of the Bank), and for other than credit societies, an independent provincial bank; and in each Union area there is, or will be, an independent provincial institution for the supply and sale of commodities for the benefit of members. The only important point of difference remaining between the Raiffeisen and the Haas systems, both of which, until 1913, contrived to exist side by side within the Imperial Federation, is this. In the twelve Raiffeisen Unions the credit societies are combined in one central bank with a branch for each area, and this central bank deals *only* with credit societies. Each of the Haas Unions has its own independent central bank which includes *all kinds* of co-operative societies as members.

The general functions undertaken by the Raiffeisen and National Federations correspond with those formerly undertaken by the Imperial Federation; and we may now examine the articles of the Imperial Federation and its activities as they existed in 1910, for they furnish an admirable object lesson. The objects of the Imperial Federation were stated to be:—

- (1) The promotion and extension of agricultural co-operation.
- (2) The protection and representation of common interests, especially in matters of legislation and administration.
- (3) The development, strengthening, and improvement of co-operative organization and effort, in all its branches.
- (4) The furnishing of advice and assistance to affiliated Unions and societies on all co-operative, legal, and economic questions.
- (5) The study of co-operative, legal, and economic problems.
- (6) The auditing, as required by law, of the accounts of central organizations and of co-operative societies directly affiliated to the Federation extending their operations over a considerable area.

The only essential difference between these articles and those of the Raiffeisen Federation lies in the insistence, by the latter, on the moral and religious aspect of co-operative

endeavour. Membership of the Federations is normally open to Unions of co-operative societies and to central organizations serving co-operative societies. Societies connected with those Unions which are affiliated to the Federation are also members of the Federation. It is expressly stated in the articles of association that "the independence, internal organization, and administration of these Unions shall be in no way interfered with as the result of their association in the Federation." Here, I pause to warn the student not to fail to distinguish the two great features of every successful co-operative system, namely, decentralisation as regards the special work to be done by each unit of the co-operative organization within itself, and centralisation of control as regards the marshalling of the self-contained units and the employment of their combined strength for the common purpose. That purpose may be banking, or production, or sale, or purchase, or whatever the common aim may be. There must not only be decentralisation but centralisation as well. The point is one which, if properly understood, will save the practical co-operative worker from many a failure.

Members are entitled to make use of the administrative machinery set up by the Federation in the general interest, to obtain assistance by advice or action on the part of the President and other organs of the Federation, to take part in the proceedings of the Annual Congress and to vote thereat, and to submit proposals for the agenda of the Congress. Proposals of individual societies must be submitted through the Union to which they belong. Members undertake to promote the interests of the Federation, to pay the annual subscription as fixed by the General Committee, to subscribe for the paper in which the proceedings of the Federation are published, to take its year-book, and to furnish, in good time, the statistical reports and information required by the Federation.

The organs of the Federation are four: (1) the German Agricultural Co-operative Congress, (2) the General Committee, (3) the Council of Administration, and (4) the President.

The Congress, which is the final authority in all matters connected with the Federation, must be convened once in each year, and from year to year in different Union districts; the

particular place of meeting must be determined by the Congress of the previous year. Each Union, each central business organization, and each individual society connected with those Unions which are members, has the right to send one representative with the power to vote, but the vote must be exercised in person at the meeting. The proposed agenda are weeded out, if necessary, and determined by the council of administration.

The *General Committee* is composed of (1) the President, (2) the Directors of the Unions, (3) six representatives from the central business organizations, of whom three must be representatives of central banks, two of the central supply and sale organizations, and one of the central butter and dairy organizations, and (4) one representative from each of the larger central organizations. The Committee consisted in 1912 of 47 members. Its functions are to consider (and in case of urgency to decide) all important matters of common co-operative interest; to lay matters before the Congress; to carry out the resolutions of the Congress; to consider and pass the balance sheets of the Federation, and to approve its budget; to fix the scales of annual contribution of the Unions and other members, and the remuneration of the President and his deputy; to decide concerning complaints against the Council of Administration and the President; to elect special committees for various purposes; to vote the admission of organizations other than Unions to the Federation; and to decide on the exclusion of any members. Meetings must be held by the General Committee at least twice in each year, and at any time when ten of its members demand.

The *Council of Administration* is composed of the President, his two deputies, and seven persons who must be elected from among the members of the General Committee, and who hold office for five years. Meetings are summoned as required by the President, who must in ordinary circumstances give one week's notice of the meeting. The Council serves as a sort of select committee of the General Committee, and acts as a permanent advisory committee to assist the President in the conduct of the business of the Federation.



By the Articles of Association there is assigned to this body : the preparation of the agenda for the Congress ; the determination of administrative matters referred to it by the Congress or by the General Committee ; the examination of the annual accounts and their presentation to the General Committee ; the preparation of the annual budget and its presentation to the General Committee ; decisions respecting expenditure not included in the estimates ; the approval of contracts of service made with higher officials ; the approval of all contracts binding permanently upon the Federation ; and the placing before the General Committee of proposals for the exclusion of members.

Various special committees are formed for particular groups of co-operative societies. Each of them is composed of two members, one of whom is the President of the Federation or his deputy, and the other a representative of the special branch of co-operation concerned. Such committees are, from time to time, established for central banks, central supply and sale societies, and the central butter-selling and dairy organizations, as well as for co-operative granaries, cattle-selling, wine-selling, and machine supply societies.

The President and two Vice-Presidents are elected for five years by the Congress, by an absolute majority of votes, but the period of tenure may be altered by the Congress upon the motion of the General Committee. The President represents the Federation judicially and otherwise, and is responsible for the general conduct of business, subject in certain cases to the approval of the Council of Administration. He is, of course, obliged to act in conformity with the Articles of Association and business rules of the Federation. The Articles of Association provide that the seat of the Federation shall be situated at the place in which its President resides.

• The Imperial Federation, which included after the adhesion of the Raiffeisen Federation in 1905, over four-fifths of all registered agricultural co-operative societies in Germany, occupied a commanding position by virtue of its membership of over one and-a-half million persons and of the economic forces thereby represented ; and its influence was great and

far-reaching. Not only by its special organizations or the other measures which it adopted for the benefit of its members, but also by its constant watchfulness and regular action, it exercised a remarkable influence upon legislation affecting agricultural and co-operative interests, upon the extension and improvement of all branches of co-operative organization—business methods, management, etc.—upon agricultural education, insurance, banking, statistics, and upon the establishment of means for bettering the general social welfare of the rural classes.

At the annual Congresses of the Federation opportunity is taken to give prominence to matters which its leaders consider to be important; and attention has been thus directed, by definite resolutions, to the principles which it is considered can best be applied to the organization and methods of practically every category of agricultural co-operative societies. Effect is given to the sense of these resolutions by the General Committee, whose duty it is to urge upon affiliated societies the adoption of the principles thus laid down. This Committee being composed of the directors of the adhering Unions, the Federation possesses the necessary machinery for advocating their adoption; and the publicity which the Imperial Federation was enabled to give to its considered policy by means of its own organ and pamphlets, as well as the organs of its Unions with their ramifications throughout Germany, tended to raise the level of co-operative practice among 20,000 societies.

The official organ of the Imperial Federation, published twice monthly, had, in 1912, a circulation of over 25,000 copies. Each affiliated society, by virtue of the contribution of its provincial Union to the Federation, received a free copy. Its regular contents, in addition to announcements and balance sheets inserted by many hundreds of co-operative societies, comprised articles upon all branches of rural co-operation: sections dealing with banking, purchase and sale of commodities, and dairying, with subjects appertaining thereto; with co-operative law and decisions of the courts affecting co-operative societies; with taxation, insurance, and with rural social welfare; and, finally, with a general survey of the co-operative situation in the various Union areas. Another monthly paper issued was sent free to

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all co-operative, agricultural, and economic journals as well as to a large number of daily newspapers throughout the country. The Federation's Year-Book contained the annual report of the President, a full account of the Congress, and the detailed statistics of its affiliated societies. The Federation also published a series of books dealing with subjects of importance to co-operators and agriculturists. Some of these were written for prizes given by the Federation. In 1910 the Federation published, at a low price, the fourth edition of its co-operative manual—a compendium of general information likely to be useful to rural co-operators; among its contents may be mentioned the text of the Co-operative Societies Act with full notes; the important enactments and State-regulations affecting the business of societies in regard to taxation, stamp charges, etc.; a history of the co-operative movement; an account of the present organization of co-operation in all its branches, and other co-operative information of every kind, together with interest tables, commission tables, manure tables, and other useful data, thus bringing together much that would not otherwise be easily available to rural co-operative societies and their members.

The Federation founded in 1904 a school for the purpose of furnishing a suitable general training to persons occupied in, or intending to seek employment in, any of the various branches of agricultural co-operation. The remarkable growth of activity in co-operative organization, especially of Unions and central societies, made it desirable that adequate opportunities should be afforded for such persons to make themselves acquainted with the history, principles, law, and practice of rural co-operation. Many Unions, for instance, had found it difficult, in the period 1895 to 1905, to obtain a sufficiency of persons suitably equipped to undertake the auditing of societies, whose numbers showed an average increase for the whole of Germany of about 1,200 per year. Assistance is given by the State towards the expenses of the school which is still maintained by the National Federation. The courses, which last nearly six months (from the beginning of October to the end of March), comprised, in the term 1910-11, regular instruction in:

(a) General Principles of Rural Co-operation (98 hours); (b) Co-operative Act (100 hours); (c) The Book-keeping, Management, and Correspondence of Co-operative Societies (198 hours); (d) Co-operative Auditing (39 hours); (e) Rural Credit Societies, their organization and business (20 hours); (f) Supply and Sale Societies, their organization and business (11 hours); (g) Dairy Societies, their organization and business (30 hours); (h) Other Societies, their organization and business (3 hours); (i) Agricultural Commercial Practice and Tariffs (20 hours); (j) Agricultural Products (41 hours); (k) Banking and Credit (35 hours); (l) General Commercial Law as affecting Agricultural Co-operative Societies (72 hours); (m) Commercial Arithmetic for Co-operative Societies (40 hours); (n) Practical Classes (8 hours); (o) Rural Social Welfare (2 hours). The instruction is given by recognized authorities, two at least of whom are known as the leading authorities on the special aspects of rural co-operation with which they deal in the school, and takes the form of regular question and answer rather than that of mere lecturing. Visits are made to typical societies within easy reach; and every opportunity of obtaining knowledge by personal experience of the working of societies is afforded to students. Every year the students combine to form a co-operative credit and supply society (for the supply of books, cigars, etc.) : in 1910-11 the turnover of the society was about Rs. 12,000 and the net profit on the year's working was Rs. 120.

The interest of the students in their work is stimulated by the fact that the Federation is at pains to recommend satisfactory students for appointments to vacant positions in the gift of its affiliated Unions and central societies.

The ages of the 43 students attending the school in 1910-11 ranged from 19 to 34 years, the general level of age being about 25; in the previous year the highest and lowest ages were respectively 19 and 40, and the majority were older than in 1910-11, being about the age of 30. In 1910-11 five of the students were foreigners (two each from Russia and Roumania, and one from Japan). Twenty-eight of the German students had already been employed by co-operative Unions or other co-operative societies, two had been engaged in agriculture,

seven in commerce, and one in teaching. Low fees are charged: Rs. 37-8 for German and Rs. 75 for foreign students.

The Federation also holds separate short courses of instruction on special subjects of importance which are intended for officials already actively engaged in co-operative work. A recent eight-day course was attended by 130 persons, of whom many were Government officials. The lectures are given by the most prominent leaders of German rural co-operation, and separate lectures deal with the general position of agricultural co-operation; the audit of co-operative societies; the removal of mortgage indebtedness on agricultural land, etc., etc. The mornings are, as a rule, devoted to the lectures, and the afternoons (3 to 5) to the discussion of their subject-matter.

The Congress of the Federation in 1898 having passed a resolution that "*Inasmuch as the auditors of Unions are often in close relations with the directors of the central business organizations, it is desirable that the audit of the latter should be carried out by other auditors. Mutual assistance by neighbouring Unions respecting the audit of their central institutions cannot always be extended or be satisfactory,*" the Federation appointed in 1902 a General Auditor, whose duties are confined to conducting the audit and inspection of the affiliated central organizations.

#### CENTRAL ORGANIZATION FOR MACHINE CONSTRUCTION.

In order to place at the disposal of co-operative Unions and other co-operative societies as well as of agriculturists, generally, reliable expert advice at moderate charges in regard to the construction and inspection of granaries, electrical plant, etc., the Imperial Federation had a central organization which met with considerable success. In the year 1910-11 new works estimated to cost Rs. 20,25,000 were commenced in accordance with plans drawn up by it, and works costing Rs. 1,80,000 begun in the previous year, on its plans, were completed. The organization was further employed in the drawing up of numerous estimates as to cost or probable yield of works to be executed on agricultural properties and in the conduct of numerous technical inspections.

#### CENTRAL ORGANIZATION FOR PURCHASE OF MACHINERY.

This organization, originally created by the Raiffeisen Federation, was subsequently taken over by the Imperial Federation. Its function was to centralise the purchases by co-operative societies of agricultural implements; but, in 1912, it had not developed a large business. Several of the central purchase organizations or other central societies have undertaken for a considerable time this business for their members in their respective areas.

#### CENTRAL ORGANIZATION FOR THE PURCHASE OF POTASH SALTS.

Since 1888 the National Federation has purchased potash salts for its members. At first this was done through the agency of the German Agricultural Society, later in combination with that body; from 1898 direct contracts existed between the potash syndicate and the Federation; in 1910 the Potash Purchase Company of the Imperial Federation was founded, which included all the affiliated central purchase organizations; and in 1911 a further concentration took place by the formation of the Agricultural Manure Purchase Company, which comprised the organizations attached to the Imperial Federation, the German Agricultural Society, and the Agrarian League. Thus the greatest co-operative and agricultural association combined for the purchase of one of the most important manures.

#### CENTRAL ORGANIZATION FOR THE PURCHASE OF BASIC SLAG.

As to basic slag, the National Federation lent its powerful support to the establishment of the Supply Association of German Farmers, which was constituted in 1899 by the central supply societies of the National Federation, the (Raiffeisen) German Central Loan Bank, then outside the Imperial Federation, the German Agricultural Society, the Agrarian League, the Peasants' Associations, and other organizations. The President of the Imperial Federation (Herr Haas) was elected Chairman of this Association. Its business in 1909 amounted to Rs. 2,02,50,000.

The Federations have been able to make agreements for insurance, at preferential rates, of money, etc., sent by post, and against theft. They have established benefit funds for officials of all kinds of societies, to provide assistance in cases of their unemployment and illness, and for the widows and orphans; and have created insurance funds for old age and invalidity. In connection with the benefit funds there are two large hostels, one in the Island of Rugen and the other in the Odenwald, near Darmstadt, which are open in the summer months to receive for holiday purposes all co-operative officials, paid or honorary, and their relatives, at moderate rates.

The principal source of income of the Imperial Federation lay in the contributions of its affiliated organizations. The rates of contribution as fixed in 1909 were as follows:—

- “(1) Each Union shall contribute a fixed sum of Rs. 150.
- (2) In addition, each Union shall be assessed (a) at Re. 1-8 per affiliated society, (b) at  $\frac{1}{20}$  per 1,000 of the turnover of Union banks, such turnover to mean the total of all incomings and outgoings in business with its members on current account and in money deposited for fixed periods, (c) at 1 per 1,000 of the selling value of commodities sold by Union central purchase and sale societies.
- (3) In respect of the sums payable under (b) and (c) of the last section only 15 per cent. shall be levied until further notice.
- (4) The maximum contribution payable by any Union shall not exceed Rs. 3,000 until further notice.
- (5) In assessing annual contributions the bases taken shall be the number of societies and the turnover of the previous year: thus the contribution for 1910 shall be based upon the number of societies attached to a Union on January 1st, 1909, and the turnover of the central organization for 1908.
- (6) Should the financial year of the central banks and the central societies not coincide with the calendar year, the bases taken shall be those of the previous balance sheet: thus for 1910 the turnover of

societies closing their financial year on June 30th shall be reckoned according to the balance sheet of June 30th, 1908.

- (7) A detailed statement of the contribution due shall be sent to the Unions at the beginning of each year, and should settlement not be effected by May 1st a charge of 4 per cent. interest upon the amount outstanding shall be made after that date."

The Imperial Federation also received an annual grant from the Imperial Treasury, as well as from the State Treasuries of Prussia, Bavaria and Saxony, towards the expenses for educational and statistical purposes. Contributions had also been received by virtue of agreements in respect of supply made by the Federation. Its finances were carefully managed; at the end of 1907 assets to the value of Rs. 2,02,500 had been accumulated.

The Imperial Federation was composed on June 1st, 1912, of one Federation—the Federation of the 12 Unions of the Raiffeisen organization—and of 41 national or provincial Unions, inclusive of the Raiffeisen Unions. These 41 Unions comprised :—

|          |        |                                   |
|----------|--------|-----------------------------------|
|          | 73     | Central Co-operative Societies.   |
|          | 13,606 | Credit Societies.                 |
|          | 2,241  | Supply and Sale Societies.        |
|          | 2,193  | Dairy Societies.                  |
|          | 2,318  | Societies of miscellaneous kinds. |
|          | <hr/>  |                                   |
|          | 20,431 | Co-operative Societies.           |
|          | 4      | Central Business Institutions.    |
|          | <hr/>  |                                   |
| Total .. | 20,435 | Societies with 1,917,000 members. |

### 3. *Central Banks.*

The business of a village credit society in Germany is normally conducted upon the basis of the local deposits being adequate to meet local credit requirements and of the latter being approximately sufficient to absorb the deposits. But if



deposits tend to be abundant and demand insufficient, or *vice versa*, an investment for idle money, or a source of credit, is essential. The rural society operating over a very limited area, and the bulk of its members deriving the main part of their income from agricultural pursuits, the supply of money and the demand for it are apt to occur to a great extent at different times of the year. To these drawbacks arising from limitation of area and similarity of occupation of members are added those of isolation or of inconvenient remoteness from banking towns. If societies are to fulfil their functions in a proper manner they must have, within reach, sources of support for enabling their legitimate requirements to be readily and effectively met. In the circumstances, co-operative societies have almost necessarily adopted the plan of forming combinations and creating central co-operative banks on a broad territorial basis, by which means local inequalities may be adjusted and the necessary financial assistance given by organizations which at once understand and take account of the peculiar structure and conditions of the various affiliated societies. When over 4,300 societies are combined for this purpose, as in the case of the Central Raiffeisen Bank, or even in combinations of fewer societies, as found in certain parts of Germany, individual inequalities are likely to be more or less completely redressed within the groups. Of the societies constituting these central banks, some have reached a condition of permanent prosperity; others are situated in districts in which their members have the advantage of better soil, better means of transport, or better marketing opportunities; in the case of others the principal crops or the time of their yield may differ; in still other cases the farming may be more mixed, with the result that returns may be more equalised throughout the year. In general, on this broader basis, the incomings and outgoings are likely to be almost balanced: the well-to-do societies are enabled to invest their deposits, and the needy (whether merely temporarily or continuously) to obtain loans on suitable terms.

Raiffeisen was quick to recognize the necessity for combination among his first societies. Many found difficulty in

investing their deposits and many others in procuring capital. As an illustration of the position of isolated unorganized village societies without a central bank may be cited the procedure of a Bavarian group of societies. Their Union made an agreement with a provincial newspaper to the effect that, in return for the insertion of co-operative advertisements by the Union, the newspaper should publish free of charge the monetary needs of its societies. Thus, when one village bank had money to invest the announcement ran: X. hamlet offers Rs. 600; or, when another wished to borrow, Y. village needs Rs. 750. In many instances no recourse was had to advertisement, but societies corresponded in order to ascertain their mutual needs. Mr. Cahill\* mentions a society—in a district in which no central co-operative bank has been regularly organized—which, when it had money to invest, enquired of its fellow societies whether they wished to borrow. These haphazard and irregular methods of conducting business were naturally most unsatisfactory. At the present time almost all credit societies, and a considerable proportion of other societies, are affiliated to a central co-operative bank.

After 1889, when limited liability was first permitted by law, and one of the clauses of the Act implicitly permitted the formation of societies composed wholly or partly of societies, numerous central societies were founded. On January 1st, 1912, 36 central banks for rural societies were affiliated to the Imperial Federation. Statistics of the central banks in the Imperial Federation show that the membership of these banks at that date consisted of 15,745 co-operative societies, 75 other associations and bodies, and 662 individual members. Of the co-operative societies 13,362 were credit societies, these constituting about 98 per cent. of all credit societies attached to the Imperial Federation.

The central banks may be said to be organized by Provinces or States. The German Agricultural Central Loan Bank (founded by Raiffeisen) extends its operations, indeed, over the

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\* "Report on Agricultural Credit and Agricultural Co-operation in Germany." By J. R. Cahill. Laid before both Houses of Parliament, 1913.

whole of Germany, but its 12 branches limit their business to fixed areas co-extensive with a province or parts of adjoining provinces, a State or congeries of small States, and form, in fact, provincial banks. The other provincial central banks in Prussia are attached to the Prussian State Bank, which serves as their banker, and occupies in many respects roughly the same position in regard to them as the German Agricultural Central Loan Bank occupies towards its 12 branches. The scheme of organization for Prussian societies is, therefore: (1) the local societies, (2) the provincial banks to serve as places of monetary adjustment between these local societies, and (3) larger organizations at Berlin (*viz.*, the Prussian Central Co-operative Bank and the Central Loan Bank) to balance supply and demand, to obtain necessary credit, or to make necessary investments on the money-market, on behalf of the provincial institutions.

The membership of a central bank is generally open (1) to all registered societies situated in the area covered by the particular Union to which the bank is attached, (2) to individuals elected to the Committee of Management and the Board of Supervision of the Bank, (3) to individuals resident in Union areas who find it impossible or inconvenient to join a local society, (4) to public or benevolent institutions, associations, etc., connected with agriculture, such as the Chambers of Agriculture and District Agricultural Associations. Individual members are not, however, important elements in the actual membership: on January 1st, 1912, out of 16,482 members in the 36 Banks of the Imperial Federation there were only 662 individuals, of whom 127 were members of the single South-West African Society, and the bulk of the others were officials of the Banks. Corporate bodies other than registered co-operative societies numbered only 75, of which 19 were the small co-operative associations in Alsace-Lorraine, and the remainder were composed of the co-operative Unions themselves, Agriculture and Agricultural Associations.

The par value of the shares shows extremum or minimum, in this respect, only providing that liability, over and

Rs. 7-8 and

above the share value, must not be less than the share value. The amount of the share is, therefore, fixed according to the particular circumstances. Although for German co-operative banking the essential basis of credit is provided by the liability per share undertaken by the members, all banks now aim at making the share capital as high as possible, without deterring membership, in order to have an adequate owned capital and to increase their credit. "Certain general influences," explained when dealing with the local credit societies, are at work towards the raising of the share values of the central banks.

The shares are usually paid up in full upon the admission of the societies to membership. In some cases they may be paid up by fixed instalments, which are generally four in number extending over a period of one or two years. The Imperial Co-operative Societies Act provides that further shares may not be taken in a society with limited liability until all previous shares have been fully paid. It is a not uncommon practice, especially in the case of newly founded societies, for the central bank to which they attach themselves to debit the amount of the share or shares taken up to the account of the society as a loan at the rate of interest charged for loans. When further shares are taken by societies the same procedure is often followed. Such debts are subsequently paid off at the convenience of the societies concerned.

The liability incurred in respect of each share held in the central banks is often very great; and occasionally it appears to be almost tantamount to unlimited liability. It ranges from one hundred times to ten times the amount of the share value. The object of this added liability is to increase credit capacity. The Prussian State Bank (see below) gives credit mainly upon basis of the liability represented, making certain deductions. To obtain sufficient credit, therefore, it is necessary to assume securities of adequate dimensions. It is not always practicable to secure the payment of large sums by way of share capital, and accordingly a liability, large in proportion to share capital, is often assumed, this requiring no additional payments, unless losses occur. The law limits to a certain extent the danger

incurred by members of societies with a proportionately large liability, by the provision that bankruptcy proceedings must be commenced by the Committee of Management when the losses exceed one-quarter of the amount of the accepted liability of members. The final liability is thus limited in effect to one-fourth of the amount nominally accepted, so that a nominal twenty-fold liability practically means a five-fold liability.

It must be noticed that 545 members in one bank undertook a total liability of Rs. 1,84,43,250 ; 832 members in another bank a liability of Rs. 2,63,04,000 ; 890 members in a third a liability of Rs. 2,35,03,500, and 489 members in a fourth a liability of Rs. 1,64,01,000. The question thus arises, from the point of view of a bank's depositors, bankers, and other creditors, whether these immense liabilities are really tangible, and whether, in the event of great losses, the central societies are good for such amounts. And in general the answer is in the affirmative.\* These members undertaking such liabilities are not individuals ; they are societies, and over 70 per cent. of them are credit societies. The bulk of the members of all kinds of societies are landowners, whose liability for the debts of their societies is amply secured. The societies affiliated to the banks already cited (which undertake the largest absolute liabilities among the German central banks) are just those which include, to a greater extent than other such groups, both medium and large landowners. The business of the banks with their societies is carried out upon safe lines, and gives rise to little danger of rash investment. Even in the last resort, in the event of the full liability being recoverable owing to great losses, a state of affairs which is almost impossible under the Co-operative Societies Act, the realisation of the amount due is absolutely certain. Taking the banks already cited we find that the average liability per member (that is, in effect per co-operative society) in the first Bank amounted in 1910 to Rs. 31,605, the second to Rs. 31,605, in the third to Rs. 26,415

\* Most of the German co-operative institutions are good; but some have been badly managed, and stupidity, ignorance, and neglect have caused dis- The student should devote special attention to the article by a German co-op which is given as an Appendix to this Part of this book. •

fourth to Rs. 33,540. The gross liability undertaken by members in 1910 amounted to Rs. 29,09,03,625, which is equivalent to a liability per society of Rs. 13,260. The average number of members in over 14,000 rural credit societies in 1910 was ascertained to be 97, so that the average liability undertaken by individual members of societies in respect of their central banks amounted on this reckoning to about Rs. 136-8. Remembering that with few exceptions the central banks are co-operative societies with limited liability, which are bound by law to commence proceedings in bankruptcy when the annual (or other) balance sheet discloses losses amounting to one-fourth of the liability, the effective liability works out at less than Rs. 37-8 per individual member.

It may be here observed that the amount of liability attached to shares of the agricultural central banks has not been increased, and that the tendency is to limit this liability to ten times the share value, unless the share value is placed at a very low figure. Shares tend to be of higher value, and a tenfold liability may be regarded as the present standard for new societies. The new provincial central banks of the Raiffeisen organization for other than credit societies have adopted this principle. Thus, while the assumption of excessive liability is at present deprecated, the share values incline to higher amounts.

The working capital of the central banks is composed of their paid-up share capital and reserves, the deposits of members, and their credit at their banking centre (that is, for the majority, at the Prussian State Bank). Deposits are also taken from non-members, who, however, are not eligible for loans. Deposits of large amounts are usually accepted at three or six months' notice of withdrawal, but most deposits are held at interest on current account.

Credits are for the most part given in the form of overdrafts held in current account. Each member is allowed a certain amount which is based in most cases upon the number of shares allotted to the central bank. The Raiffeisen Central Loan Bank applies its special method in assessing the credits to be granted to rural societies. There are at present twelve

provincial branches of this bank, and its shareholding societies in each branch district must send in an annual return showing the collective assets of the members, as attested by the Committees of Management and the Boards of Supervision. In Prussia and in other States where the supplementary property tax is in vogue, the amount paid by each of the members must be stated, while elsewhere (*e.g.*, in Bavaria and in Alsace-Lorraine) a valuation of the property of each member of a society as estimated by the managers of the society must be furnished. With these particulars and other supplementary information of a general kind as basis a maximum limit of credit is allotted. In States in which the supplementary property tax is not payable, and exact data are not therefore to hand, a normal credit of 5 per cent. of the assets of members is granted, and a super-normal credit of 10 per cent., while for societies whose members pay the supplementary tax a normal credit of 10 per cent. and a super-normal credit of 15 per cent. is accorded. Each branch bank is authorised to advance the normal credit, but the issue of a super-normal credit requires the authorisation of the central office. Credit in excess of the regular super-normal credit can only be granted on the authority of the Council of Supervision of the Central Bank. For every Rs. 3,750 credit taken, societies are expected to take up one share in the Bank, but this course is not rigorously enforced. All credit business between a branch bank and the societies within its area of operations is transacted, as a rule, on current account. The societies affiliated to central banks must undertake not to maintain banking relations with any other banking institutions either for the deposit of money or for the obtaining of credit. For the purchase of stocks and shares they are also expected to make use of the services of their central bank.

Although normally credit is accorded on current account, many of the central banks advance capital for fixed periods for building (*e.g.*, of dairies and warehouses) and for other purposes (*e.g.*, advances for property purchases), but in such cases the right to foreclose is retained and fixed repayments by instalments are obligatory. Indeed, in all cases, the central

banks retain the right to withdraw credit at short notice when due cause is shown.

In 1911 less than one-half of the central banks granted loans otherwise than by way of overdrafts on current accounts, and the proportion of business in this form is very much greater than that in loans for fixed periods. The sums borrowed in the latter way from the central banks by their affiliated societies amounted at the end of the year to Rs. 80,32,500, while their borrowings on current account totalled Rs. 21,89,74,500. Nine banks only had advanced money for fixed periods. As to deposits by societies with their central banks for fixed periods, the disproportion is considerably less: at the same date the deposits of the members on current account at about twenty banks (exclusive of the Central Loan Bank) amounted to Rs. 12,94,92,000, while those for fixed periods reached Rs. 10,26,39,000. There is an increasing tendency on the part of central banks to allow more attractive rates of interest on deposits for periods of over six months.

The business done by the central banks has reached enormous dimensions. In 1910 the turnover of 36 banks (34 provincially-organized banks and two whose operations extend over the Empire) within the Imperial Federation of Agricultural Co-operative Societies amounted to Rs. 4,86,00,00,000; in 1911 their turnover was nearly Rs. 6,00,00,00,000. The average turnover per provincially-organized bank was Rs. 10,96,86,000 in 1910, and Rs. 13,98,96,000 in 1911.

#### 4. *The State and Co-operative Credit. The Prussian Central Co-operative Bank.*

Our survey of the German system of rural co-operative credit has not thus far revealed any excessive amount of interference by or of aid from the State. Moneylenders, however, generally dictate their own terms to their clients; and if the State is to be the moneylender of the co-operative movement, then there must be, inevitably, a far greater degree of State supervision and control than is good for the fostering of those qualities which are summed up in the term "the co-operative spirit." There is, accordingly, a general



consensus of opinion amongst co-operators in countries outside Germany that the Prussian Central Co-operative Bank has not been an unqualified success; and although the other parts of the German co-operative system have been widely accepted as admirable models, it is a significant fact that the Prussian Central Co-operative Bank has not been directly imitated. The reasons for this may be left to the student to discern from the account of this apex bank which is given below. For this account I am indebted to Mr. Cahill.

(i) HISTORY AND PRINCIPLES OF BUSINESS.

*Foundation.*—The Prussian Central Co-operative Bank, constituted by the law of July 31st, 1895, is the only State Bank for co-operative societies in Germany. Created to serve as bank for all kinds of co-operative societies in Prussia, it began business in October, 1895, and its subsequent development has been remarkable. Its turnover increased from Rs. 83,80,01,250 for its first year's working (1896) to Rs. 12,29,85,82,920 for the financial year 1911, while the number of members in the societies doing business with the bank grew from 302,899 in 1896 to 798,542 in 1912. A year previously the latter figure stood at 1,330,000, but the withdrawal of the Raiffeisen Central Bank from business relations with it entailed, in 1911, a diminution in the number by over 400,000.

*Reasons assigned for Foundation.*—The memorandum issued by the Bank in 1906 setting out its principles and history during the ten years since its foundation states the motives that caused the State to intervene in the matter of co-operative credit. "*The difficult situation of the producing middle classes in town and country led to the foundation of the Prussian Central Co-operative Bank.*" The opening-up of new foreign territories of great fertility, the cheapening of transport, the increase in cost of production through the rise in wages and of taxation, and the general advance in cost of living had depressed the profits of German agriculture. The situation would have been less serious if agriculturists, like merchants and manufacturers, had been in touch with the money market. Agriculture having passed to production for other than local markets,

to higher farming, and to payment for services and needs in currency rather than in kind, its monetary requirements had continuously increased. The flow of capital to the general market had grown in volume, yet smaller agriculturists were not in a position to take advantage of this cheaper capital. In industry and commerce the rate of interest had declined, but farmers obtained little share in the more favourable rates prevailing for working capital. They did not appreciate the distinction between long and short term credit and endeavour to regulate their needs accordingly. Capital for temporary purposes, as well as for undertakings from which the returns might extend over a number of years, was generally obtained by mortgaging holdings, with the result that an increase in mortgage indebtedness followed. The absence of suitable credit organizations often precluded any other method of obtaining credit. Far from reaping advantage, in fact, from the increasing substitution of currency payments for the more primitive system of barter, agriculturists suffered not a little. Oppressive conditions of dependence arose, and free course was given for the exploitation and arbitrary treatment of the smaller farmers. From every district in Prussia came complaints of the usury practised upon the small farmers in property transactions, in the sale or purchase of cattle, machines, fertilisers, and feeding stuffs, and in insurance dealings; and the extinction of smaller properties was becoming a matter of almost daily occurrence. Careful investigations throughout Germany proved that, through the absence of proper credit sources, temporary and quite insignificant financial embarrassment often caused the complete ruin of a farmer, and that in the recent decades a large number of medium and small landowners had thus lost their properties.

The smaller tradespeople and artisans found themselves in conditions of even greater distress than the farmers; they had no land to offer as security, and lenders, therefore, often imposed terms still more onerous than those which the smaller agriculturists had to accept. Schulze-Delitzsch tells of a small tradesman who paid Rs. 2-4 per day for a loan of Rs. 112-8 for a few days, and who considered that interest

at the rate of Rs. 2-4 per month for a loan of Rs. 45 was low.

Persons whose economic position is weak can only create a value capable of being realised in the open market by means of co-operation and mutual guarantee. Co-operation, therefore, which had arisen under the pressure of necessity, which necessity was at that time gradually growing more intense, sought to provide a remedy for the unsatisfactory conditions just indicated. But the help which it afforded, and was in a position to afford at its then stage of development, remained (through want of adequate resources) limited both as regards its sphere of action and the extent of the credit at its command. In spite of the success of Raiffeisen and Schulze-Delitzsch, and the tireless activity of the enthusiastic promoters of co-operation, the credit societies were far from meeting the general needs. Their number was not great (there were 3,040 rural credit societies in the German Empire on July 1st, 1893), their operations spread only over small areas, and the co-operative idea affected only local and restricted circles. Professional banking institutions were not familiar with the principles of co-operative credit, and, therefore, not ready to extend credit to the societies. Individual co-operative societies, with few exceptions, found the money market closed to them; and a regular adjustment of money supply and demand amongst their members with the money supply and demand of other producing classes was impossible. As a result, the societies only obtained credit at a higher rate than should have been necessary.

There was no comprehensive organization of financial power and prestige through which the individual societies might collectively assert themselves as a factor of weight in the money market. Raiffeisen and Schulze-Delitzsch, who had experienced the need of institutions which should serve as connecting links between the local societies and the market, created central co-operative banks. But these organizations had not attained the desired success; "their efforts did not succeed in providing credit in suitable forms, in adequate amount, and at a low rate of interest to all societies without exception. The

time had not yet come to crown co-operation in all its branches with a central institution, like the Imperial Bank in its relationship to industry and commerce, when these two highly-deserving men endeavoured to provide suitable institutions."

*The Co-operative Central Banks in 1894.*—When the question of State intervention definitely arose in Prussia in 1894, the organizations created by the co-operative societies to serve as central banks had not attained a strong position. There existed, besides the Agricultural Central Loan Bank founded by Raiffeisen in 1876, and the German Co-operative Bank founded by Schulze-Delitzsch in 1864, both of which extended their operations over the whole of Germany, a small number of organizations which restricted their business to co-operative societies within single Provinces or States. The German Co-operative Bank founded by the Schulze-Delitzsch Federation, need not be discussed here; it served urban rather than rural co-operative interests, and tended to develop other than co-operative business. The Central Loan Bank founded by Raiffeisen, which started with a share capital of Rs. 1,87,500, had increased that amount to Rs. 3,75,000 in 1881, and to Rs. 37,50,000 in 1892, and was by far the strongest of the existing rural central banks. At the end of 1893 there were 1,032 credit societies which were shareholders; its paid-up share capital was Rs. 4,66,755, its assets Rs. 40,54,845, its liabilities Rs. 40,23,390, its reserves Rs. 1,25,160, its turnover in the year Rs. 1,62,27,525, and its profits Rs. 24,705.

The other banks were those of Darmstadt (founded in 1883), Munster (1884), Hanover (1890), Neisse-in-Silesia (1890), Wormditt in East Prussia (1892), Halle, Cassel, Cologne, and Stuttgart (all in 1893), and Munich and Wiesbaden (both in 1894). Except the banks at Munich and Stuttgart, all those mentioned were situated in Prussia. It will be observed that nine of these eleven banks were established between 1890 and 1894; and they were not only young, but were also ill-provided with share and reserve capital or other resources. In several cases public credit was granted on special terms for the purpose of enabling the central banks to grant loans to their affiliated societies; thus, in Halle, the Provincial Aid Bank granted a

credit of Rs. 4,50,000 at  $3\frac{1}{2}$  per cent. (later 4 per cent.) until the Prussian Bank was established. But some of the banks had only a small number of affiliated societies—in 1896 the Wormditt Bank worked with 57 societies, and in the same year the Cassel Bank had a membership of 31 societies. The co-operative movement, moreover, being still in its early stages, the local societies had not accumulated any considerable surplus deposits, and required a source from which they could borrow money rather than a centre for deposit.

*Existing Institutions unsuitable.*—It was at first proposed that the Imperial Bank should undertake co-operative business. But this bank, created to serve primarily the requirements of commerce and industry, was not suited for the purpose, without alteration in its authorised business principles. Its constitution provided for the granting of credit only on bills and the highest classes of securities. But negotiable bills of exchange form a small part of the assets of most rural co-operative (and especially agricultural) societies, the majority of rural societies finding it more in the interest of their business to extend credit by loans for fixed periods or by overdrafts ; and those possessing adequate first-class securities are few. Promissory notes backed by sureties and mortgage bonds constitute the bulk of their pledgable security ; and these are not accepted at the Imperial Bank. It is also a preliminary condition for discount business with that bank that customers show a minimum of Rs. 11,250 in share-capital and reserves, and deposit a stipulated sum without interest. Few rural societies could then show Rs. 11,250 in capital and reserves ; and when the small margin of profit on which they work is considered it is clear that it might well prove burdensome to leave even a moderate sum on deposit without interest.

The Imperial Bank, owing to its special position, is also obliged to take care that its assets are easily and immediately realisable. Such a condition of extreme liquidity is not guaranteed when credits are given, for the greater part or solely, upon the basis of the collective liability of persons organized in co-operative societies, although the security thus furnished may be irreproachably sound. Settlement of accounts in case of default would require time, which may not be available.

The large private banks showed no eagerness to undertake the small and rather unusual kind of business that rural societies offer and want done at low rates. The special conditions of agricultural credit are not readily met by commercial banks aiming at profits through the quick and frequent turning-over of their funds. The absorption of German capital in commerce and industry, which were in course of an almost unexampled expansion, and the consequent profitable employment always open to their funds, go far towards explaining their preference. The principle of co-operative credit, based on collective and individual liability, with only small share and reserve capital as visible assets, had not as yet become familiar in the banking world, nor been recognized as supplying a solid credit foundation.

The only solution seemed the establishment of a special State Bank, adequately equipped with funds, to meet the needs of the small man requiring working capital. State intervention had been demanded in many quarters at various times, but the first positive stimulus was given by the great Agrarian Conference which met in the spring of 1894. In the following year the Government introduced and passed the Bill constituting the new bank and providing it with share capital.

*Objects of the Bank.*—Aiming at no profit beyond the moderate interest of 3 per cent. upon capital, the new institution was to act as the co-operative banking centre ; it was to balance supply and demand among the central societies, and bring them into touch with the money market. As the individual credit society aims at adjusting the money supply and demand among its members, and the provincial central society between its constituent societies, the Bank was to adjust supply and demand between the central societies by lending the surplus money of the one to the other ; and, when its funds were inadequate, to use its credit in the outside market. In a word, it was to regulate the needs of the various central societies, and when necessary to obtain outside credit.

The receipts and expenditure of agriculturists, who form the majority of the members of the societies, are apt to fall due for the most part at certain well-marked periods ; and for these months money is either plentiful or scarce in the

agricultural community. As a result, the balancing of payments and withdrawals effected in urban banks doing business with persons in all avocations does not as a rule take place in the central agricultural societies; and in certain months the withdrawals exceed the deposits, and *vice versa*, to a marked degree. The annual reports of the Imperial Federation show the monthly deposits and withdrawals of the majority of its banks, which are provincially organized; from these this fact emerges prominently, as may be seen from the following Table:—

*Table showing the Excess of Deposits over Withdrawals or vice versa in each month in the years 1906—1911 in Central Provincial Banks of Rural Co-operative Societies.*

+ = Excess of deposits.      — = Excess of withdrawals.

| Month.             | 1906.                      | 1907. | 1908. | 1909. | 1910. | 1911. |
|--------------------|----------------------------|-------|-------|-------|-------|-------|
|                    | To the nearest Rs. 1 lakh. |       |       |       |       |       |
|                    | Rs.                        | Rs.   | Rs.   | Rs.   | Rs.   | Rs.   |
| January .. ..      | +74                        | +80   | +83   | +125  | +166  | +152  |
| February .. ..     | +16                        | +42   | +27   | +53   | +39   | +9    |
| March .. ..        | -84                        | -60   | -83   | -37   | -132  | -209  |
| April .. ..        | -9                         | -49   | -44   | -26   | -49   | -54   |
| May .. ..          | +24                        | -24   | -17   | +3    | -9    | -35   |
| June .. ..         | -84                        | -88   | -59   | -56   | -97   | -133  |
| July .. ..         | +30                        | -13   | +15   | +42   | +56   | +44   |
| August .. ..       | +2                         | -17   | +19   | +2    | +46   | +12   |
| September .. ..    | -31                        | -54   | -17   | -49   | -63   | -101  |
| October .. ..      | +43                        | +21   | +41   | +17   | +47   | +33   |
| November .. ..     | +43                        | +31   | +80   | +42   | +82   | +84   |
| December .. ..     | -37                        | -49   | +5    | +9    | -19   | -35   |
| <b>TOTAL</b> .. .. | -13                        | -180  | +50   | +125  | +67   | -233  |

These figures show that, even over such a large territory as is covered by these central banks, there is a want of equilibrium between supply and demand, although it might have been expected that differences in climate and in products would

bring about an approach to such equilibrium. As a fact, of course, in several co-operative districts for many years past these banks have been working almost entirely with their own resources, and have had rarely, or only quite temporarily, to seek help from outside, while, on the other hand, there are banks that rely for a great part upon such help almost permanently.

The same characteristics are discernible in the business of the Prussian Bank with its co-operative clients. Taking the same period (1906-11) as in the preceding Table, withdrawals exceeded deposits in each March, June, September, and December, but in each January, July, October, and November deposits exceeded withdrawals. The point is of such importance as regards the general banking policy of an agricultural central bank that the experience of the Prussian Bank over a longer period is worth setting out. In the Table opposite is shown the excess (+) of deposits over withdrawals, or *vice versa* (—), in each month from 1897 to 1911. Although the Bank opened in October, 1895, the figures for the first half-year October to March 31st, 1896, and for the year April, 1896, to March, 1907, are not included, as they comprise business other than that with co-operative societies.

An appreciation of this recurrent surplus and deficit as a perennial incident for certain periods in agriculture, and the tendency of commerce and industry to be affected by a similar, but less pronounced and differently timed flow and ebb, were present to the promoters of the Bill when they claimed that by the establishment of the Bank an adjustment of the monetary needs of all classes engaged in production was brought within the range of possibility.

The Act defines the object of the Bank as "the promotion of personal credit, especially of co-operative personal credit." The official memorandum already referred to amplifies this statement by pointing out that in the first place the function of the Bank consists in acting as the centre for the adjustment of the monetary needs of co-operative societies; it has, on the one hand, to facilitate the task of the societies in procuring credits in adequate amount at suitable interest, and, on the other hand, to invest or employ their surplus funds at proper



interest. But, apart from these financial adjustments and services, it has the further duty of bringing "*the fertilising and equalising stream of the general money market to fructify the activities of the middle class, and to bridge the chasm that separates them from it, thus contributing to create a conciliatory spirit and to form a sound bond of union between capital and labour.*" The term "middle class" as thus employed in Germany,

| Year.   | Jan.                       | Feb. | Mar. | Apl. | May. | June. | July | Aug | Sept. | Oct. | Nov. | Dec. | Balance on year's working. |
|---------|----------------------------|------|------|------|------|-------|------|-----|-------|------|------|------|----------------------------|
|         | To the nearest Rs. 1 lakh. |      |      |      |      |       |      |     |       |      |      |      |                            |
|         | Rs.                        | Rs.  | Rs.  | Rs.  | Rs.  | Rs.   | Rs.  | Rs. | Rs.   | Rs.  | Rs.  | Rs.  | Rs.                        |
| 1897 .. | +29                        | +13  | -9   | -7   | -3   | -21   | +4   | -3  | -7    | -7   | +8   | +2   | -1                         |
| 1898 .. | +40                        | -2   | -20  | -1   | -5   | -38   | ...  | +1  | -11   | +5   | +13  | -10  | -28                        |
| 1899 .. | +3                         | -1   | -9   | -4   | +8   | -22   | +6   | -3  | -14   | +8   | +16  | -5   | -17                        |
| 1900 .. | +37                        | +6   | -29  | -5   | +4   | -14   | +6   | -2  | -16   | +1   | +27  | -10  | +5                         |
| 1901 .. | +90                        | +45  | -46  | +2   | +19  | -26   | +41  | ... | -25   | +5   | +43  | -36  | +112                       |
| 1902 .. | +93                        | +8   | -75  | +4   | +26  | -66   | +64  | +18 | -58   | +23  | +21  | -41  | +17                        |
| 1903 .. | +114                       | +42  | -145 | +7   | -4   | -52   | +36  | +5  | -54   | +35  | +32  | -25  | -9                         |
| 1904 .. | +152                       | +41  | -121 | +33  | -6   | -85   | +68  | +22 | -73   | +31  | +58  | -70  | +50                        |
| 1905 .. | +91                        | -15  | -80  | +18  | +18  | -128  | +47  | +18 | -110  | +38  | +29  | -82  | -156                       |
| 1906 .. | +71                        | -1   | -65  | +16  | +19  | -67   | +69  | +17 | -63   | +39  | +25  | -47  | +13                        |
| 1907 .. | +53                        | -21  | -13  | -4   | +8   | -55   | +2   | +15 | -24   | +25  | +8   | -15  | -21                        |
| 1908 .. | +215                       | +46  | -143 | +1   | +2   | -16   | +35  | +18 | -49   | +91  | +60  | -84  | +176                       |
| 1909 .. | +275                       | -57  | -222 | +5   | -20  | -142  | +81  | ... | -97   | +79  | +66  | -80  | -112                       |
| 1910 .. | +116                       | +42  | -192 | +52  | +3   | -106  | +101 | +24 | -118  | +81  | +46  | -38  | +11                        |
| 1911 .. | +57                        | -27  | -79  | +39  | -8   | -76   | +68  | -35 | -30   | +48  | +39  | -57  | -61                        |

comprises small agriculturists, small tradespeople, and small employers of labour, such as master-craftsmen, who rarely have accounts with the ordinary banks. Included in the Bank's socio-political aims was the repression of uneconomic mortgage or long-term credit by the extension of personal credit, and by refusal to advance money to be used for mortgage credit; the checking of usury to which the smaller people in town and country were subject; and, by making working capital accessible

on less onerous terms, to effect the release of such persons from conditions of dependence upon those with whom they might happen to be in business relations, either as buyers or sellers. Indirectly, by reason of the credit facilities which the Bank offered, it was to promote the extension of the co-operative movement, and to increase the efficiency of the societies already existing by imposing better business methods.

*Legal Status.*—The Prussian Central Co-operative Bank is an independent institution with a distinct legal status, but is administered and supervised by the State. Its Board of Directors has been recognized by the courts as a public authority; and its officials are civil servants. It is not, however, a purely State institution; it has its own independent finances, for which the State undertakes no guarantee, and its credit and banking operations are subject to the provisions of the Commercial Code. The Minister of Finance exercises supervision, the Ministers of Agriculture and Commerce acting with him for special matters; the budget of the Bank is annually submitted to the Prussian Parliament for approval, and its accounts are audited by the Government Audit Office. By Ministerial Order it has received the privilege of being an authorised place of deposit for trust funds.

*Management: No Branches.*—The administration is in the hands of a Board of five Directors, whose decisions are taken by majority. It is obliged to observe the regulations and instructions of the Minister of Finance. The Directors are appointed for life by the Crown, upon the nomination of the Minister of Finance. The staff has grown from three Directors and three clerks in 1895 to five Directors with 209 officials of various grades in March, 1912. An Advisory Committee, chosen from leaders in the co-operative world, is established by the Act constituting the bank, and must be summoned at least once each year by the President of the Board of Directors. This Committee is unable to exert much influence upon the policy of the bank; it is summoned at the discretion of the President, and has no power of voting upon the subjects brought forward by him for discussion. The seat of the Bank is in Berlin, and there are no branches, the allocation

and supervision of the credits allowed being undertaken by the central societies.

*Capital.*—The Bank began its operations with a capital of Rs. 37,50,000 provided by the State in bonds bearing 3 per cent. interest. This sum proved within a short time to be inadequate, and was increased successively to Rs. 1,50,00,000 in 1896, to Rs. 3,75,00,000 in 1898, and to Rs. 5,62,50,000 in 1909. In March, 1911, when the financial year closed, the capital stood at Rs. 5,73,00,000, but owing to the withdrawal of the Raiffeisen Central Loan Bank for Germany in April, 1911, there has been a reduction in this sum by Rs. 3,75,000, and with the repayment to another central bank of the amount (Rs. 75,000) of its participation in the capital of the bank, the capital stood in March, 1912, at Rs. 5,68,50,000. In 1905 nine co-operative Union or central banks participated to the total amount of Rs. 18,00,000, but in 1908 Rs. 7,50,000 was repaid to one of these banks. The participation in the capital did not give the participants any voice in the management, their holdings of stock carrying no voting power.

*Interest on Capital.*—The present statutory regulations concerning the appropriation of the net profits provide that, apart from special allotments to reserve, one-fifth is to be devoted in the first place to the formation of the reserve fund and four-fifths to paying interest up to 3 per cent. upon the capital; if there is any balance then remaining, interest up to 3½ per cent. is to be paid upon the capital subscribed by the Unions, as well as upon the Rs. 1,87,50,000 increased capital provided by the State as authorised by law in 1909 (this law prescribes these regulations); any balance after meeting these charges is to go to reserve.

*Scope of Operations.*—The Bank is authorised by law to carry on the following business:—

- (1) To grant loans at interest to—
  - (a) such Unions and Union banks of registered co-operative societies (under the law of 1889) as may sue or be sued, in their own name;
  - (b) loan banks of the land mortgage credit associations that promote personal credit;

- (c) similar institutions established by the provincial authorities.
- (2) To accept deposits at interest from all such organizations.

For the purpose of carrying on this business the Bank is further authorised :—

- (1) To take other money by way of deposit, or on current account from organizations or persons ;
- (2) to accept savings deposits ;
- (3) to utilise its cash in hand in discounting bills of exchange, granting loans on security, and investing in stocks and shares ;
- (4) to buy and sell bills of exchange ;
- (5) to contract loans ;
- (6) to buy and sell stocks and shares for the account both of the Unions within the meaning of Section 1 and their affiliated co-operative societies, as well as for all persons or firms with whom it has business relations.

*Business with public Savings Banks.*—The Bank was authorised by the Act to transact business with the public savings banks, although the Government at first raised objections to such business. The Minister of Finance stated, in reply to motions brought forward to enable the Bank to enter into relationship with public savings banks, that it was only after the reform of these banks, when their administration and regulations were made more uniform, and when they had attained some degree of centralisation, that business relations could bear any fruit. He held that they were too different in character from co-operative societies, and that for the most part they were engaged in furnishing mortgage or long-term credit, so that they required too high a rate of interest. Moreover, their deposits being at call or short notice, there was a certain danger owing to their instability. Finally, it was provided in the Act that the Minister of Finance was to decide whether the Board of Directors might accept them as customers. In 1896 the Board of Directors was authorised to enter into relations with the savings banks, and the business has since

developed remarkably. The Bank has brought a new business into being in this respect. Over nine hundred public savings banks and local authorities employ its services, and such large cities as Berlin, Hanover, Cologne, and Frankfort are among its customers. These public institutions cannot do business so satisfactorily with private banks, whose ultimate aims are concentrated on profits. The Bank executes a large amount of stock exchange business for these public savings banks, receives deposits, and makes advances to them. Such institutions were not previously in regular touch with the money market, and their funds often lay idle to a not inconsiderable extent, but now, through this wider connection, they secure an outlet for investment and a source of credit, while their money is at the same time circulated in the general market.

*Principles of business with Co-operative Societies.*—The Bank, save in exceptional circumstances, enters into business only with banks of Unions of co-operative societies, that is, with organizations having at least seven co-operative societies as their constituent members. It is to be noted that not only Union banks of credit societies, but also those comprising or wholly composed of productive and sale societies, are included. In its method of appraising the credit capacity of the co-operative societies the Bank took for its standard the liability represented, a principle which had been introduced into banking by the societies of Raiffeisen and of Schulze-Delitzsch. It accepted and built up its business system upon this principle and allowed the central societies fixed open credits at a low rate of interest upon this basis alone. (See below.) In fixing the amount of credit it regards only the liability definitely undertaken by the societies, and credit is normally granted only to the amount of a fixed low percentage of the liability undertaken. In the case of central co-operative institutions organized under a non-co-operative form, such as the Agricultural Central Loan Bank for Germany (up to 1911), the credit to be allotted is calculated upon the net assets of the company, as set forth in the latest balance sheet. One great advantage secured by the foundation of the Bank was this full recognition of the banking value of liability by a powerful financial institution.

The circumstance that the liabilities involved were not readily realisable, and the impossibility, for ordinary bankers, of testing the real worth of the liabilities undertaken by members of co-operative societies, combined with the lowness of the assets of the central organizations, had previously tended to preclude the societies from obtaining the credit for which they were good, and to limit them to borrowing upon what was actually represented in visible assets. Their credit capacity had tended to be further reduced by the fact that their management was for the most part in the hands of men who had not received professional training.

*Evaluation for Credit.*—For the computation of the credits to be granted to central (or Union) banks organized as co-operative societies with limited liability, the definite liability undertaken by their affiliated registered co-operative societies serves as the basis, while for Union banks with unlimited liability, the authorised credits are to be based upon the ascertained collective assets of the affiliated societies. The agricultural Union banks dealing with the Prussian Bank are now, since the withdrawal of the Raiffeisen Central Loan Bank (which is a joint-stock company), exclusively societies with limited liability.\*

The capacity for credit of each affiliated society is tested twice yearly. Every central bank is required to forward to the bank a complete list of its members, with a statement of the approximate means of each member. On the authority of the Finance Minister this statement may be previously submitted to the local revenue official to verify the accuracy of the statement of the total amount of the assessed property of the individual member; if this official discovers any inaccuracy he is required to rectify the sum total, but not the individual amounts declared for each member.

Central banks organized as joint-stock or limited liability companies are allowed credit upon the basis of their net assets, as set out in their latest balance sheet.

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\* The Darmstadt Central Bank, which recently (1912) entered into relations with the Bank, is also a joint-stock company.

In special cases further credit may be granted at the discretion of the Board of Directors upon the production of special security.

Each central bank, before opening business with the Prussian Bank, must send in :—

- (1) a certified extract from the co-operative or commercial register of its registration therein ;
- (2) a copy of its articles of association and most recent report with balance sheet ;
- (3) a list of its members, attested by the court, distinguishing societies and individual members, and showing the number of shares held by each.

For each of the societies affiliated each central bank must also send in :—

- (i) a voucher attesting the registration of the society ;
- (2) a copy of its articles of association ;
- (3) a copy of a form filled in, dated, and signed, giving the following details :—
  - (1) the business title and seat of the society ;
  - (2) the number of members ;
  - (3) the amount of each share ;
  - (4) the total of the paid-up share capital ;
  - (5) the amount of the society's reserves.

In the case of societies with unlimited liability, it is optional to supply furthermore :—

- (a) a statement of the total amount of supplementary land tax paid by the members in the year ; and
- (b) miscellaneous information concerning the assets of the members.

In the case of societies with limited liability additional particulars are required concerning the number of shares actually registered with the court as taken, the amount of liability per share, and the aggregate liability of all the members.

When members of central banks are not organized as co-operative societies, the Prussian Bank requires an abstract from the commercial register, a copy of their articles of association, and their last balance sheets ; while for individuals who are comprised in the membership of central banks no information

need be furnished, as they are not taken into account in the evaluation of the credit of central banks by the Prussian Bank.

These proofs of assets respecting the constituent members of central banks must be sent in every three years, but the Bank reserves the right to call for the information at will ; and the central banks are invited to furnish corrections and supplements twice yearly (on 15th February and 15th August).

If societies with unlimited liability attached to central banks neglect to furnish the special detailed information respecting the assets of their members, the Prussian Bank estimates the guarantee for which each member might be good in case of default at Rs. 75 to Rs. 225 per head, according to the particular circumstances. This provision is principally designed to meet the case of urban societies, the members of which, for the most part, would have no assets other than their personal property or their trade, or to meet the general case of societies which, requiring little credit, may not furnish the detailed information.

To obtain the full advantages offered, the Union banks must sign two declarations (and exact the same from their affiliated societies), by the first of which they undertake to deposit all surplus unemployed funds only with the Prussian Bank, and by the second to seek credit only from the Prussian Bank.

*Highest Credit allotted.*—The maximum credit to be granted to each central bank is determined on the basis of the information in the possession of the Prussian Bank. In arriving at this determination it is usual to allow for societies with unlimited liability an amount equal to 10 per cent. of the assets of their members as recognized by the bank, and to allow for those with limited liability an amount equal to their accepted liability, minus a reduction of 25 per cent. with a further reduction of  $12\frac{1}{2}$  per cent. in the case of those societies which will not renounce credit transactions with other banks. When the maximum credit has thus been determined, deductions therefrom may be made : (1) of the liabilities incurred by the central banks with other co-operative organizations, of sums obtained as loans from provincial or other authorities, and of a sum representing the excess of their investments in securities over their reserves.



unless such securities are pledged with the Bank as special security ; (2) in the case of their affiliated societies, of a sum representing the excess of the value of securities held over their reserves, or of the amount of losses appearing in their balance sheets.

The maximum normal credit allotted to a central bank may not exceed ten times the amount represented by its paid-up share capital and reserves, and in any case must not exceed Rs. 37,50,000. The bank reserves the right to determine what amount within this limit, taking all circumstances into consideration, shall be actually granted. No right to the maximum credit, to a special form or amount of credit, or to any credit, may be claimed by a central society. The amount of the credit to be granted is fixed at the commencement of business relations, and afterwards half-yearly, commencing April 1st and October 1st. No overdrafts upon the credit allotted are permitted, and the bank reserves the right to call in the allotted credit at any time.

*Form in which Credit is given.*—Credit may be exclusively on current account, or partly on current account and partly by discount, or exclusively by discount. Credit on current account is advanced only on the basis of the liability undertaken by members of the central banks, or, in the case of central banks not organized on a co-operative basis, on the basis of their net assets (share capital, foundation capital, and reserves), but never upon any other basis. Upon the question of current account the regulations of the bank lay down the following principles :—

*According to the intention of the legislature the promotion of co-operative personal credit in the shape of loans at interest granted to or accepted from central banks is the business of the Prussian Central Co-operative Bank ; in a word, it is to serve as the source of credit and the centre for balancing supply and demand among the central banks. The Bank endeavours to perform its task by placing at the disposal of the central banks cash and credit facilities on current account. It is an essential preliminary condition for the conduct of current account business (which is the effective promoter of co-operation) that there should be a proper relation between loans and repayments ; for otherwise the assets of the*

*bank would be tied up, and it would not be in a position to fulfil the duty assigned to it. In case the repayments of credits on current account do not take place as they should, the bank must, having regard to the intentions of the legislature, transform the current account credit into one of discount credit. Moreover, should the credit on current account be continuously exhausted, without repayments being made, despite warning, or in the event of the credit being employed in a manner at variance with the intention of the legislature, the bank reserves the right to close the account at three months' notice.*

*Rates of Interest.*—The preferential rates of interest for current account credit are fixed every six months for the succeeding six months (at latest six weeks before the expiry of the current period), but the bank reserves the right in extraordinary circumstances to alter the rate. Credit on current account at preferential rates is only granted to such central banks as sign the declaration to deposit all surplus money with and to borrow only from the bank; when no preferential rates are applicable, the current official discount rate of the Imperial Bank is charged. Since 1898 (when preferential rates were first introduced by the bank), the preferential rate of interest for overdrafts has been  $3\frac{1}{2}$  per cent. No commission is payable upon overdrafts, but expenses and postage are debited to the account. Preferential discount rates, in so far as such are granted, are duly notified, and are only conceded in respect of the credit allotted upon the basis of recognized liability.

*Supervision exercised by the Bank.*—With the object of safeguarding the credits allowed to the individual societies by their central banks, the latter are obliged to obtain from their affiliated societies in January of each year a statement of the number of members in each such society, and in the case of societies with limited liability, of the number of shares held, together with a copy of the balance sheet. The central banks must furthermore lodge, not later than February 15th and August 15th of each year, a half-yearly statement of their business on current account with each of their affiliated societies, and of their own provisional or final balance sheet. These statements must show the balance, whether debit or

credit, in the account with each society at the beginning of the half-year, the withdrawals or payments during that period, and the final position at its close.

*Cheque Business.*—Upon request by central banks the bank opens also separate current accounts, upon which cheques may be drawn. No overdrafts are permitted, a minimum credit balance of Rs. 375 being obligatory. All credit balances in this account bear interest at the rates current in respect of balances in the other account. Cheques drawn upon the Prussian Central Co-operative Bank are negotiable at all branches of the Imperial Bank, or, when there are no branches in the locality, at the offices of the Inland Revenue. Payments into these cheque accounts may be by cash, by the proceeds of bills discounted by the Bank, or by transfers from the other current account with it. The Bank is also prepared to negotiate free of charge all other cheque business of the central banks.

*Bill Business.*—On the basis of the recognized liabilities and on special security (sole or non-negotiable bills, surety bonds, scrip) the bank discounts bills for the central banks. Such bills may be negotiable bills from ordinary customers, bills accepted by affiliated societies within the range of their recognized liability, and endorsed by the discounting central bank. The total amount of bills presented for discount by a central bank must not exceed the maximum limit of credit allowed by the bank. First-class bills are cashed at specially low rates but never at less than the private discount rate, yet the total amounts thus cashed will not be deducted from the fixed credit formally allocated to the central bank concerned. Bills drawn against anticipated refund of taxation or rebate on export of sugar—save for spirits—are discounted at the same rate. The discount rate amounts, in the case of all bills discounted, to at least  $3\frac{1}{2}$  per cent. on each bill, in addition to any necessary stamp duties. For the discounts made on the basis of the collective liability of the societies, the rate of interest, so long as the official rate of discount of the Imperial Bank is higher than  $3\frac{1}{2}$  per cent. (or higher than the preferential rates for loans on current account) is fixed at  $\frac{1}{2}$  per cent. less than that of the Imperial Bank for central banks which have

given the double-declaration of exclusive dealing (to lodge all their deposits not required in current business and to borrow only from the bank) : for other banks signing only one of the two declarations at  $\frac{1}{4}$  per cent. under the Imperial Bank rate ; for those bills resting upon spécial sureties of a non-co-operative kind, the rate of interest is determined in each individual case. But for all bills the official rates of the Imperial Bank are reckoned for the last ten days of their course.

*Acceptances.*—Within the limits of the fixed credits allotted the Prussian Bank discounts acceptances of co-operative organizations in respect of co-operative business transactions, provided they mature in a period not exceeding three months, and that the bills of lading or warehouse warrants are given into its custody. Further, for the purpose of giving security for the delivery of coal, delay for freight payments, etc., the bank places at the disposal of co-operative societies its acceptance for any period not exceeding two years or at sight. A fee of  $\frac{1}{2}$  per cent. of the amount of the bill is charged ; the credit granted is debited in the account of the central bank at the cheapest rate for bill discounts, the credit of the account concerned being diminished by that amount until it has been cleared off.

*Bill Collection and Transfers.*—The central banks and their affiliated societies are obliged without charge to participate in the collection, etc., of bills for their areas. According to the regulations under this head, current account credits can, as a rule, be granted to central banks only for those co-operative societies which agree to undertake for the Prussian Bank the negotiation of cheques and bills within their districts. Central banks and co-operative societies also, which have signed only one of the two exclusive declarations, may only clear cheques and bills through the medium of the Prussian Bank.

*Loans on Effects (Lombard Credit).*—The Prussian Bank gives credit against the pledging of securities in the shape of scrip, agricultural produce, etc., and opens special accounts for this business. Such securities may be sold after the expiry of three days subsequent to the demand of the bank for settlement of the account.

The bank maintains no warehouses and—apart from scrip and documents—does not take charge of the articles pledged ; maintenance, warehousing, insurance, and all risks are borne by the borrower. As regards securities, Imperial or State securities, mortgage bonds of the Agricultural Mortgage Credit Associations and similar securities are lent upon up to a maximum of 90 per cent. of their par value, while for other securities, in general, either the practice of the Imperial Bank is accepted or special conditions are made.

For goods such as sugar, corn, etc., their current commercial value is, as a rule, allowed for, while for spirits, which are important as an article of agricultural production in Germany, the Inland Revenue valuation is accepted. The purchase and sale of securities for customers of the bank is carried out at a charge of .025 per cent. of market price or a minimum charge of  $3\frac{1}{2}$  annas, but brokerage charges and stamp duty must be met by the customers. The bank also undertakes the collection of dividends, and maintains safes for the deposit of securities and similar documents and papers.

*Quarterly Accounts.*—At the end of every quarter each customer receives an abstract of his account, and if no objection to its accuracy is raised within 14 days, it is noted as correct.

*Freedom of Action of Bank.*—The bank reserves the right to change its conditions of business with the central banks and other associations when it deems fit.

*Non-co-operative Business done by Bank.*—Business with single co-operative societies, firms, and private persons, as well as with corporations and associations with legal status, is subject to special regulations. Single societies do not obtain the same advantages as those affiliated to central organizations. Although authorised to conduct banking operations with other than co-operative societies, the bank has pursued the policy of not competing for ordinary commercial business with private banks. But its transactions with the public savings banks have attained an enormous development. On behalf of these institutions it opens deposit and current accounts, discounts bills, makes advances against securities, buys and sells scrip, collects dividends, and undertakes the care of their securities.

For these institutions, as well as for the loan banks of the Prussian Mortgage Credit Associations, special regulations have been issued by the Bank.

(ii) VOLUME OF BUSINESS.

*Its Co-operative and other Clients.*—On the 31st March, 1911, there were 52 central co-operative banks or co-operative Unions in business relations with the Prussian Bank. Affiliated to these organizations, of which 51 were co-operative societies and one—the Agricultural Central Loan Bank of Germany—was a joint-stock company, all of whose shareholders are rural co-operative credit societies, were 12,362 co-operative societies with 1,339,988 members, of which 560 societies with 165,643 members in 19 central banks were predominantly urban, and 11,802 societies with 1,174,345 members in 33 central banks were predominantly rural in character. Since that date the Agricultural Central Loan Bank for Germany, with its 4,300 rural co-operative societies comprising 400,000 members, has renounced its business relations with the bank.

In the following Table will be seen the composition of the clients of the Bank, on April 1st, in 1911 and 1912 :—

|  | April 1st,<br>1911. | April 1st,<br>1912. |  | April 1st,<br>1911. | April 1st,<br>1912. |
|--|---------------------|---------------------|--|---------------------|---------------------|
| <i>Central Co-operative Organizations—</i> |                     |                     | Loan Banks of Land Mortgage Credit Associations.                 | 8                   | 8                   |
| Agricultural Central Organizations.        | 33                  | 26                  |  |                     |                     |
| Affiliated Societies                       | 11,802              | 7,555               | Public Institutions of Provinces.                                | 6                   | 6                   |
| Membership ..                              | 1,174,345           | 798,542             | Public Savings Banks.  | 862                 | 917                 |
| <i>Urban—</i>                              |                     |                     | Other Public Banks of various kinds, single persons (guardians). | 197                 | 245                 |
| Central Organizations.                     | 19                  | 20                  |  |                     |                     |
| Affiliated Societies                       | 560                 | 582                 | Single Societies ; firms and persons.                            | 479                 | 550                 |
| Membership ..                              | 165,643             | 178,040             |  |                     |                     |
| <i>Totals—</i>                             |                     |                     |  |                     |                     |
| Central Organizations.                     | 52                  | 46                  |  |                     |                     |
| Societies ..                               | 12,362              | 8,137               |  |                     |                     |
| Membership ..                              | 1,339,988           | 976,582             |  |                     |                     |

*Its Territorial Extension.*—The Bank was designed to serve Prussian co-operative societies; but organizations with their registered offices in Prussia are accorded credit for all affiliated societies whether Prussian or not, and are in turn obliged to lodge surplus deposits from such societies with it. The bulk of non-Prussian societies which were connected with it in 1911 were attached to the Central Loan Bank for Germany. In 1904 and 1909 the total number of such societies, rural and urban, amounted to 1,687 (with a membership of 162,284) and 2,013 (with a membership of 194,361) respectively; of these 1,434 societies with a membership of 136,363 members in 1904, and 1,667 societies with a membership of 156,407 in 1909 were attached to the Central Loan Bank. By the withdrawal of the latter, therefore, the operations of the Bank were confined far more than heretofore to Prussian territory. In 1912 (August) it was announced that the central bank of the Hessian Agricultural Societies at Darmstadt, with a membership of over 500 societies, had entered into business relations with the Bank.

*Credit allotted.*—Upon the basis of the representative liability of the central banks, of the net assets of the single joint-stock bank in 1909 and 1910, and of the special security furnished by its individual societies, the Prussian Bank accorded in 1909, 1910, and 1911 a total of Rs. 2,19,15,600, Rs. 2,30,13,675, and Rs. 1,94,94,600 respectively as credit on current account and Rs. 5,19,49,125, Rs. 5,39,00,175, and Rs. 5,47,68,000 by way of discount, while on the basis of special security (stocks, mortgages, bonds with surety, &c.), there were granted in the same years Rs. 12,55,275, Rs. 12,39,825, and Rs. 7,79,100 on current account, and Rs. 90,53,250, Rs. 92,39,475, and Rs. 78,11,700 by way of discount. The total credit allotted to the Union (or central) banks amounted to Rs. 8,41,73,250 in 1909, to Rs. 8,73,93,150 in 1910, and to Rs. 8,28,53,400 in 1911. It may be observed, therefore, that 27.27.8, and 24.5 per cent. of the total was accorded in the respective years as credit on current account. As preferential rates—3½ per cent.—are only accorded for this kind of credit, the rates for bill and other discount being conformable, as a rule, to those prevailing in the market, the exceptional credit afforded does not attain large proportions.

These special terms are only granted to the Union or central banks undertaking to do all their business with the Bank. The preferential rates for bill discounting in 1910 and 1911 were fixed at  $\frac{1}{2}$  per cent. below the Imperial Bank rate, but at not less than the Berlin market rate. For societies only undertaking to deposit all surplus balances leaving themselves free to obtain credit elsewhere, the rate stood at  $\frac{1}{4}$  per cent. below the Imperial Bank rate. The average rates of the latter in 1909, 1910, and 1911 were 4.07 per cent., 4.38 per cent., and 4.53, while the average market rates were respectively 3.07, 3.58, and 3.69 per cent.

*Rural and Urban Business.*—The business of the Prussian Bank with agricultural organizations is far more important than that with urban organizations. The yearly averages of the credits allotted to the latter on current account in 1909, 1910, and 1911 were Rs. 19,94,160, Rs. 18,56,580, and Rs. 18,22,305 respectively, and by way of discount Rs. 77,77,320, Rs. 83,42,820, and Rs. 86,03,115; while in the same years the averages of the credits on current account allotted to the agricultural central organizations amounted to Rs. 2,16,62,475, Rs. 2,03,59,200, and Rs. 1,95,64,770, and by way of discount to Rs. 4,34,55,945, Rs. 4,62,49,950, and Rs. 4,86,21,105. The urban central banks utilise their credit with the Bank to a far larger extent than the rural; thus the average daily indebtedness of the latter during each of the six years 1906-11 was 46.55, 65.06, 46.42, 25.15, 24.69, and 37.30 per cent. of their credit, but for the same years the urban banks exhausted on a daily average 77.75, 83.79, 73.56, 69.63, 72.02, and 74.63 per cent. of their credit. The difference in extent of business is further evidenced by the facts that, for example, in 1909, 1910, and 1911 the average daily balances of the urban central banks were only Rs. 4,87,155, Rs. 5,21,820, and Rs. 4,34,670, as against Rs. 87,13,560, Rs. 82,66,500, and Rs. 49,40,910 for the rural central banks, and that the interest paid to the former on current accounts was Rs. 14,040 in 1909, Rs. 15,525 in 1910, Rs. 13,170 in 1911, as compared with Rs. 2,56,305, Rs. 2,47,680, and Rs. 1,46,625 in the three years in the case of the latter.

*Development of Business with Co-operative Union Banks.*—The growth of the business of the Bank with co-operative



societies will be seen from the following Table, which shows the business done on current account in each of the years since its creation in 1895 :—

| Financial Year.            | CURRENT ACCOUNT.                           |   | Value of Bills Discounted. |
|----------------------------|--|---|----------------------------|
|                            | Withdrawals from and Payments by the Bank. | Repayments to and Deposits with the Bank. |                            |
| To the nearest Rs. 1 lakh. |  |   |                            |
| 1895 (half-year)           | 81   | 45  | ..                         |
| 1896                       | 639  | 492                                       | ..                         |
| 1897                       | 562  | 561                                       | 323                        |
| 1898                       | 956  | 928                                       | 365                        |
| 1899                       | 1,087                                      | 1,055                                     | 417                        |
| 1900                       | 1,413                                      | 1,419                                     | 587                        |
| 1901                       | 1,702                                      | 1,815                                     | 652                        |
| 1902                       | 2,051                                      | 2,067                                     | 699                        |
| 1903                       | 2,160                                      | 2,152                                     | 594                        |
| 1904                       | 2,630                                      | 2,680                                     | 636                        |
| 1905                       | 2,998                                      | 2,842                                     | 770                        |
| 1906                       | 3,268                                      | 3,432                                     | 1,096                      |
| 1907                       | 3,851                                      | 3,830                                     | 1,624*                     |
| 1908                       | 3,768                                      | 3,945                                     | 1,166                      |
| 1909                       | 4,153                                      | 4,040                                     | 839                        |
| 1910                       | 5,461                                      | 5,472                                     | 823                        |
| 1911                       | 6,744                                      | 6,683                                     | 1,224                      |

\* The great increase shown under this head in 1907 was due to the financial crisis in the latter part of that year when central banks largely overdrew their normal credit and by the rules of the Bank had to present bills, also backed by local societies, to obtain additional credit.

*The Non-co-operative Business of the Bank.*—In order to fulfil its primary function of banker to co-operative societies, the Bank found it expedient to extend its business in other directions. By this means not only was a larger volume of deposits obtained, but more outlets for temporary investments of balances were provided. Allusion has already been made

to its immense business with the public savings banks. Their deposits have, since 1905, largely exceeded those of all other organizations combined. In the four years 1908-11 the public savings banks deposited Rs. 38,51,55,000, Rs. 51,88,98,240, Rs. 41,36,24,130, and Rs. 45,50,20,020 respectively, whereas all other deposits in the same years amounted respectively to Rs. 25,03,08,750, Rs. 34,67,29,200, Rs. 32,92,46,025, and Rs. 25,77,42,930. The loans granted to these public savings banks against the deposit of securities amounted in these years to Rs. 4,18,35,660, Rs. 4,78,78,470, Rs. 3,74,08,590, and Rs. 5,75,05,575. Regular business with other organizations is of secondary importance. The Bank operates in the money market to profit by all favourable junctures. The Stock Exchange is daily visited by its officials, and re-discounting, lending, buying, and selling stocks and shares form part of its permanent business. In illustration it may be mentioned that in 1909-11 the bank acquired on the Exchange bills to the value of Rs. 10,47,43,590. Its profits from its Stock Exchange fees and commission for orders executed in 1909-11 amounted to Rs. 54,960, Rs. 58,005, and Rs. 52,680.

The composition of the total turnover of the Bank with all customers in the six years 1906-1911 is seen in the following Table:—

| Year.  | 1906.                      | 1907.  | 1908.  | 1909.   | 1910.   | 1911.   |
|--|----------------------------|--------|--------|---------|---------|---------|
|  | To the nearest Rs. 1 lakh. |        |        |         |         |         |
| Cash Business .. ..                          | 35,746                     | 39,827 | 30,678 | 44,268  | 46,782  | 46,701  |
| Dividend Business .. ..                      | 149                        | 264    | 397    | 473     | 553     | 520     |
| Bills of Exchange .. ..                      | 4,379                      | 4,874  | 5,172  | 5,005   | 4,074   | 4,135   |
| Collection Business .. ..                    | ..                         | 377    | 542    | 795     | 673     | 1,754   |
| Cheques Cleared .. ..                        | ..                         | 54     | 87     | 117     | 126     | 147     |
| Stock Exchange Business .. ..                | 1,698                      | 1,850  | 3,776  | 4,753   | 2,681   | 3,665   |
| Loan on Security Business .. ..              | 904                        | 1,611  | 1,381  | 1,450   | 1,423   | 1,418   |
| Current Accounts .. ..                       | 7,421                      | 8,385  | 9,058  | 9,438   | 11,907  | 14,381  |
| Deposit Business .. ..                       | 7,617                      | 10,046 | 12,944 | 17,653  | 15,699  | 14,827  |
| Other Business .. ..                         | 31,428                     | 32,327 | 20,085 | 30,032  | 31,937  | 35,436  |
| Total Business (Co-operative or other) .. .. | 89,342                     | 99,615 | 84,120 | 113,984 | 115,855 | 122,984 |

*Extent of Cheap Credit.*—The Bank has succeeded in affording cheap credit even in difficult times, such as in 1907-08, so far as its credit on current account was concerned, but for bills and for loans against pledged securities its rates more or less conformed with those ruling in the open market. Its cheap credit (that is, at  $3\frac{1}{2}$  per cent.) amounted in 1910 and 1911 to 27.5 and 24.5 per cent. of the total allotted to central banks. As a rule, when the maximum credit of Rs. 37,50,000 is granted to a society, about one-third will be given on current account at the cheap rate, and the rest on bills at one-half per cent. less than the Imperial Bank rate (which is itself higher than the real market rate) if both declarations of exclusive business (already referred to) have been made. In 1911, 38 central societies had signed this two-fold declaration, while two others, which signed only the declaration regarding the deposit of surplus funds, were accorded  $\frac{1}{4}$  per cent. less than the Imperial Bank rate. Loans on effects are given at the current Bank rate. The central societies, especially those which have become strong, complain that they can obtain credit by discount in the general market at as cheap, if not cheaper rates, now that the banking world has become familiarised with the principles of co-operative banking. To obtain the preferential rates for a limited proportion of their credit, they are obliged to do all their banking business through the Prussian Bank, and to deposit all their surpluses with it. Central societies, like the Raiffeisen Central Loan Bank (down to 1911), those existing in Pomerania, Saxony, and elsewhere, working with their own resources as a rule, and requiring overdrafts for perhaps only one or two months in the year, may find it disadvantageous to accept the low rate of interest paid by the State Bank on balances. They receive 3 per cent., but they themselves may have to pay higher interest to the local societies. On the other hand societies in some provinces, especially certain Eastern provinces, find connection with the bank advantageous as a source for the credit of which they stand in frequent need.

*Rates of Interest.*—The Bank has from the beginning endeavoured to preserve stability in its rates of interest, more particularly for current account business, though as regards

rates for bills and loan-on-effects business, it is not possible for the Bank to escape the influence of the general market. From October 1st, 1895, to September 30th, 1898, it paid  $2\frac{1}{2}$  per cent. for balances on current account, and required 3 per cent. for loans to those central banks which gave the declaration of exclusive dealing both for deposits and loans; in 1898,  $2\frac{3}{4}$  per cent. was given for balances and  $3\frac{1}{2}$  per cent. charged for loans, but since 1898 the rates have remained unchanged at 3 and  $3\frac{1}{2}$  per cent. respectively. Since 1902 the preferential rates were introduced; ordinary rates (that is, for central banks not dealing exclusively with it) in general follow the rates of the Imperial Bank.

The following Table shows the rates of interest of the Prussian Co-operative Bank, of the Imperial Bank, and of the Berlin Exchange for ten years:—

| Year.<br>April 1st to<br>31st March. | AVERAGE RATES OF THE PRUSSIAN BANK. |                |        |  | AVERAGE RATES OF THE IMPERIAL BANK. |                             | Average Berlin Market Rate. |
|--------------------------------------|-------------------------------------|----------------|--------|--|-------------------------------------|-----------------------------|-----------------------------|
|                                      | Preferential Rates of Interest.     |                |        | Rate of Interest for Loans on Effects. (Lombard) | Bills.                              | Loans on Effects. (Lombard) |                             |
|                                      | On Current Accounts.                |                | Bills. |  |                                     |                             |                             |
|                                      | Balances.                           | Loans.         |        |  |                                     |                             |                             |
| 1902 ..                              | 3                                   | $3\frac{1}{2}$ | 3'33   | 4'42   | 3'42                                | 4'42                        | 2'27                        |
| 1903 ..                              | 3                                   | $3\frac{1}{2}$ | 3'70   | 4'91   | 3'91                                | 4'91                        | 3'17                        |
| 1904 ..                              | 3                                   | $3\frac{1}{2}$ | 3'82   | 5'13   | 4'13                                | 5'13                        | 2'96                        |
| 1905 ..                              | 3                                   | $3\frac{1}{2}$ | 3'89   | 5'20   | 4'20                                | 5'20                        | 3'23                        |
| 1906 ..                              | 3                                   | $3\frac{1}{2}$ | 4'38   | 6'41   | 5'41                                | 6'41                        | 4'35                        |
| 1907 ..                              | 3                                   | $3\frac{1}{2}$ | 5'38   | 7'01   | 6'01                                | 7'01                        | 5'02                        |
| 1908 ..                              | 3                                   | $3\frac{1}{2}$ | 3'67   | 5'17   | 4'17                                | 5'17                        | 2'94                        |
| 1909 ..                              | 3                                   | $3\frac{1}{2}$ | 3'66   | 5'07   | 4'07                                | 5'07                        | 3'07                        |
| 1910 ..                              | 3                                   | $3\frac{1}{2}$ | 3'97   | 5'38   | 4'38                                | 5'38                        | 3'58                        |
| 1911 ..                              | 3                                   | $3\frac{1}{2}$ | 4'09   | 5'50   | 4'50                                | 5'50                        | 3'69                        |

*Profits of Bank.*—For the years 1895-1899 the full rate of interest upon the share capital as fixed by the Act, which was 3 per cent., was not paid, the total divisible profits for each of

these years having amounted respectively to 1·79, 1·46, 3·73, 0·61, and 1·52 per cent. of the capital. Since 1899, except for the years 1906 and 1907, when 1·09 and 1·49 per cent. were paid as dividends, the statutory dividends have always been met out of profits, the total divisible profits for the twelve years 1900-11 being : 4·61, 4·78, 4·83, 4·70, 4·39, 3·80, 1·36, 1·86, 4·59, 4·57, 5·01, and 4·42 per cent. of the share capital. The nature of the business of the Bank to a certain extent handicaps it in the use of its capital. In this connection it is stated that owing to its system of open credit, based on liability, the Bank deems it prudent to invest about three-eighths of its owned capital in securities of the first class, which are realisable or pledgable, but which only yield about 3 per cent. net profit. The general reserves formed from profits since 1895 amounted in 1911 to Rs. 56,25,000.

*Cost of Administration.*—The expenses of administration have been kept at a low figure. In the twelve years 1900-1911 they amounted to the following percentages of the foundation capital : ·45, ·53, ·65, ·80, ·88, ·97, 1·06, 1·18, 1·32, 1·21, 1·08, and 1·22. The actual sums thus expended in 1909, 1910, and 1911 were Rs. 5,24,295, Rs. 6,15,705, and Rs. 6,93,390; in these amounts were included in their respective years sums of Rs. 21,885, Rs. 40,545, and Rs. 96,660, which were paid in taxes.

### (iii) ATTITUDE OF CO-OPERATIVE ORGANIZATIONS.

*The Imperial Federation.*—The relations of the two great Agricultural Federations with the Bank have undergone changes. In 1894 the Congress of the Imperial Federation of Agricultural Co-operative Societies discussed the question of a central banking institution, and a motion was proposed that the Imperial Bank should be approached with a view to the establishment of a special account for the central banks, into which the latter should pay their surpluses and from which they should borrow. But the Imperial Bank being judged unsuitable, a resolution was passed calling upon the Federation to take steps to create a special central bank. A memorandum published later by the Federation suggested the establishment

of a German Agricultural Bank, under the legal form of a co-operative society with limited liability. As regards the Government proposals, which were produced about this time, the Federation expressed the view that it would be preferable for the State to participate, as a sleeping partner, with Rs. 37,50,000 in 3 per cent. bonds in a central bank, to be created by the existing central banks, under the form of a co-operative society with limited liability. Upon its establishment, however, the Prussian Bank was welcomed by the Federation, which suggested that its sphere of operations should be extended to include the Empire. Three years later dissatisfaction arose. The previous regulations concerning business with the central societies were replaced in April, 1898, by a more stringent evaluation of the credit bases and of the allotment of credit; these new regulations were stated to have been drawn up by the Bank without consultation with its Co-operative Advisory Committee. In the same year, to the chagrin of the central banks, the rate of interest for loans was raised to four per cent. Discontent found loud expression at the Congress held in Carlsruhe, where it was asserted that the Bank adopted the attitude of a supervising official authority towards the central banks; and a resolution was adopted by a large majority to the effect that the Federation recommended the central banks to enter into negotiations with a view to creating their own banking centre and called upon the President to take the necessary steps for the foundation of a German Central Co-operative Bank. This central institution, under the title of the Imperial Co-operative Bank, was founded in 1902 by the transformation of a supply society into a bank, which was to combine banking with supply and sale business. The Prussian Bank thereupon gave the Prussian central societies the option of doing either all or none of their business with it. Owing to the comparative weakness of capital of the new Bank the societies could not hesitate in their decision, and the Imperial Co-operative Bank agreed to renounce all banking and credit business with Prussian societies. The latter have availed themselves largely of the services of the Prussian Bank down to the present time. At the end of the financial year 1911, 32 rural central banks were accorded credit on current

account by the Bank, 20 receiving preferential rates, while of 29 which were granted credit for bill discounting, 25 obtained preferential rates. Of the more important Prussian central banks serving agricultural societies, all are subscribers to the agreement as to exclusive dealing except those of Halle and Kiel ; the latter never signed the agreement, and the former has since renounced its acceptance of it.

*Raiffeisen Federation.*—The second great Agricultural Federation, founded by Raiffeisen, and known as the General or Neuweid Federation, declared in 1895, with reference to the State Bank then about to be created, that “the Raiffeisen societies of the Neuweid Federation have established out of their own resources, a clearing centre, a central loan bank, which is fully equal to the needs of the societies. For this reason the Raiffeisen societies observe a non-committal attitude towards the proposals of the Prussian Government to create a State Central Bank for the regulation of personal credit for agriculturists and artisans. The General Council of the Central Loan Bank is instructed, in the event of negotiations with the Government, to safeguard first and foremost the complete independence of its own existing organization.”

The Federation was unwilling that the business of its central bank should be subjected to the inspection of the State Bank, or that it should become merely an agent for the transfer of monies between its societies and the Bank. In November, 1895, the Prussian Bank, in a letter to the Central Bank, declared that “the interest of the Prussian Central Co-operative Bank in the organization, government, business operations, and supervision of the Union banks is limited to the safety of the credits granted. In this respect the regular transmission of the official balance sheets by the Central Loan Bank will suffice. No influence shall be exercised by the Bank upon the application of the credit obtained from it, nor upon the amount of interest charged by the Central Loan Bank. The Prussian Bank notes that the Agricultural Central Loan Bank reserves to itself the right to maintain business relations with other banks. Taking into account this reservation on the one hand, and the assets of which we have taken cognizance on the other, we

accord an open credit of Rs. 11,25,000 on current account ; if suitable securities are deposited an additional credit corresponding with their value will be granted." The open credit was afterwards successively raised to Rs. 18,00,000, to Rs. 30,00,000, and later to Rs. 45,00,000. The credit obtained by lodging of securities, etc., reached, in addition, large amounts. In 1898 the new business regulations applied to the Raiffeisen Central Loan Bank as to all other central banks, and in 1902 the present business regulations came into operation.

The next important alteration in business relations was the agreement made in 1905, which arranged for the participation of the Central Loan Bank in the capital of the State Bank to the extent of Rs. 15,00,000, only one-quarter of which was to be paid up, until such time, as provided by an amendment of the Act of 1895, as a dividend of  $3\frac{1}{2}$  per cent. should be paid on capital ; from April 1st, 1905, the cash and credit business of all the Prussian central banks formerly carried on by the Central Loan Bank was to be transferred to the Prussian Bank, in so far as it might be found feasible. During such time as the Central Loan Bank held part of the capital of the State Bank—an arrangement which might be dissolved by mutual consent—the Prussian Bank was to accord a credit of Rs. 30,00,000 on current account at preferential rates, but it was provided that the amount of the total credit on current account was, in general, not to exceed Rs. 45,00,000. Although the Central Loan Bank gave the double declaration of exclusive dealing with the Prussian Bank, it was agreed that so long as there was to its credit an excess of Rs. 15,00,000 over the amount of credit on current account which had been exhausted, the Loan Bank was free to invest the excess elsewhere. It was also stipulated that the Central Loan Bank, as well as all suitable affiliated credit societies, so far as their own districts were concerned, should undertake to conduct the business of clearing and collecting bills and cheques. In 1907 the Central Loan Bank pledged itself not to carry on any business with the Imperial Co-operative Bank, either directly or indirectly. In 1910 there was a change in the administration of the Neuweid organization, its seat of business having already



been moved to Berlin for the purpose of being closer to the money market ; and differences arose. The main points of difference which emerged related to (1) the investment of balances in the regular business of the Central Loan Bank, (2) the execution of its stock exchange business, (3) the collection or clearing of cheques and bills by its affiliated local co-operative societies, and (4) the business relations of the Central Loan Bank with other co-operative organizations.

The Prussian Bank only allows interest at the rate of 3 per cent. upon balances, and the Central Loan Bank complained that this was not so high a rate as was obtainable on absolutely secure investments elsewhere, contending that such conditions might not be unfavourable for needy banks, but were disadvantageous for banks which, like itself, worked in the main with good balances. It was, in fact, a question of existence for the Central Loan Bank ; it could not afford to pay continuously 3 to 3½ per cent. to its depositors and to receive only 3 per cent. on its own deposits. Negotiations lasted from November, 1910, till April, 1911. The Central Loan Bank asked that its special position as a society with 4,000 co-operative societies as members, and extending over the whole of Germany should be recognized, and requested more favourable terms.

*Rupture of Relations.*—Finally, upon the proposal of the State Bank to place the Central Loan Bank in the category of non-central organizations, which would have given them a position even more unfavourable than the ordinary central banks, and to charge 1 per cent. on the larger side of their account, which the Central Loan Bank declared would mean a charge of some Rs. 82,500 per annum, the Central Loan Bank withdrew from all business relations with the State Bank. The latter had also required, as a condition precedent to the continuance of business relations, that the Central Loan Bank should sign a specific declaration drawn up by it which, in the judgment of the management of the Central Loan Bank—the same view was publicly expressed by other independent co-operative organizations—was a clear violation of the independence of the Raiffeisen organization as regards the conduct of its internal affairs.

Financial arrangements have since been entered into with the Dresdner Bank (by which the Central Bank of the Schulze-Delitzsch societies had been absorbed in 1904) to take the place of the Prussian Bank as a powerful banking institution to which recourse might be had in case of need. The withdrawal of the societies of the Raiffeisen organization reduces by about one-third the number of agricultural co-operative societies doing business with the State Bank, and removes some of the oldest, most efficient, and prosperous credit societies from its connection.

*Other Co-operative Organizations.*—The other larger co-operative organizations, of which there are three—the General Federation of Co-operative Societies based on Self-Help (founded by Schulze-Delitzsch), the Central Federation of Co-operative Industrial Societies, and the Federation of Distribution Societies (*i.e.*, the German Co-operative Wholesale Society)—adopt divergent attitudes towards State credit. The General Federation has always been opposed to it, as contrary to the spirit which is expressed by its own title, though a few individual sections such as those in East Prussia and Schleswig-Holstein (which are in predominantly agricultural districts) maintain relations with the State Bank. Apart from every other cause, the banks of the Schulze-Delitzsch connection do not, in fact, need such assistance as the Prussian Bank would afford. They are established in towns; they generally have large shares, large reserves, abundant deposits and skilled management, and, therefore, are in an independent position in the market. United to a provincial central bank, and through it to the Prussian Bank, they would be liable to be hampered in their business; to gain any advantage they must, when credit was required, undertake to deal exclusively with the provincial central bank for loans and deposits, and at the same time such credit obtained through the provincial central bank would be hardly cheaper than the ordinary credit open to them, as highly developed credit organizations, in the business world. The Federation of Co-operative Industrial Societies works in close relations with the Prussian Bank, and an official of the Bank is one of its leading directors. It included in 1910 some 380 credit societies

with 70,000 members. A large number of these societies have been created to promote the interest of special trades, such as those of bakers, butchers, and shoemakers, while others, such as building societies, exist for other definite special purposes. But the principle of narrowing the range of potential members and forming water-tight compartments in banking matters is against all experience; abundance or stringency are likely to occur at the same time for the same trading classes. This is a marked characteristic of agricultural societies, even though they embrace not only agriculturists but all kinds of tradespeople within the particular rural area. All the credit societies in this Federation are not, however, restricted to special trades, and there are some large banks affiliated, which, working, as a rule, on the principles of Schulze-Delitzsch, utilise the Prussian Bank. The Federation of Distributive Societies, which has its head-quarters at Hamburg, is not in business relations with the Prussian Bank.

*Attitude of State Bank.*—The general attitude of the State Bank appears to be that the central banks should be organized on the basis of provincial independence and that they should be in direct relations with itself. The existence of any such central bank as the Raiffeisen Central Loan Bank is looked upon as involving a duplication of functions, and the interposition of a superfluous body between the Prussian Bank and the provincial central bank. Such a central institution it regards as a sort of competitor, which, if allowed to gather sufficient strength, would eventually render the State Bank superfluous. That such a consummation was not in harmony with its views came to the surface in 1911, when the Central Loan Bank—the strongest of all the central banks—made a provisional arrangement with the Imperial Co-operative Bank. The State Bank at once declared that it would cease business with the Central Loan Bank if any such arrangement were made. The relations contemplated between the two Banks even for minor purposes appeared to contain the germs of a large central co-operative bank extending over the Empire, and perhaps finally leading to the supersession of the

Prussian Bank, in so far as co-operative business was concerned.

*Grounds of Complaint.*—Incidental references to the grounds of complaint alleged in various quarters have already been made, and from such references it will be gathered that there exists in a large part of the co-operative world a certain dissatisfaction with the Prussian Bank. The central banks which have grown strong complain of the low rate of interest which they receive for balances, and that if they desire to obtain preferential rates—which alone offer any advantages over current market rates—they must transact all business as regards depositing and borrowing with the Prussian Bank. They must deposit, therefore, their balance at 3 per cent., whereas they could get perhaps 4 per cent. elsewhere. This circumstance is obviously disadvantageous to central banks which have considerable capital and reserves. These banks are in a position to obtain credit on as good terms as other sound banks, and now that the principles and practice of co-operative banking are fully understood in commercial circles, ordinary banking institutions are quite willing to deal with them. Agricultural credit societies tend to receive considerable supplies of money for four or five months, though perhaps in need of it during the other months of the year; during the months of abundance they only receive 3 per cent. interest from the Prussian Bank, whereas they might obtain 4 or at times even up to 5 per cent. elsewhere. The weaker central banks, on the other hand, find the State Bank of immense service. Being in more or less constant need of money they have a not inconsiderable credit always open to them at a low rate of interest, and they have little occasion to complain of low interest on deposits.

It is also felt that, as a result of the foundation of the State Bank, the sovereignty over Prussian co-operative credit has been taken out of the hands of co-operators: that office has been assumed by the State. It is sometimes urged that the State Bank is too bureaucratic in its methods; that it is not sufficiently elastic in its administration; and that it requires extremely minute and detailed information as a basis for its

granting of credits. Finally, there is the fact that the banking profits of a successful great central co-operative bank would return to co-operation, whereas under present conditions any resultant profits accrue to the State.

How far these objections are valid it is impossible for a foreign enquirer to say, but in some instances, at all events, their justification will be dependent upon the point of view. As to the minuteness and frequency of the information required by the Bank it does not appear that it exceeds in this respect the practice of ordinary banks which are bound to examine thoroughly the security offered by their borrowers. As this security in the case of the co-operative societies rests mainly upon a collective liability, the unit values of which are subject to change (*e.g.*, by retirement of members), and as it is not an immediately realizable security, additional circumspection is to be expected. The question of a low rate of interest for deposits is, of course, closely bound up with that of low rates for credit, and the more prosperous central banks needing few or no credits are sacrificing some advantage for the benefit of the weaker sister institutions. From a purely business point of view the State Bank is distinctly advantageous to the former for two principal reasons: in the first place, their connection with the State Bank procures for them of itself a certain measure of confidence among the country population and helps to attract deposits, which constitute the largest part of their working capital; and, in the second place, while in ordinary times they may be able to work with little or no outside capital (or could, if not in connection with the Prussian Bank, obtain equally good terms from ordinary banks), they wish to be able, in times of financial stringency, to avail themselves of that amount of credit allotted to them by the Bank at preferential rates, when their own resources would be insufficient, or not realizable without considerable loss, and when ordinary market rates would be far higher. *In course of time, however, there is no reason why the majority of central banks should not amass sufficient capital and reserves to be capable of forming a great central bank and of asserting eventually, without danger, their complete independence of State aid.*

(iv) SERVICES OF THE BANK TO AGRICULTURAL  
CO-OPERATION.

No single factor has perhaps more signally contributed to the spread and internal development of agricultural co-operation in Prussia, and, indirectly by its example and influence, in the rest of Germany, than the Prussian Bank. It was created at a most opportune period—when the profits of agriculture had been greatly reduced and general depression was severely felt. It systematized for credit purposes the principle of liability upon which the whole co-operative structure of credit was built, and made all societies eligible for credit upon this basis. Being an efficient institution, with capital and with prestige in the money market, it constituted for co-operative societies a channel for credit, and by its facilities it accelerated their increase. Through its principle of dealing on special terms only with unions of societies, the formation of central provincial banks was stimulated, and their foundation or strengthening exercised a strong influence upon the increase and development of local societies. Proper business methods were impressed upon the central societies—it is a constant source of difficulty in co-operation that its leaders are apt to have much enthusiasm but little expert knowledge or business thoroughness, while the conditions often do not permit the payment of the wages of ability—and through them upon the affiliated societies.

The Bank has thus been instrumental in no small measure in securing supplementary working capital for small and medium farmers on the same terms as for traders. But its greatest economic success consists in the fact that it has served to collect and concentrate the monetary returns of agriculturists and to employ them profitably on their behalf while providing for their redistribution at need. As a result of Prussian co-operative organization for purposes of agricultural credit, with the Prussian Bank at its head, the circulation of money, which tends to pass from the country into the towns and to be brought back through several profit-seeking intermediaries, is effected to a great extent within the district in which the value is created, to the advantage of the industry producing it.

Although Prussia alone has created a special State Bank to serve as a central banking institution for co-operative societies, other States in the Empire have given no inconsiderable support in other forms to central co-operative banks. In this respect Bavaria has been conspicuous; the Government has advanced to the Bavarian Central Loan Bank a total of Rs. 30,00,000 at 3 per cent. as working capital, has obtained for it, at very favourable rates from the Royal Bank, a constant credit on current account up to Rs. 7,50,000 (against proper security), and has given grants towards expenses. Advances up to fixed amounts at specially low rates, or grants towards expenses, or both, have also been accorded to the agricultural central societies by the State in Baden, Saxony, Wurtemberg, and Alsace-Lorraine.

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## CHAPTER II.

### RURAL CREDIT IN ROUMANIA—RURAL CREDIT IN JAPAN.

#### *D.—Roumania.*

THERE are, in Roumania, very few co-operative societies for purposes other than credit, and for such as there are, no statistics are available. Moreover, all productive and distributive societies are co-operative only in name. They are really joint-stock companies registered for reasons of convenience as "co-operative societies" under the Roumanian Commercial Code, which is nothing but a copy of the Italian Code which, in its turn, is a copy of the French. In Roumania, provided a society places no limitations on its capital and membership, it may be registered under the Commercial Code as a "co-operative society;" but in societies so registered there is nothing that can be called co-operative. For the following very interesting account of co-operative credit societies in Roumania I am indebted to Mons. J. G. Duca. "I will now confine myself to co-operative credit societies only, and more particularly to agricultural credit societies which have made wonderful strides in Roumania. From our statistics you will find that in 1890

Roumania possessed not a single co-operative credit society, that in 1891 it had only one, in 1899 scarcely 20, but in 1900 already 44. In 1904, the number stood at 1,580, with a capital, collectively, of Rs. 36 lakhs, without counting deposits. On the 1st January, 1909, there were in Roumania 2,410 rural societies, with 346,707 members, 317,554 of whom were *bonâ fide* peasants, 5,864 village tradesmen, 5,953 village artisans, 7,965 Government and municipal employees, 2,151 large landed proprietors, 3,323 priests, and 3,897 schoolmasters. In 1908 only 269,375 *bonâ fide* peasants were enrolled in membership. Within one year (1908-09) paid up share capital increased by about 30 per cent. and represented about 77 per cent. of the total working capital.

Now how are we to account for such rapid advance? Has it been produced by artificial means, or have we a genuine co-operative movement before us, called forth by genuine social wants?

Our co-operative movement, I can assure you, has nothing artificial or of a hot-house character about it. It really arises from a plainly felt social want, because the question of popular credit has assumed in Roumania an importance more pressing than in any other country of Europe. Up to 1864, the great majority of the Roumanian peasantry, which accounts for more than three-fourths of the total Roumanian population, were without any proprietary rights whatever in the land which they tilled, and on which they lived. They were practically serfs, bound to supply a fixed amount of labour for their landlords, who, in return, were bound on their part to provide sufficient land for them to maintain their family and their cattle. In 1864, however, Roumania gave by law to every one of her peasants a portion of freehold land. The holdings vary from about  $3\frac{1}{2}$  to 15 acres. By such means an independent peasant proprietary was created. It is easy to understand how, after that, the question of popular credit came at once to the front, and that it became all the more pressing because the change was altogether sudden and no sort of preparation had been made for it, nor was any period of transition allowed. And its urgency became even still considerably greater when Roumania advanced



economically by leaps and bounds, as it did from that period forward, becoming a country of large agricultural production, and all but doubling its population in something like thirty years. Roumania was a young country, without any economic past, without any sound financial institutions, without any accumulations of popular thrift. The peasantry required credit to be able to carry on their calling. The only way in which they could actually obtain such, as matters stood, was to go for it to such of their neighbours as had, as a result either of greater forethought or else of keener avarice than they themselves possessed, accumulated a small hoard, and, circumstances being favourable, as a matter of course, were quite willing to increase it as fast as possible. It is thus that usury came to overspread the land, marked by a degree of rapacity which it is painful to contemplate. One does not like owing to the presence of such base and inhuman exploiting of one set of men by another in large proportions in one's own country. But I owe it to truth to tell that in Roumania usury grew more rife than in almost any country. 63 per cent. was in the villages the current rate of interest, and frequent cases have been known of 100, 200, and even 500 per cent. being exacted.

Here was a state of things too pregnant with mischief to be ignored by the Government, which ever since 1881 has made it its endeavour to find a remedy by the introduction of agricultural credit. However, the measures taken by the Government have proved ineffective, because the agricultural credit created was pledge credit only, which, as you are all aware, is a kind of credit alike burdensome and of questionable value. It deprives those of credit who need it most, that is, the very poor. And it places a considerable portion of national property, so to speak, under lock and key, within the tenacious grip of a "dead hand," so as necessarily to paralyse economic progress by hindering the free exchange of goods. I would go further and contend that it is immoral credit, for it does not inquire into the object for which money is borrowed, nor does it supervise the employment of the money. It is calculated to tempt borrowers to practise fraud, because it asks of them something that is in many cases impossible, that is, not to dispose of what

they have pledged. I affirm without fear of contradiction that in Roumania, although happily the State has not suffered any material damage under this head, a large proportion of the property pledged as security for agricultural credit is purely fictitious—not because the agricultural population of Roumania is less honest than that of other countries, but because in the present day there are wants to be satisfied which are not to be met in the old way.

Seeing, then, that the State was powerless to deal adequately with the question of popular credit by legislation, and that the continued existence of rapacious usury made the discovery of a remedy more urgent from day to day, our agricultural population instinctively turned to co-operation and sought there the remedy which the State could not provide. This is a very important point indeed in my story, and I beg you to take note of it. In little villages high up in the Carpathians, amid snowy peaks, or else in the wide, sparsely peopled plains watered by the Danube, schoolmasters and priests, quite of their own accord, without any suggestion from any one, stimulated to such action simply by what they had read about similar work accomplished elsewhere with the help of co-operative banks—most notably in Italy and in Transylvania—set to work to raise up institutions of the same kind in their own little hamlets. It was not till long afterwards, after, to the general surprise of every one, it had been discovered that there were already about forty such banks in Roumania, of whose existence no one had had the slightest inkling, that the Government stepped in to provide help. Now I beg you to remark this. When one sees a movement of this kind springing up in a great country, where education is advanced, where the means for propaganda are plentiful, and where there is a disposition to private action, there is nothing to surprise him in the fact. However, here is a small country, undeveloped, with education in economics scarcely existent.

The State interfered at the outset only by promoting active propaganda, in order that by such means the largest possible number of co-operative societies might be formed in a short time. However, in April 1903 it passed a law which, in addition to

facilitating the formation of co-operative banks and societies by more favourable provisions, and exemption from taxation, decreed the creation of a central bank, which was to provide the necessary funds to advance to co-operative banks for meeting the requirements of their business, and also to exercise over them salutary control and supervision. The Government even reserved power to itself to dismiss officers of societies found, by the Government Inspectors, guilty of malpractices. Tolerably large powers are conferred upon the central bank under the latter head, but it ought to be pointed out that they are so applied as not in any way to interfere with the internal management of societies by their own members. They leave the societies entirely their own masters, because the societies are still governed by their own committees of management, in accordance with their own rules. And I may even add, as being an officer of the central bank, we are most anxious to be well rid of our supervision as early as can be managed. Our local banks and societies are still too young and too much wanting in inherent strength to be able to stand unsupported against the enemies surrounding them. But I want it to be understood that, although we hold a sceptre, it is a sceptre which we do not by any means prize, and one that we are only too ready to surrender at any time into other competent hands, as soon as there are such strong enough to be able to wield it. And, generally, the object with which we exercise our powers is educational. The majority of our banks are small. Their capital is usually small and they are weak. They still want to be advised, their officers want to be trained, they want to be taught book-keeping by double entry, their co-operative spirit wants to be stimulated. To supply these wants the State has during the past two years grudged no sacrifice. We have organized conferences for discussion in all our towns, we have prepared special sets of account books, we have issued pamphlets giving instruction, we have convoked a Congress. Moreover, we issue a bimensuel bulletin, which may be said to be the official organ of the movement.

However, do not believe that I want simply to blow the trumpet of my own institution. We are quite aware of the

difficulties attending our work, and we know that they are numerous. We know that the first requirement for any bank, if it is to maintain itself and to progress, is a good dependable staff. Well, the great drawback to our co-operative banking in Roumania in the present day is that there are people at the head of our local co-operative banks who have other work to do, that is, priests and local mayors, and above all, school-masters, who have only little time to give up to the discharge of their banking duties. It will require considerable efforts to secure a good, competent staff for our banks. Another serious hindrance is this, that all the petty rivalries and intrigues of a village population become reflected in our little societies. It will require a long-continued effort to overcome this difficulty. Then there is the persistent, interested hostility of the usurers to contend against, who see their own power attacked and apprehend its decay. They miss no opportunity of damaging the co-operative banks. They spread abroad infamous calumnies and engage in all sorts of intrigues. Once more, there is a difficulty to surmount which is perhaps the greatest of all. The managers of banks, the committeemen, may know what co-operation means, they may inspire themselves with the true co-operative spirit, they may bring themselves to understand solidarity and co-operative morality; however, the small peasantry who carry their savings to the bank still often fail altogether to understand the true character of the institution. They have to be taught what it is, and that is a work which requires much time and pains. The cause of the backwardness of our country is the history of its development, and the chief remedy is time. If you will bear in mind that only sixty years ago Roumania was still only a geographical expression, that there were in its place two provinces, not united, and that it is scarcely twenty-five years since we conquered our independence on the battlefield and became a nation, if you will furthermore remember that our country finds itself placed as a weak power between the Ottoman Empire, whose ambition it was to conquer the West, and another great power perpetually cherishing the dream of advancing across our territory to conquer Constantinople, if you will consider what

have been for centuries past the causes of perpetual unrest and disturbance, changes and upheavals in the East, you cannot be surprised when you find that in Roumania co-operation has not developed as it has in France, in England, in Germany, or in Italy, in all those countries which have the good fortune to have centuries of civilisation and economic organization to look back upon.

And it is just because for centuries we have been left without economic organization that we now find ourselves attacked by a veritable fever for co-operation. Everywhere people want to start co-operative societies, and above all things all the world is eager to raise up prosperity in agricultural districts by means of co-operative banks. And our co-operative banks are to do everything! They are to promote common cultivation, in order to sell cereals and vegetables in common, to preserve plums in common and produce wine in common, to rent land in common, purchase large estates, etc. When ambitious schemes of this sort run riot in men's minds in this fashion, it is for the State to interfere in order, not to encourage, but to restrain. We do not by any means disapprove of distributive or productive enterprises. But we know that our co-operative banks are at the present time not yet sufficiently strong to undertake all this work, any work, in fact, beyond their own banking. Our aim, our object, is to have co-operative societies formed by the side of the banks, and all around them, for production and distribution, which, if they want money, will have the banks to go to for assistance, but which must be kept entirely independent of the banks, quite distinct organizations. And we are endeavouring to make the co-operative societies which we have in our villages the centres of other co-operative enterprise. For the moment we have nothing to tell of in this way that has been actually attempted except a few experimental grain-storage societies and some co-operative farms. The latter are very interesting. Whole villages combine to provide the common capital, rent a farm, and cultivate it in common, sharing all the expenses and sharing also the profits, and by this means managing to keep out the middleman, that is, the farmer.

Looking at all this, we are fully aware that here we have before us a very wide field to cultivate, and that objects so numerous and so varied cannot be attained otherwise than by slow degrees, with caution presiding over effort. We struggle on with all the greater energy, being all the more ready to make sacrifices in this cause, because we are certain that co-operation, which is accepted as a necessary solution of great economic problems in countries of ancient civilisation, is even less to be dispensed with in Roumania. In truth, thrown into the whirl of civilisation and of economic struggles, Roumania, if she is to maintain herself, and to resist danger and gather strength, stands in need of uniting all her forces, of cultivating all her energies, in order to make sure of her well-being by adopting not merely the form, but also the spirit of co-operation."

Between 1902 and 1911 the number of registered societies in Roumania increased from 700 to 2,750, and membership from 59,618 to 510,118. Of this 510,118 more than 90 per cent. were peasants, 3,823 were priests, 4,801 were schoolmasters, and 9,253 were small tradesmen. More than 250,000 members could neither read nor write.

#### *E.—Japan.*

Co-operation is of very old standing in Japan, and is much appreciated and freely practised. The most ancient form known is that for the co-operative sale of silk. Some of the societies of this type, still flourishing, can trace back their history for 240 years. Another peculiar form of co-operation dates from the third decade of the nineteenth century. It is the creation of a distinguished economist and philanthropist, very much held in honour, who in his lifetime went by the name of Ninomiya Kinjiro, but has since his death been re-named Ninomiya Sontaku. There is a striking resemblance between some of these purely Japanese societies and those formed by Raiffeisen. Thus they place social and moral good above economic benefits. They make it their aim to help the very poor, placing merit and honesty, also good employment of the loan, above material security. They forbid salaried service, laying it down that social work should not be remunerated. They also grant loans

for long periods, five, seven, and ten years. They attach the utmost importance to thrift, inasmuch as they compel their members to save from their incomes. Thrift is the root-idea of the whole system; save, and you will be able to improve yourself, your district, your country, encourage the deserving by rewards, help the distressed, and add to the wealth of the community. Good conduct is an essential condition of membership. Persons who "despise the gods or Providence, or who show want of respect to the Government; who are bankrupt because of idleness or extravagance, or who, actuated by self-interest, pretend to work for the good of others," are mercilessly excluded. While in the society a member is expected to lead a life of frugality, order, high moral tone, and peace, laying by all he can spare out of his income. This money goes into a special fund of the society (*hoto-kusha*)\* called "general deposits," where it earns its owner no interest; but on leaving the society, which a member is free to do at any time if he owes nothing to it, the money may be withdrawn. In addition members are allowed and, in fact, expected to make "special deposits" which carry 5 per cent. interest. All profits go to make up the "*dodaikin*," the equivalent of the Raiffeisen foundation fund, part of which may be invested in land. Indeed it is one of the objects of the society, impressed upon it as a moral duty, to reclaim waste land. Other leading objects, perhaps most in evidence, are, to help the needy, whether individuals or districts, to reward the deserving, to improve commercial morality, and advance social customs; and to raise the character of members and those who come into touch with them. In addition, the society grants loans to those who can make out a case, as a rule and by preference on personal security, that is on the borrower's own bond and two sureties. On such loans nominally no interest is paid, but in truth rather heavy interest is exacted after repayment of the loan in the shape of a "thank-offering." The societies are thoroughly well organized. They have their presidents, vice-presidents, boards of management, each with its own chairman and secretary; there are, also,

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\* *iii.* "Gratitude Society."

regular inspectors and travelling instructors. The greatest value is attached to periodical inspection, which is strict, and also to the teaching of co-operative principles, and to propagandist work. Even in 1904 local societies had, in many cases, combined to form unions, and central societies had also been formed. In 1890 there were known to exist in Japan 618 co-operative societies, with 18,980 members; in 1898 (the returns prior to the year 1900 cannot claim to be accurate), the number of societies is given as 346, with 64,388 members. The first Japanese Co-operative Societies Act was passed in 1900, the second in 1909. In 1903 there were 583 registered societies; 357 for credit, 42 for sale, 101 for distribution, 16 for production, and 67 for two or more of these purposes. 424 societies were organized with unlimited liability; 139 with limited liability; and 20 with guarantee or, as it is sometimes called, reserve liability. The Japanese law of 1909 divides registered co-operative societies into four classes:—

- (a) *Co-operative Credit Societies*: the object of which is to obtain for their members the capital necessary for their undertakings and, at the same time, to offer them an opportunity for economising.
- (b) *Co-operative Sale Societies*: the object of which is the sale of the produce to their members, submitting such produce to final manipulation or not.
- (c) *Co-operative Purchase Societies*: the object of which is the purchase of articles necessary for the industry and commerce of the members in order to sell them again to them; or even the purchase of articles of the first necessity.
- (d) *Co-operative Societies for Production*: which have for their object the submission of the produce of members to a final treatment, or to provide them with the requisites for their undertakings.

The law, in spite of the above classification, permits a co-operative society to exercise at the same time the functions of different classes.

Co-operative societies must be either (i) of unlimited liability, (ii) of liability limited to the contributions of members,



or (iii) of liability limited to a fixed amount in addition to that of the members' contributions. They are exempt from the payment of income tax and from the tax on business operations, but not, however, from registration fees.

The minimum number of members is fixed by law at seven ; and any restriction upon the number of members may not be imposed by rule or by-law. This, it must be understood, does not mean that every candidate for admission must, of necessity, be elected ; the law merely follows the German law which is designed to prevent the formation of so-called co-operative " trusts " or " rings."

The founders of a co-operative society must, in the first place, prepare the by-laws or rules. These must be approved of by the prefect, or district officer, and only with his permission may the operations of the society extend beyond a restricted area which the by-laws or rules must clearly define.

The most important part of the new law of 1909 is that relating to the Federations of Co-operative Societies and the Central Association of Co-operative Societies. This part was entirely wanting in the law of 1900. Article 76 gives express legal recognition to the union of Co-operative Societies in Federations, for the following purposes :—

- (1) To make loans to the Federated Societies and offer them the opportunity for increasing their economies (*Federations of Co-operative Credit Societies*).
- (2) To sell the produce of the Federated Societies, in such cases completing the manufacture of the produce (*Federations of Co-operative Societies for Sale*).
- (3) To sell to the Federated Societies the requisites for their undertakings, in some cases working such material before selling to members (*Federations of Co-operative Purchase Societies*).
- (4) To supply the dependent Co-operative Societies with the requisites for the undertakings of their members (*Federations of Co-operative Societies for Production*).

Further, co-operative societies for purchase, sale and production may be admitted as members of the co-operative credit

federations. This is not allowed in the other classes of federations. A federation may take the form of a co-operative society with liability limited either to the members' contributions or to a fixed amount beyond. If this latter type is adopted, the liability of the dependent societies or of the associated federations must be fixed within the limits of the amount of the members' contribution. A federation may have as members co-operative societies of corresponding type (with the exception in favour of federations of co-operative credit societies), as well as other federations of co-operative societies of the same type. The admissions and expulsions must be decided on in the general meeting of members.

As the field of the co-operative societies is generally limited to a specified area, so that of the federations is generally limited to a single province. The directors of the federations are elected at the general meeting from among the directors of the associated co-operative societies or federations, unless special considerations make it desirable to elect such functionaries from among members who have not previously been directors, in which case the election must be confirmed by Government.

Next, the law recognizes the existence of a *Central Association of Co-operative Societies*, working as a sole and central institution for the whole of Japan, both for the co-operative societies and their federations. The law defines the object of this central association, declaring that it is constituted with the object of encouraging the formation of new co-operative societies and new federations, of extending the development of those already formed, and, finally, of facilitating business relations between the societies themselves. The central association may also take part in the business of the co-operative societies, within strict limits established by Imperial Decree. Its relations to the Federations are similar to those of the Federations to the Co-operative Societies.

Now before we proceed to record recent statistics showing the marvellous development of the co-operative movement in Japan, I want to place before the student of Indian co-operation an unvarnished account of the social work which the Japanese people are doing amongst themselves in order to

develop and strengthen a spirit of association and co-operation, and thus to keep Japan abreast of all her commercial rivals. Co-operation is not a hole-and-corner affair in countries in which there is a real co-operative movement; it is not merely the creed of a few apostles without any disciples; it has, on the contrary, the support of popular effort, zeal, and self-denial, and it demands a horizon far beyond that vouchsafed to the man who cannot or will not see outside the limits of his parish, village, district, or province. Without good co-operators there can be no co-operative movement worth anything; and no Government can substitute for popular apathy and popular slackness that lively desire for better things which springs from a knowledge of the truth and from a sense of awakened responsibility. In the very first place, apathy and slackness must become unpopular. To quote the words of a famous Swiss co-operator "If the work of organizing co-operative societies is to be undertaken with lasting success, and with a sureness of aim in view, we may assume that it is necessary for the rural population to understand what the 'spirit of co-operation' means. Co-operative societies must be based on self-help, spontaneity, and the insight and joint-consciousness of all concerned in them. They demand from their members a certain mental capacity and moral qualities in no small degree. In order to awaken and bring this 'spirit' into the foreground, it does not, fortunately, always require such bitter hardship as the Pioneers of Rochdale had to endure. Experience has taught that a campaign of general education directed by a few energetic and enthusiastic men in touch with the people can accomplish a great deal. Certainly such a campaign can only hope for lasting success when directed towards a population in possession of the necessary moral and mental power. In cases where the latter is only imperfectly developed, the co-operator must have concern for the furtherance of the general efforts for the education of the people. A further very important condition for the development of co-operative societies is the adaptation of the inner organization of the societies to the special circumstances of their environment. Far from laying down any principles in this respect which would guarantee

success in advance, I should like to express it as my opinion that no such principles exist. That which has turned out well and been the cause of great success in one country may, if tried in another country, prove directly injurious. This does not by any means denote that I advocate vacillating, baseless co-operative politics. Nothing is so essential to success as working according to a definite standard. Before commencing anywhere to form co-operative societies the foundation on which they should and must be built up should be clearly thought out. However, in investigating and replying to this question, it is necessary to proceed without doctrinarian prejudice for one or the other system, without any blind preference for one or the other organization; the decision must be based, if the right way is to be found, only on objective deliberation and realistic consideration. When once an organization suitable to the circumstances, and with which the aim in view may be reached, has been found and arranged, then its principles should be firmly defended, and as nearly as possible strictly acted upon. As a means to establish in the organization this uniformity which is so essential for the development of every co-operative movement, the formation of Unions has everywhere proved excellent. For the sound development of agricultural co-operative societies the existence of Unions is a most important condition, for they form convenient centres for the sifting and working out of co-operative experience. It must never be forgotten that self-government is a fundamental principle of co-operation. The educating of the local co-operative societies to self-activity and initiative must, therefore, be the aim of every Union."

But to return to Japan. *Every village* in Japan has its own Agricultural Association and Young Men's Association. Here, it must be stated that, for purposes of greater administrative, educational, and social efficiency, the modern Japanese village is no longer a historical unit but a political unit covering a considerable district. It is a combination of clusters of hamlets or *azas*. Each of these *azas* has its local feelings, and it does not necessarily develop regard for the other hamlets with which it may be associated. If, however, anything is to be

done in the development of rural life there must be co-operation for all sorts of objects. So the spirit of association must be generated in the people of the *azas* which make up the village. Thus (for instance), one village, made up of nineteen *azas*, contains four primary schools and one advanced primary school, and a Young Men's Association with 700 members, divided up into companies of groups of *azas*. The members of the Young Men's Association drill together for half an hour before sunrise every morning in the grounds of the local Shinto shrine or of the primary school. In the evenings, they wrestle, lift weights, and indulge in gymnastics. They also possess libraries and cultivate their minds. As to working costume, the members abjure silk and fine raiment; they must wear the ordinary clothes of a Japanese cultivator and must not use the more expensive kinds of *geta*—the Japanese wooden pattens or clogs—but only the very cheapest and most simple kind. The object of all this varied discipline is to develop, first, physique, and second, the spirit of association. There is also to be seen a development of physical and mental nimbleness and also of good manners. The results, as claimed by a Japanese authority, are "that the habit of spending hours of the evening idly has died away, immorality has diminished, singing loudly and foolishly and boasting have disappeared, while punctuality and respect for age have increased. Parents, whom we would never dream of attempting to reform directly, moved by the physical and mental improvement in their sons, have cast their influence on the side of the Young Men's Associations and have begun to practise greater punctuality on their own account." There is a certain Japanese village of a thousand families which rises in the morning and goes to bed at night by the sound of the bugle. It has, amongst other institutions, five public baths and a public notice board of news "to enlarge people's ideas." The small shopkeepers are said to "work very diligently and do not take into account their own labour in transportation, so things are cheaper." There is an arrangement for the continuous education of young men who do not enter the Army. They study every Saturday evening for four years. The Young Men's Association keeps its members up to the mark

by military discipline, fencing, stone-raising, pole-twisting, and wrestling. They also exercise themselves in the composition of the short Japanese poem and in handwriting. It is reported that "the custom of spending money on sweet-stuff is decreasing." It is not only the waste of money and the possibly bad physiological effect of sweet-stuff buying which is deplored, but the fact that the girls in the sweet-stuff shops are often no better than they should be, though how these damsels manage all by themselves to become no better than they should be is not explained. The fact remains, however, that the purchase of the sweet-stuff is going down, and the buying of papers and magazines is going up. The members of this particular Young Men's Association "have burnt their *geta* and their clothes have become simpler."

Another Young Men's Association has debates between its *aza* branches. As is customary in many places, the members help with their labour when a fellow member or a school teacher builds a house. They also do repairs at the school. Excursions are made to study vegetable raising, fruit culture, or poultry keeping. The members of this Association, like the members of many others, cut each other's hair twice a month, thus at one operation practising economy and discouraging vanity. This Young Men's Association is also investigating the economic conditions of its village. Further, it has a cyclostyled monthly.

Some Associations are cultivating special varieties of rice in the grounds of Shinto shrines. One Association has issued instructions that its members when in charge of an ox-drawn cart are not to ride in the vehicle. This is because the animal, not being bridled like a horse, is not under perfect control, and may injure some one—unwittingly no doubt, for the Japanese bull in harness is very like his Indian cousin. The members of another Young Men's Association practise making five minute speeches "telling one's experience or what one has seen"—and this little touch of human nature is welcome "being more pleasant than bragging." They are counselled "not to speak vulgar words in a crowd" and "not to wear hats or coats in a room."

Diaries for moral and economical entries are distributed by several associations and "afterwards examined and rewarded." "Old people are respected and comforted" and "bad members are warned." The habit of seeing off a member departing to serve his time in the Army, with flags and music, is being abandoned under the influence of some associations, in favour of perhaps the more economical and less time-wasting plan of "writing to him as often as possible, and giving help by labour to the family which is suffering from the loss of his services." Yet another Association—and it must be understood that these illustrations are not picked out of exceptional villages in Japan, but are types taken from a single district—has a clever system of allotting so many red and black discs to each member on a board bearing their names. A meeting is held at the beginning of the year at which the members make virtuous resolutions, and another meeting at the close of the year at which account is taken of the resolutions which have been adhered to and the resolutions which have been neglected, black and red discs being awarded according to each member's strenuousness or slackness. Virtue being its own reward may, perhaps, be given a prize of a value not exceeding two annas; what happens to those whose record is one of good resolutions broken is not made public and, therefore, cannot be recorded here. A young man may make a resolution to worship at the Shinto shrine regularly, to attend the meetings of the Young Men's Association punctually, to keep his appointments, to be tidier in his house—there is a house to house inspection twice a year—to be more efficient in his work, to increase the quality of his crops, to do work for the public good, to undertake a secondary business, and so forth. Some members have made a resolution to set themselves free from besetting sins, as, for example, "remaining idly at people's houses," being "insufficiently considerate to parents or elder brothers," "failing to go to the graves of ancestors once a month," "sitting without due regard to decorum when taking meals," and "not rising early enough."

There are also Young Women's Associations. In one case, such an Association listened to lectures and studied domestic matters and good manners "asking questions and receiving

answers." The motto of the organization was "Good wives and good mothers." A member, the Association believed, should be "polite, gentle and warm-hearted, but with a strong will inside, and able to meet any difficulties." Her hair-dressing and clothes "should not be luxurious." She "must not run after fashions." Neither must she go out at night except with a lantern of the sort prescribed by the Association. The members must "respect Buddha and abandon sweet eating, for taking food between meals is bad for your health, for economy, and for your posterity."

As to early rising, here is the statement of a member of an early Rising Society. "Merely to imitate others' good work is not pleasant, but we must not be narrow-minded if we wish to serve the nation truly. Therefore, hearing of the early rising of Mutesumi village we followed its example. We thought it judicious to choose the warmest and busiest season, August and September, for the experiment. The alarm-clock for waking us was placed at the house of each member in turn, for each is in turn Secretary. The duty of the Secretary, when the alarm-clock strikes, was to get up and visit all the members' houses and call the young men until they answered. In order to make the work possible in a short time, the village was arranged in divisions. Members on rising went to the house of the Secretary for their division and wrote their names on his record of attendances, and then returned home and got to work. The duty of the Chairman of the Society was to visit the secretaries' houses, adjust the clocks, and inspect the tables of attendance. If there was any defaulter he went to see him and cautioned him. Gambling at night is a common habit in town and country, it may be temporarily suppressed, but may recur. By practising our early rising system, however, the practice is diminished. Getting up early is necessary, not only for young men, but for the chief members of a family. They cannot, however, well rise alone, but when young men get up, all get up. Sometimes, however, the alarmers mistake the hour, or sometimes their clocks have got damaged and do not alarm, so some of us may be getting up later that morning. But a more difficult thing is that a man becomes nervous of sleeping too late, gets up



very early—it may be at 3 o'clock—and, afraid that his clock is wrong, goes off to awaken members. Then there are complaints. Some cunning fellows also ask friends or brothers to write down for them their names on the list of attendances. But you can find out their deceit by their handwriting. It is very difficult to form the habit of early rising, because on a rainy day members are not expected to go to the secretaries' houses to report. So as there is no control over them that day, they become quite easy-minded and sleep on; thus they break the habit of getting up early. When attendance gradually decreases some rewards and punishments are necessary. After the trial in the warm weather an experiment was made in November, but it was not carried into December. Having heard, however, that the young men of the next village were training themselves in discipline and exercises, we were impressed. We thought, however, that if you do fencing and wrestling early in the morning you will get tired, and so in January we were satisfied only to get up early. But when we saw that discipline and those exercises in the neighbouring village, we felt that the united movements cultivated unconsciously the spirit of association and obedience, also the spirit of patriotism: so now we do the discipline and exercises as well as get up. You may say this is a great deal to ask from young men, *but if you are asking for comfortable practices only, how can a remarkable result be expected? Young men should think truly over this and exert themselves.* The way we went to work was to have early rising and exercises twice a week in the winter, then three times a week, next every other day, now every day.

It took the secretaries much time to call up every member in the morning by their voices, so they got trumpets. But even the trumpets could not be heard everywhere, so they were changed to a drum, and now five drums go round. In the twilight, when seventy or eighty young men are assembled, it is difficult to discern who is there and who is not, so we at last arranged to assemble in a number of places for the roll to be called and then to proceed to the school ground to do our exercises together. Our latest plan also provides for keeping

the clocks and drums at the Chairman's house. The secretaries call overnight for the clocks and in the morning for the drums. This is a check on irregular awakening. Just now our attendance is very good ; but this is only the tenth month of the year."

There are societies for the cultivation of rice, the members of which are schoolboys. Each lad becomes responsible for the cultivation of a *tan*, that is one-tenth of an acre, of their family land. This they work themselves with the help of such advice as the schoolmaster gives them. In Japan, the cultivation of a *tan* of rice is supposed to need 20 days' labour from a man working from sunrise to sunset. Here is the work diary of a boy between fourteen and fifteen years of age :—

|                |    |                                      |
|----------------|----|--------------------------------------|
| June 5th       | .. | Fish manure applied.                 |
| June 7th       | .. | Locusts and other insects arrive.    |
| June 20th      | .. | 153 clumps of rice transplanted.     |
| July 11th      | .. | Cultivation and fish manure.         |
| July 27th      | .. | First weeding.                       |
| August 6th     | .. | Second weeding.                      |
| August 8th     | .. | Locusts.                             |
| August 11th    | .. | Third weeding.                       |
| September 10th | .. | All ears shot.                       |
| October 10th   | .. | Some plants suffering from bacillus. |

The boy notes that the soil was sandy, that cold spring water was percolating, that the aeration of the soil was bad, and that some plants were laid by wind ; and he appends a map of the plot. Marks were awarded to him as follows : method of planting, 15 ; levelling, 20 ; care against insects, 5 ; general attention, 25 ; total, 65. Some boys got 99 marks.

Here, again, is a case in which the inhabitants of a village are raising a fund, entirely on their own initiative, to be devoted to village improvements of a public kind. The inhabitants contribute according to the following tariff :—

On the birth of a child, 2 annas ; for a wedding or for the adoption of a son, 2 annas 6 pies ; on the graduation of a boy

(a) from the primary school, 2 annas, (b) from the advanced school, 4 annas ; a teacher or official on his appointment, 2 per cent. of his salary, and on increase of his salary, 10 per cent. of the increase. In addition, on all money rewards gained by officials for specially good work, 5 per cent., and every villager to pay quarterly, one anna. On the basis of this assessment it is expected that the village will, in 57 years, own a fund of Rs. 4,20,000 the income from which will be considerable.

Turning to the work of the Village Agricultural Associations, we find one, in a village of less than 6,000 persons, which can point to "322 good manure houses as the fruit of its labours." The building of these houses has been encouraged, and is still being encouraged, by means of a free design and the grant of Re. 1-8. It appears to cost Rs. 37-8 to build a 12 mat manure house—a mat is 4 feet ; but 20 per cent. of the cost can be saved by getting materials from the Association. Then the Association urges its members to cement the ground below their dwelling houses—this not so much for the health of the farmer and his family as for that of the silkworms reared in the house. A fly, harmful to silkworms, winters in the soil, but cannot find a resting-place in concrete. Again, there used to be no cattle in the village, but now, thanks to purchases of young animals by the Association, and thanks to village exhibitions, there are 103, to the great satisfaction no doubt of some of the owners of the "good manure houses."

A word may also be said about the way in which silkworm rearers have been induced to keep the same breed of stock, so facilitating bulking of cocoons when the Associations' co-operative sales come round. A small library of silkworm culture books has been started in the village, and there is a special pamphlet for young men which they are urged to keep in their pockets and study ten minutes each day ! There is also a general library in the village of 2,400 volumes, divided into eight circulating libraries. The cost of the building—which provides the library in chief, a meeting-hall and a store-house for cocoons—is to be defrayed by the commissions charged for the co-operative sale of cocoons. There is a competition to get the biggest yield of rice, and there is also an exhibition

of crops, which incidentally aims at putting an end to trouble between landlords and tenants, due to complaints as to the inferiority of the rice brought in as rent. These complaints are more directly dealt with by the Village Agricultural Association arbitrating between landlords and tenants who are at issue. In addition to rice and cattle shows in the village, there is a yearly exhibition of secondary industries. They are things made of straw, such as mats, sandals, and hats. The Village Agricultural Association is also working to secure the planting of hillside waste. Some 300,000 tree seedlings have been distributed to members of the Young Men's Association who grow them on, and ultimately, after examination and criticism, proceed to set them out as young forests.

The facts set forth above point their own moral. Here, in fact, we can see the "spirit of co-operation" moulding a nation's destiny; and it is the active working of that spirit just where it is really wanted, in the village itself, at the very root of the co-operative tree, that accounts for the wonderful progress made by the co-operative movement in Japan. Of course, the movement could never have reached its present dimensions, and could never have become a powerful factor in the national economy without co-ordination of effort and expert organization in its higher and more technical activities. But no matter how excellent the superstructure may be, no co-operative system ever devised will achieve the great aims in view unless the people themselves, in their hundreds of thousands and millions, are capable of the efforts and sacrifices necessary for a lasting success.

In the three years 1909-12, Japanese co-operative societies increased at the rate of 1,415 a year. In the three previous years put together the increase was 1,074 societies; so that we have before us clear proof of the advantages conferred by the law of 1909 with its recognition of the broader and higher aspects of co-operation. In 1909 there were 12,387 cities, hamlets and villages in Japan; in 1912 the number was 12,385. The proportion of registered co-operative societies to the total number of cities, hamlets, and villages in Japan was, on June 30th, 1912, 75.88 per cent. The latest statistics show that 61 per cent:

*Statistics for Japan.*

| Kind of co-operative society.                 | Number of Societies. |       |       |
|---|----------------------|-------|-------|
|   | 1909.                | 1911. | 1912. |
| Credit .. .. .                                | 1,864                | 2,386 | 2,676 |
| Sale .. .. .                                  | 187                  | 223   | 229   |
| Purchase .. .. .                              | 744                  | 779   | 761   |
| Production .. .. .                            | 64                   | 89    | 117   |
| Purchase and Sale .. .. .                     | 440                  | 524   | 534   |
| Sale and Production .. .. .                   | 113                  | 142   | 152   |
| Purchase and Production .. .. .               | 48                   | 51    | 54    |
| Purchase, Sale, and Production .. .. .        | 200                  | 229   | 246   |
| Credit and Sale .. .. .                       | 29                   | 384   | 392   |
| Credit and Purchase .. .. .                   | 699                  | 1,462 | 1,877 |
| Credit and Production .. .. .                 | 8                    | 13    | 22    |
| Credit, Purchase, and Sale .. .. .            | 538                  | 1,296 | 1,714 |
| Credit, Purchase, and Production .. .. .      | 18                   | 20    | 30    |
| Credit, Sale, and Production .. .. .          | 3                    | 36    | 45    |
| Credit, Sale, Purchase and Production .. .. . | 194                  | 433   | 545   |
|   | 5,149                | 8,067 | 9,394 |

of all societies are on a basis of unlimited liability. The number of Federations is given as 30, all with limited liability. The average membership of a society is 108; and the table below shows how the 980,000 members are employed.

|                           |     |
|---------------------------|-----|
| Agriculture .. .. .       | 82% |
| Manufacture .. .. .       | 4%  |
| Commerce .. .. .          | 6%  |
| Fisheries .. .. .         | 2%  |
| Other occupations .. .. . | 6%  |

100

The average working capital per member is about Rs. 150, and the average "savings deposit" per member about Rs. 45, though individual depositors with less than Re. 1 to their

credit are by no means rare. The average loan appears to be about Rs. 90. In all the Japanese tables, however, there are some discrepancies and great exactitude is not claimed for the returns. 12 per cent. is the rate of interest on loans, and 6 per cent. the rate on deposits.

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### CHAPTER III.

OVERWHELMING IMPORTANCE OF AGRICULTURE IN THE CENTRAL PROVINCES—AGRICULTURE THE SOURCE OF FUTURE INDUSTRIAL DEVELOPMENT—CLASS INDUSTRIAL SOCIETIES NOT RECOMMENDED—PEOPLE'S BANKS THE BEST FOR INDUSTRIES—GERMAN MODEL—ITALIAN MODEL—PEOPLE'S BANKS—CO-OPERATIVE STORES AND INDUSTRIAL DEVELOPMENT.

IN the Central Provinces and Berar the *mouza*, as the village is called for purposes of revenue administration, presents a well recognized unit, and in all except the remoter areas is determined by definitely surveyed boundaries. In the case of small villages the *mouza* consists of a single collection of houses in which the cultivators of the surrounding fields reside together with the few artisans who practise the rude industries necessary to rural life. In the case of the larger villages, the extension of the cultivated area or the crowding of the village site has sometimes necessitated the distribution of the surplus population in hamlets situated at a short distance from the central village. These hamlets are, for administrative purposes, as well as in the social life and sentiment of the people, treated as a part of the village to which they belong. The majority of villages are small ; large villages are associated with extensive blocks of cultivation and a development of social, commercial, and industrial life to which the people have, as yet, seldom attained. There are two cities only of more than 100,000 inhabitants, Nagpur and Jubbulpore. A town being defined as " a continuous collection of houses permanently inhabited by not less than 5,000 persons," there are only 117 towns in the

Central Provinces and Berar. The average population per town is 10,368 persons, that per village being 311 only. 76 per *mille* of the population reside in towns, and 924 in villages; and, viewed from the aspect of employment, the people of the Central Provinces and Berar are essentially agricultural and pastoral. In fact, only 24 per cent. of the total population (which is not quite 14 millions) are engaged in pursuits other than agricultural or pastoral; and only 10 per cent. of the total population are employed in industries of different kinds.

Of this 10 per cent. 3 per cent. are engaged in textile industries; and here, it must be pointed out, that while the proportion of the population employed in industries is evidently on the decrease, that engaged in agricultural and pastoral pursuits is on the increase, the figures for the latter in 1901 being 735 per *mille*, and in 1912, 787 per *mille*. Thus, industries on the decline are those of cotton weaving, bleaching, dyeing, bangle-making, oil pressing; while the condition of artisans engaged in the manufacture of metals is not satisfactory.\* On the other hand, industries organized on a broad commercial basis (mines, factories, and the like) will, in course of time, develop and gather strength. It is the opinion of the present writer, after many years of practical experience, that before there can be any real demand for advanced forms of industrial co-operation in the Central Provinces and Berar, the country must proceed much further along the path of modern educational, co-operative, and commercial progress. Any attempt to prop up decaying industries, that is to say industries the products of which are being pushed out of the market by better, cheaper, and more popular articles, by means of co-operative credit is doomed to failure. The gradual cessation of demand is a factor in the situation which co-operative organization cannot cope with; and, in dealing with *societies* of weavers or, let us say, of metal workers, the fundamental principles of co-operative banking, namely, that every loan must be put to a productive purpose and must leave the borrower the better off for the use of the money, cannot but be violated,

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\* Cf. Mr. Marten's Census Report of 1912, Vol. I, pp. 252, 253.

in every case in which the borrower, as a producer, cannot hold his own and make reasonable profits in the market open to him. In plain words, and speaking generally, with the condition of what are sometimes termed "cottage industries" before him, the co-operative banker cannot consider a "class" co-operative industrial credit society, even with unlimited liability, to be a sound business proposition. Nor, because of this statement of the case, is it necessary to condemn the writer as a pessimist. The financial dangers to which whole societies the members of which follow the same trade or calling are exposed, have been pointed out again and again by expert authorities; and, whereas the agriculture of the Provinces covers a wide range of climatic and trade conditions, and, therefore, lends itself to the financial stability secured by co-operative organization of a sufficiently broad kind, the cottage industries of the Province do not, as such, lend themselves to any known form of co-operative organization which observes strict business principles. And without such observance no bank can be safe for its shareholders and depositors.

If then the student asks "What is the future of industrial co-operation in the Central Provinces and Berar?" he may be answered as follows:—As co-operation in agriculture proceeds and makes headway, the people of this agricultural Province will become better off. Fresh aspirations, fresh needs, fresh demands will inevitably produce corresponding sources of supply. The lesson to be learned from other countries is that improved agriculture paves the way for the creation of new industries. Agriculture is, without doubt, the keystone of the economic development of the Province; and from its agriculture as well as from its mineral and other natural resources there will, in course of time, develop industries not yet thought of. History has a way of repeating itself; a country must walk before it can run; and co-operation in agriculture will lead to industrial co-operation. Meanwhile, a great deal can be done for selected individual artisans and traders and other classes as well by means of suitable organizations for the provision of reasonable credit and, above all, the promotion of thrift.



It is not improbable that the views above expressed will fail to find acceptance with every one of my readers. Later on, it will be discovered that I have some suggestions to make which must lose their force unless we now proceed to examine certain aspects of "industrial co-operation."

*Germany and Italy.—A contrast.*

Co-operative credit institutions are of two classes, according to the occupation of their clients; town or industrial, and rural or agricultural. This division is not quite thorough, for the bigger farmers usually keep their accounts with the town bank or society, not being able to obtain sufficient accommodation in the small rural concern. Both in Germany and Italy about 30 per cent. of the members of "People's Banks" are returned as agriculturists, belonging probably to a particular section of the landed community which is above the humble peasantry but below the substantial landlord.

The student must distinguish clearly between *industrial* and *commercial* credit; co-operative industrial credit aims, in theory, at those who having no material capital, save perhaps some tools, yet possess a moral capital in their honesty, industry, and skill. Those particularly in view are urban artisans. The small industrialist provides the reason for the existence of the "People's Bank," which is the term generally applied to institutions for the provision of co-operative industrial or urban credit. In actual fact, People's Banks include amongst their clients, tradesmen, master artisans, Government officials, and persons of a status very much above that of the small industrialist.

*German Model.*

The Schulze-Delitzsch "People's Bank" is an association created to provide credit facilities for its members only. The necessary funds are raised by two means, one of them material, namely, share capital and unlimited liability. Each member must subscribe one share, and, where as is usually the case, liability is unlimited, one share only. The society has thus a variable, and provided it is not decaying, an increasing capital. The share is fixed as high as possible, *i.e.*, as high as it can be

without shutting out small industrialists who have credit needs to satisfy. The actual sum varies from society to society, but the minimum is about Rs. 90. The object of the large share is two-fold, the provision of a working capital and the encouragement of self-help and thrift. The latter object was especially prominent in the eyes of the founder. The share can be paid up at once or in small instalments, all profits being credited to a share until it is fully paid. It is to the interest of a member to pay up his share as soon as possible, because he receives dividend upon the amount paid up only.

The profits of the society are distributed in two parts : one part to the reserve fund and the remainder to the shareholders, according to the size of their shares. The reserve fund, which is obligatory by law, usually amounts to about 20 per cent. of the share capital, but the tendency is to increase both share capital and reserve as rapidly as possible, the shares being made greater in amount. The entrance fees of members, which are of small amount, are added to the reserve fund. It is customary to devote all the profits of the first year or two to the reserve fund and afterwards 15 to 20 per cent. The reserve fund can only be used to cover losses ; and any shrinkage must be immediately replaced.

Shares and reserve fund, together with unlimited liability, where this occurs, constitute the secure basis on which further supplies of capital are obtainable. These are (a) deposits, (b) re-discounts by an outside bank.

Deposits may take several forms :—

(1) Small savings accounts either of non-members, who therefore cannot borrow, or of members who do not borrow. This generally is a desirable means of adding to capital, and often essential to the bank's successful operation. It is cheap ; 3 to 3½ per cent. being sufficient to attract money, while at least 5 per cent. is charged for its subsequent re-employment. The co-operative banks, having a more remunerative use for their money, are generally able to offer better terms to depositors than the savings banks, first by a higher rate of interest, secondly, by reckoning interest from the day of deposit to the day of withdrawal, instead of by clear months. It is steady ; since

the chief depositors are not traders who continually withdraw and replace their funds, but savers purely and simply, clerks, wage-earners, peasants in agricultural districts, and especially junior members of families who perhaps contemplate marriage and the acquisition of a house. It is found that the savings accounts are higher in small than in large towns, where the banks have to face the strong competition of municipal savings and ordinary banks. Although savings are usually reliable and steady sources of capital, they are apt in times of stringency to be suddenly withdrawn in large quantities. If, therefore, the proceeds were invested in three month loans, and a number of depositors were to demand their money at the same time, the bank might come to a sudden collapse, not because any of its advances had gone wrong, but merely because of a momentary lack of funds. The contingency is generally guarded against by fixing a notice term varying from two weeks to twelve months. This is made agreeable to depositors by grading the rate of interest according to the length of the term. The bank cannot be legally called upon for payment within the agreed term, but it is usually prepared to pay on the request of depositors, who, however, in this case, forfeit the proportionately higher rate of interest.

(2) So-called "deposits" differ from the savings accounts by being larger in amount and held often on shorter notice. This department requires to be handled with considerable caution, since a slight mistake in the rate of interest given or in the investment of the money may involve serious losses when large sums are in question. For this reason it is only the larger societies with highly trained officials which open deposit accounts.

(3) Drawing accounts. These are virtually, though not technically, "deposits." They may be worked with or without the cheque system, though obviously they are most useful with cheques, which are now coming into favour in Germany, and which have not to pay, as in England, where the system is so much more matured, a penny stamp per issue. The bank acts as payman for its customers up to the limit of their accounts, paying either the customers themselves or the creditors in whose favour the cheque is made out. Obviously a notice term

would destroy the chief use of the system. Therefore, on the one hand, the bank must keep sufficient ready money to meet all demands without delay, and, on the other hand, it can only afford its customers low interest. Such accounts may be held by members or non-members.

(4) Special loans for special circumstances, such as the extension of premises. These can be raised from individuals, companies, or other credit societies.

(5) Public monies, such as communal savings banks funds, which are desirable because not likely to be withdrawn suddenly, but which at the same time cannot be obtained unless the bank has a reputation for perfect security. Unfortunately for credit societies in Germany, they do not count legally as trustee investment institutions, although they may be created so by special enactment in any particular State.

The funds obtained from all the above sources flow into the bank, and are utilised by the bank in whatever way it chooses. They are thereby distinguished from the other source of outside funds, the re-discounts with outside non-co-operative banks. Re-discounts are obtainable only on credit granted in the form of a bill of exchange. The procedure will be intelligible when the bill of exchange has itself been explained.

What is the nature of the credit furnished by the co-operative banks to their members? It is either (i) a loan, or (ii) a discount of a trade bill of exchange.

(i) *Loans*.—These may be granted in two different ways. First, in the form of a single definite advance of money. Secondly, in the form of a credit limit, within which the borrower may draw, as his needs arise; here the maximum credit possible is fixed by the society; the actual credit utilised is determined by the borrower. This is called the "Konto-Korrent" or, as we know it from Scotland, cash credit.

The advance may be drafted in one of two styles, e.g., either "I owe the bank the sum of Rs. 100, and promise to pay x months from now," *i.e.*, a promissory note; or "x months from now I will pay to the bank against the bill of exchange the sum of Rs. 100," *i.e.*, an advance bill of exchange. The same operation is effected on either plan. The borrower receives

a sum of money from the bank and eventually pays back that money to the bank. But the advance bill of exchange is preferred by the banks for the following reasons : (1) the validity of the advance bill expires sooner than that of the promissory note, so that the bank cannot in its own interests allow payment to be overdue for more than a limited period ; (2) in the event of the borrower's default, it permits more summary means of legal redress ; (3) the bank can, if requisite, re-discount an advance bill, but not an ordinary promissory note.

German banks, however, will not re-discount an advance bill when drafted in the usual form above quoted, but only when drafted so as to resemble a trade bill, without, of course, really being one. This is because under German law the latter form gives the outside bank a securer position.

The advance may be given against four different forms of security : (1) the pledge of one or two friends ; (2) land mortgage ; (3) deposit of collateral, whether in the form of scrip or valuables ; (4) no security at all except the good name of the borrower.

The security is the means by which the society protects itself against the possible default of the borrower : until the borrower defaults, the security plays no part. The first form of security, the personal pledge, is the keystone of the Schulze-Delitzsch system. The pledger is always an intimate friend of the borrower, often a brother or cousin. He is induced to go security, either out of personal affection or on the ground that one good turn deserves or will deserve another. Perhaps the borrower has done him a service in the past : if not, he will probably be willing to assist him in the future. The bank must, of course, take precautions that two friends do not go security for each other at one and the same time, since in this case, what would present itself to the bank as four guarantees, contains in reality only two. The superiority of the personal pledge over any material form of security is that it lends itself to supervision of the borrower's conduct. If the pledger sees the borrower misusing his loan, he can lodge a quiet protest : the deposited collateral or the land mortgage cannot speak, they can only be forfeited.

Land mortgages and collateral are certain assets, while the personal pledge may be worthless, if the bank has misjudged the man's character. If, however, collateral security takes the form of scrip, there is always the danger that the shares may become worthless through the failure of the concern in which they are held or that they may deteriorate in the ordinary course of market fluctuations. The bank guards itself against the first contingency by accepting only shares in National Securities, State or Municipal, and industrial paper of the highest class, which it can be certain of cashing instantly on the open market: against the second contingency by only advancing on these shares a sum up to three-quarters, say, of the present value, which thus allows a safe margin of one-quarter for a fall. The borrower prefers the advance of three-quarters from the bank on the shares to a direct use of them by conversion, because he continues to draw his interest and avoids disturbing his investments at moments, perhaps, when their realisation might cause him loss owing to unfavourable market conditions.

The land mortgage security is not generally offered in institutions pre-eminently industrial, and ought to be offered even less than it is. Moreover, direct dealings in land or houses, which might tie up the funds for a considerable time, are discouraged in People's Banks, where much of the working capital is liable to be withdrawn at short notice.

A peculiar form of advance credit is known as "Fidelity Guarantee." A member of a bank may be engaged in contract business, where cautions are demanded from tenderers in amount such as he is unable to provide. There the bank can render useful assistance with no risk to itself. The member does not take the money from the bank and does not, of course, pay interest on it. He merely pays a preliminary fee, in return for which he is allowed to write down on his guarantee sheet a sum equal to the required caution.

The second way in which loans are granted is by cash credit (Konto-Korrent). The loan runs in the following style, e.g.: "At sight I will pay to the bank against this bill of exchange the sum of Rs. 100." The borrower does not take the money in a lump sum from the bank, as in the ordinary advance.

He uses the bank as a safe, generally conveying the money to and fro by cheque, paying in sums received in the course of his business, and paying out sums owing. But unlike the mere drawing account, he can overdraw his account up to the limit allowed him in the original agreement (in the above example Rs. 100). If he took the whole sum away from the bank, as in an ordinary advance, he would have to pay interest on the whole. By the system of cash credit, he pays interest only on the sum standing to his debit from time to time: if he has a surplus instead of a debit, he receives instead of paying interest. The member with a current account has thus throughout his business life a permanent source of credit. As in the ordinary type of advance credit, personal or collateral security is as a rule required. Sometimes, however, cash credits are opened on no other security than that of the borrower's personal reputation. This can be done more safely in a current account than in a simple advance, since the bank can keep an accurate check on the member's position through the continual stream of receipts and payments occurring under his name. In all cases of cash credit the bank can adopt in self-defence the extreme measure of cutting off the credit at a week's notice. The *Konto-Korrent* is an imitation, conscious or unconscious, of the system of cash credits in Scotch banks, with the difference that in Scotland the credit receivers need not be shareholders, *i.e.*, members of the bank.

(ii) *Discounts of the Trade Bill of Exchange*.—Such a bill reads as follows: "Three months from the present date do you, A, pay to the account of B the sum of x rupees." This is signed by C and countersigned by A. C, the drawer of the bill, is a member of the credit bank: B, the remittent, is the credit bank itself: and A, the acceptor, is the debtor of C. In other words, C has rendered to A goods or services for which the latter is allowed by law and commercial usage to defer payment for a space of three months. But C wants his money immediately; therefore he sells his claim to B, the credit bank, which takes over the debt after deducting a discount. The only stipulation of the bank is that it shall know the acceptor, A, to be financially sound. The trade bill thus differs essentially from the loan.

The bank grants a loan to its member, in order that he may engage in a future transaction: the bank discounts a trade bill for its member in order that he may obtain immediate payment for a transaction already accomplished. The loan will miscarry, if the member fails to make a profitable use of it: the bank therefore is concerned with the solvency of its member. The trade discount can only miscarry if the third party, with whom the member has done business, fails in the interval: the bank therefore is concerned with the solvency of the outside party. If the loan is not refunded, the bank falls back on the security. If the bill is not paid at maturity, the bank calls on the member from whom it has received it.

The importance of the distinction becomes obvious, when the question of re-discounting, *i.e.*, re-selling a bill to an outside bank arises. The outside bank will take either kind of bill for re-discount, provided it contains two good signatures. But the co-operative bank still retains a direct interest in the re-discounted bill, if this bill is an advance bill. For an advance bill signifies a loan and, if, as usually happens, the borrowing members desire a renewal, the co-operative bank must negotiate with the outside bank to consent to this renewal. The advance bill is, therefore, less suitable than the trade bill for re-discount.

But why does a bank re-discount at all? Because it has not itself sufficient funds in its coffers to hold until maturity all the bills presented to it. By re-discount it obtains indirectly an addition to its funds. What does a bank gain by buying with one hand and selling with the other? It can sell cheaper than it buys, because in selling it adds its own signature to that of the individual creditor: so that if the debtor defaults, the final buyer has two securities, the bank and the original creditor. It would seem, at first sight, that the credit bank has here an unlimited possibility of small gains without risk; for, if the bill is dishonoured, the bank can call upon the original creditor to make it good, and he in turn can sue the defaulter. But there is a serious danger owing to the course of procedure in case of default. The dishonoured bill returns to the original owner by the same road along which it left him, creditor, credit bank, outside bank—outside bank, credit bank, creditor.



Therefore the credit bank, though perhaps ultimately secured by the creditor, cannot demand respite in which to recover from him. If the credit bank cannot at once satisfy the outside bank, it is dishonoured and must enter on liquidation.

Akin in form to the trade bill, is the banker's acceptance, or accommodation credit. This is a trade bill without any trade. The bank "accepts" an imaginary debt, declares itself liable to pay so much to the holder of the bill at the end of three months. The drawer of the bill, the member of the credit bank, does not, of course, discount the bill at his own bank, as he would an ordinary trade bill, but takes it to another banker, who discounts it on the guarantee of the credit bank's signature. This is an easy method of granting credit, but it is very perilous. The bank creates a burden of liability which is not felt at the time and which must descend on it sooner or later. Although safe enough for a large joint-stock bank, which draws deposits perhaps from a whole country, it is too dangerous for a small credit bank of limited area. The employment of the acceptance by credit banks is very rare: and, where employed, it is generally unjustifiable.

Such is the work of the banking unit after the Schulze-Delitzsch or German model. It is obvious that technical operations of this description could not well be undertaken by amateurs. They are directed by a committee of three members, sufficiently salaried to enable them to devote their whole time to the business. The members of the committee divide up their work: one attends to the money department: a second to the accountancy department: a third is general chairman—his business, it has been said, is to worry the other two. Two signatures are necessary to every transaction so as to afford a mutual check. Their responsibility is joint and undivided. These three, constantly present at the society's office, which is sometimes in appearance a building as richly equipped as any joint-stock bank, conduct the business of the society. It is they who judge of a member's credit-worthiness and regulate the employment of the funds. The general assembly elects them for three years and sets limits within which they must act. If they overstep this, they may be discharged: but their

actions hold good as against third parties. The *Council of Control* inspects their work from time to time, but it does not engage actively in the business. If a member of the Managing Committee himself requires credit from the society, he must obtain the special sanction of the Council of Control: if a member of the Council of Control requires credit, he must obtain usually the sanction of an extra committee, established so recently as 1904, called the "Valuation Committee."

So determined was Schulze-Delitzsch that his societies should have no suspicion of charity about them that he not only paid salaries to all who worked for the society, but also offered the Managing Committee a bonus calculated on the amount of the turnover. This might be welcomed by ignorant enthusiasts as something really co-operative, as a meritorious case of profit sharing. In reality it is a wrong policy. In ordinary business the profit shewn by an audited balance sheet is a fairly safe index of prosperity. In banking an immediate profit can always be realised by unsafe advances of credit, the unsafeness of which cannot be detected by others than the directors themselves. The Managing Committee is, therefore, constantly tempted to delight its society and enrich its own pockets by showing a high rate of profits. Next year the crash may come, but by that time the Managing Committee may have disappeared along with its bonus. A People's Bank recently established in the Rhine Provinces appointed a Managing Committee of three ambitious young men, who were desirous of rivalling a long-established country bank in their district. They accomplished this in a single year, but a large portion of their business was made up of reckless advances to a corn merchant on no other security than the latter's property. The merchant failed: his property was found to be nearly worthless: the bank lost the major part of its loan and liquidated: the Managing Committee decamped.

The defects generally remarked in the Schulze-Delitzsch People's Banks are as follows:—(i) The shortness of the loan term, which is, for loan and trade bills, three months. Cash credits are usually granted for five years, sometimes however, for shorter periods. If the member with a cash credit does not

mobilise his credit, *i.e.*, if he draws up to the limit and pays in no receipts, the bank calls in the account, thus indirectly forcing him to short term uses of credit. It is true that for the average agriculturist the loan term is too short, but for industrial and trade purposes it is long enough, especially as advances are renewed three and even four times if necessary. It was a fundamental point with Schulze-Delitzsch that the terms for loans should be no longer than that which the bank enjoys for its own borrowings; and the majority of deposits are usually subject to two or three months' notice of withdrawal. By some this principle is held to be erroneous. It is urged that all banks trading chiefly in money at call lock up much of their funds in long term business; while, in some countries, savings banks place half their funds on mortgage. It is said, therefore, that the amount of ready money really needed by the bank is not the maximum which might be required, but a little over the average which experience shows is required. I will merely remark that experience must be long before averages can be deduced; and that averages go by the board during times of acute financial crisis. It is a poor bank indeed which founders in calm weather. During 1914-15 the co-operative banks of the Central Provinces and Berar met demands from depositors to the extent of Rs. 15,00,000.

(ii) It is found that indefiniteness of area leads to a loss of the co-operative bond, and to a difficulty in obtaining information as to the borrowers and sureties. The fault exists only in cases in which organization is defective and too much is attempted.

(iii) There is said to be an entire absence of control over the use to which the loan is put; it is even stated that petty usurers obtain loans to no small extent and lend out the proceeds in their own business. Now minute control, which may be necessary and convenient in agriculture, is unnecessary and intolerable in industry. In the first place, once granted the discovery of a member's soundness, the very channel through which credit is given is, in the case of the current account and the trade bill, an automatic register of its productive use—*presumably* productive, that is to say, for no supervision of any

kind can ensure that a product is profitably sold. In the second place, the movements of industry are apt to be quick and difficult of observation. It is impossible to inspect the effects of the new capital put into an industrial business, as one might inspect by daily visit the obvious and steady progress on a farm.

(iv) Much has been made of the occasionally high dividends. These range, it is true, in the case of German People's Banks, as high as 20 per cent. ; but 75 per cent. of the Banks pay dividends between 5 and 7 per cent. Exceptionally high dividends would be impossible in the Central Provinces and Berar, for a limitation on dividend is always imposed as a condition of registration upon societies which distribute profits.

(v) Considerable dissatisfaction is expressed because People's Banks are losing their hold on the small worker ; small accounts are being refused ; the management is getting into the hands of big men. But an acquaintance with the facts discloses not that big men are capturing and driving out the old members, but that a growing percentage of the original small members is becoming big. Schulze-Delitzsch secured the position of the small industrialist under the new conditions of modern industry by supplying his chief want, namely, ready capital. But he could not secure that he should remain small if opportunities for expansion offered themselves. The small farmer will quite likely remain a small farmer, even though or rather because he is successful. But the successful member of a town bank is more likely than not to become a comparatively big man. Statistics prove that the percentage of hand workers to other classes enrolled in membership of the German People's Banks is gradually declining.

Both town and country banks are formed into higher Unions and Federations for general organization and educational propaganda ; the country banks also unite for credit business. *The higher union, both in town and country, is also itself the organizing centre for associations not primarily concerned with credit.* But in the town the general union is nothing more than a rallying point and intelligence office for groups

industrially unconnected; *in the country*, the general union is an integrated whole, co-ordinating inseparable parts. The structure of town banking can be studied alone; the structure of country banking involves the whole study of agriculture. There is neither business federation amongst the People's Banks nor parallel organization between them and other non-credit societies. In the Raiffeisen and Haas systems, however, credit and non-credit organization go hand in hand. The disappearance of one element would severely wound the other; each would feel it as the loss of a limb. The Raiffeisen society is the type of small rural society accepted for co-operative agricultural credit almost the whole world over; and it is generally the basis of all agricultural organization.

The German Government saw that there were credit societies and productive societies in the towns; that there were also credit societies and productive societies in the country. But it did not realize then, nor does it realize now, the difference between industrial and agricultural organization. The Government suggested to the People's Banks that small producers were still without sufficient credit. The People's Banks beheld the red rag of Government interference, and retorted that they were quite able to take care of themselves, which was quite true. The Government did not grasp that the small associations of hand workers, which they desired specially to assist, were very unimportant elements in the People's Banks. Consequently it was compelled to enter alone on a task in which the credit banks with such apparent disregard of their own interests declined to assist, the task, namely, of granting credit to associations of small independent producers. But no Government is able to disregard the structure of industry. Thus it comes about that the Prussian State Bank, despite its evident wishes, is compelled to do six-sevenths of its business with agricultural organizations; and those industrial societies which it has helped into existence bear the mark of inferior structures, artificially supported. The People's Banks knew by experience that the society of small independent producers was not a form of co-operation which it was profitable to encourage. And this, exactly, has been the experience of

co-operative central banks in the Central Provinces with respect to industrial societies.

*Italian Model.*

What Schulze-Delitzsch was to Germany, Signor Luzzatti has been to Italy. Like Schulze-Delitzsch he began tentatively on a small scale in the town in which he lived. The People's Bank of Milan started in 1865 with a capital of only Rs. 420, Luzzatti himself being the "millionaire" shareholder with a subscription of Rs. 60. Perhaps the most striking feature of the Italian co-operative movement as a whole is the fact that it was launched only fifty years ago "in a country degenerated from its former greatness, dominated till of late by a foreign power, only recently united under one sovereign, poor yet burdened with taxation of the gravest character and a general conscription, with a rural population uneducated, suspicious, poor, highly conservative, and wholly unaccustomed to concerted action except within their village limits, and in immense numbers mere tenants or labourers, absolutely ignorant of banking and usury ridden to a degree seldom approached. Such, in many parts of Italy, were some of the conditions which, to theory, make popular and agricultural credit impossible."\* A few men, however—Luzzatti, Wollemborg, Vigano—made an accomplished fact of a seeming impossibility, once more proving that all great enterprises are "impossible" at first. We are, however, concerned here with Italian People's Banks only.

The Italian banks differ from the German model in five special points. First, the administration is more democratic. The representative organ is the *Board of Administration*, a large board which controls on the one hand the paid officials, the manager, chief cashier, book-keeper and subordinate clerks, and, on the other hand, the *Committee of Control* or Auditors, consisting of 3—5 members selected from the Board of Administration itself. They are assisted by two committees, unknown to Germany; by the *Discount Committee*, 15—40 in number,

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\* Sir F. Nicholson's "Report regarding the possibility of introducing Land and Agricultural Banks into the Madras Presidency," Vol. I, p. 162.

which advises on applications for credit with the help of a special register containing the credit limits allotted to each member. This register passes under revision once every six months and even more frequently. The second auxiliary committee is the *Risks Committee*, which watches the use of credit already granted and secures prompt repayment. In cases of dispute there is a special court of appeal called the *Proviviri*, or arbitrators. Legally, the German Managing Committee and the Italian Board of Administration are parallel organs. But in Germany the Managing Committee is a body of three, director, cashier, and book-keeper, managing credit grants as well as the daily course of business, subject only to the supervision of the Council of Control, which is necessarily independent of it. In Italy the Board of Administration is a body of amateurs, which with the help of two further amateur bodies decides upon the granting of credit, and controls generally not only the paid officials, who perform the daily business duties of the German Managing Committee, but also the auditors, who supervise the books of the paid officials. Such a constitution is more secure and more educative, if only it can be economically worked: and it has been so worked in Italy because of the willingness with which Italians as a race serve gratis in corporate institutions, although the most onerous duties are involved.

Secondly, the liability of the shareholders is limited. Unlimited liability was a kind of fetish to Schulze-Delitzsch, the *sine qua non* of all co-operation. Luzzatti had the genius to see that, though suited to the Germans, who had been accustomed to it since the establishment of land banks with unlimited liability and compulsory membership by royal decree in the middle of the 18th century,\* it was alien to Italy, where organized credit was unknown and where there were greater extremes of rich and poor, who could not have been induced to co-operate on a basis of unlimited liability. The Italian banks were saved from the doom pronounced by Schulze-Delitzsch on any other than an association of unlimited liability, namely, impossibility of commanding outside credit, by the

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\* Cf. Wolff, Co-operative Credit, Chapter IX.

readiness with which the communal savings banks and the Friendly Societies recognized them as a secure investment for their funds. The shares in Italy are smaller than in Germany, averaging Rs. 24, but they must be paid up within a time limit, usually ten months.

Thirdly, the chief channel of credit has always been the bill of exchange, advance bill or trade bill. The popularity of these mediums is in part due to the fact that bills of exchange have been familiar to Italians from the middle ages. It is said\* also that the banks like bills of exchange: first, because it is easier to refuse renewal if the borrower is making bad use of the loan or has not already paid a part; secondly, because they can be easily re-discounted. The chief re-discounting house is itself a co-operative credit bank, namely, the great Popular Bank of Milan, with which the smaller banks have accounts. The Bank of Milan, on being instructed by the smaller banks that a member of the latter, whose advance bill it holds, desires a renewal, holds over the bill for another term of three months or more, in the same way as the Prussian State Bank. In France also, where the Bank of France has special relations with the co-operative-banks, the same method is pursued.

Fourthly, while feeling the same tendency as in Germany towards the neglect of the small man, the Italian banks have combated it not only in speech, but in deed. Where the funds are limited, the preference is given to smaller loans. Moreover, where funds permit, some of the richer banks, in addition to the ordinary credit business with members, make special loans to poor non-members on no security but the latter's good faith (*prestito sull'onore*). In such cases, however, loans may not exceed Rs. 60, and two witnesses as to character are required.† Although the loans are always repaid ultimately, they are not productive loans so much as loans in anticipation of wages, pawnbroking operations with the pawn excused. Many of the banks have decided to make no further grants,

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\* Cf. Nicholson, op. cit., I, 168.

† Cf. Nicholson, Vol. I, p. 166.



unless the borrowers belong to a Friendly Society—which illustrates exactly their non-trading character.

Finally, the banks have not held themselves aloof from industrial associations of producers which are, in Italy, workers' societies not the supply and sale societies of Germany. The German associations of small producers are not workers' societies proper. The members start and end as independent producers; they buy raw materials in common, use machines in common, sell their products in common; but the commodities raised belong to individuals. They generally fail, because their structure is unsuited to modern conditions. The workers' societies, on the other hand, are organized on modern lines; in the private factory, the company, or firm, or individual owns the business and pays wages. In the workers' society the society owns the business, and pays wages to and distributes profits amongst its members who are the workers themselves. The workers' society is within the sphere of modern industry; it does not appear until modern industry has revealed its meaning. Lastly, it must be remarked, that the larger workers' societies, being strong, bank in the ordinary fashion. Accordingly, the average loan to individual societies of workers is by no means large. Except in England, France, and Italy, societies of workers hardly exist.

For many years Italian co-operators did not take kindly to concerted action on the scale exemplified by the German Federations and Unions. The Raiffeisen system, as we have seen, is that of centralised control: the system of Haas one of local autonomy: Luzzatti has always inclined towards a system of autonomous, independent banks. But the Italian banks have frequently established branches, sometimes as mere auxiliaries, sometimes as self-governing colonies destined for ultimate independence. Town and country banks, moreover, have never been jealous rivals, for there is not in Italy a hard and fast dividing line between the large town bank and the small country bank. Until very recently there were (i) a few big town banks with country branches, (ii) a number of banks embracing districts with town and country members, (iii) a few very small town banks for artisans only, and (iv)

the country banks proper. In October, 1913, with the advice and approval of Signor Luzzatti, the Italian People's Bank united to form (i) a Federation of Co-operative Credit Institutions, and (ii) a Federal Bank of Co-operative Credit Societies. The Federation is for mutual discipline, guidance, and support and also for inspection. Funds are provided by the affiliated institutions, the entrance fee being Rs. 600, and the yearly contribution Rs. 120 for every vote to which an affiliated institution is entitled. Votes are proportionate to working capital, the scale for owned capital being more liberal than that for borrowed capital. There is a further obligation, too, to keep with the Federal Bank a deposit of at least Rs. 12,000. The Federal Bank is registered as a limited liability co-operative society, with unlimited capital, and is the central organ for the common action of the Federation. Not only is it the object of this bank to centralise the control of finance in its broader and higher departments but also to establish its own branches in areas where none of its members exist. The executive authorities of the Federal Bank are (a) the general meeting of the representatives of the adhering institutes, (b) a board of management, consisting of seven members elected by the general meeting from amongst the representatives of the adhering institutes, (c) arbitrators, three in number, elected at the general meeting, who decide all disputes that may arise amongst members, or between members and the Bank; there is no appeal against their decision, (d) the president, who is chosen by the board of management from among its members. He is the legal representative of the Bank, and has very wide powers of supervision and control. He is chosen by the board of management from its members, holds office for three years, and may be re-elected. The profits of the Federal Bank are to be distributed as follows: 50 per cent. to the shareholders, *i.e.*, to registered co-operative banks; 25 per cent. to the ordinary reserve fund; 15 per cent. to the board of management, to be used for the realization of the objects of the society or to be placed to the reserve fund; and 10 per cent. to the employees of the Bank. Such, briefly, is the organization of the new Federation and of the Central Bank of the People's Banks "which," says a

Italian report, " provided with considerable means and having a large programme, is certainly destined to give a still more vigorous impulse to the affiliated People's Banks, rendering possible by their union, their participation in the most important financial operations, fruitful in good results for the national economy, which it would be scarcely possible to realise without union."

I have, in this chapter, endeavoured to point out that the industrial development of the Province depends not on the growth of existing cottage industries, but on the creation of new industries following in the wake of improved agriculture. The class society of cottage workers—weavers, metal workers, etc.—we have tried, only to find that the Raiffeisen form of organization, even when made as elastic as possible, is not really adaptable to the requirements of small industries. Of course, the cottage worker does very frequently obtain admission to membership of a Raiffeisen society in a village; that is to say he is associated with cultivators who are, at the same time, his neighbours. The village weaver, or potter, or blacksmith finds co-operative credit a help to him personally. But it is with the more important aspect of the problem that we are concerned, namely, the support and promotion of local industries and of industrialists as a class. With the best will in the world a Central Bank, founded and designed for the business of agricultural credit and thrift, cannot do much for the town industrial classes. If business is kept on lines that are safe for a co-operative central bank then, as regards class societies of town handicraft workers, finance is too rigid and mutual supervision too irksome. Further, co-operative credit applied to class societies must be supplemented by co-operative purchase and sale; but markets for our local products, especially textile fabrics, are most uncertain, while the members of the societies are not sufficiently educated in business methods to organize purchase and sale for themselves. On the whole, therefore, the People's Bank is the best credit institution for town handicraftsmen; it can pick and choose its members and need not assist people who have no credit and can produce no sureties. And not only can a People's Bank help the handicraftsman;

it can be made a very potent institution for the promotion of thrift and for the dispensation of reasonable credit amongst all classes of the urban population. All that is necessary is that there should be, in the Central Provinces and Berar, leaders *to lead*, to take the initiative, and to do for their fellow countrymen what Schulze-Delitzsch and Luzzatti have done for Germans and Italians. In short, a "People's Banks" movement is required, and this, as I shall point out in a later chapter, should be supplemented by a "co-operative stores movement." In these two directions, and in that of co-operation in agriculture,—not only for credit but for other purposes—lies the path along which the Province will travel to general industrial development. But the journey is one which cannot be started until local patriotism assumes a really practical and liberal shape. It is impossible for any Government to get inside its subjects and live their lives for them. Co-operation, once more, leaves nobody out who works; and the benefits which co-operation brings cannot be had merely for the asking, for the price of them is *effort*. So far, I regret to say, our experience of urban societies of the "People's Bank" type has been unsatisfactory, perhaps because the original members were not of the stuff out of which good co-operators can be made—not by any means without education, they lacked ordinary honesty. The movement wants apostles and disciples imbued with "the co-operative spirit." Zeal must go hand in hand with understanding, and apostles cannot be made to order.

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#### CHAPTER IV.

##### LONG TERM CREDIT—CO-OPERATIVE MORTGAGE CREDIT— MORTGAGE BANKS—AMERICAN OPINION—THE *Ginko* OF JAPAN.

MORTGAGE credit is often spoken of as an unmixed evil, a result necessarily of previous extravagance or of imprudence. But it may also be the foundation of great wealth and the efficient cause of the productiveness of the land. There is nothing

to complain of when there is a just proportion maintained between debt and security, rate of interest and yield from land. The land wants better cultivation ; and for better cultivation money is usually necessary. Put with extreme brevity, the arguments regarding tenancy *versus* ownership are as follows. Tenancy places the land at the cultivator's service, at a fee for its use—a fee which he himself can never afford to be content with ; and so leaves the tenant with all his little capital free for more profitable employment as working funds. On the other hand, it is argued that, assuming the land of the medium or small proprietor to be fairly mortgaged, the amount paid in annual mortgage interest will prove to be less than the rent on a holding of the same size and kind. This leaves the proprietor with some small balance locked up in his land. But it also leaves him an independent man, subject to no interference: not liable to be turned out ; free to cultivate, sell, and buy for his own advantage ; and certain that for capital or effort devoted to improvements, he will have his full return—in better crops, if he retains his property, in a better price if he sells it. In addition the owner of land gets the benefit of its increased value or unearned increment ; the tenant does not. I am not going deeply into the much vexed question of tenancy *versus* ownership in this book. The tendency, in most countries, to-day is towards the creation of proprietary rights in land for medium and small holders. But liberal reforms in land tenure, as experience has proved, cannot be suddenly or hastily introduced without grave danger to the very people whom they are intended to benefit. It must be considered first whether the people are sufficiently enlightened, thrifty, and prudent to be entrusted with the ownership of their land. If the people are backward, or deficient in moral fibre, the sudden creation of proprietary rights might very easily produce results the very opposite to those intended. Then again, as far as co-operative credit is concerned, we are still in the stage of experiment in India. Land tenures vary from province to province ; there are different systems of tenure to deal with in the Central Provinces and in Berar. And we have yet to find out which plan is really the best, and then to work towards

it patiently and gradually. One fact, however, is beyond dispute; and that is that no system of co-operative credit can succeed unless the cultivator enjoys security of tenure, and that of a very positive nature. If he does not enjoy such security, then credit of the kind required by agricultural societies cannot be provided for him by means of co-operative credit.

Rights in land are, in the Central Provinces and Berar, of many kinds: some of them amount to actual ownership, subject to payment of revenue or rent. There are a very few absolute freeholds, the maintenance of which is dependent on loyalty and good behaviour. It is, remarkably enough, quite a common thing to find that tenancy land which cannot legally be mortgaged has, in actual fact, been mortgaged. The mortgage deed cannot be registered, and the mortgage cannot be made the basis of a contested claim to the land. But as long as the landlord raises no objection, mortgagors generally fulfil their pledges, and it thus comes about that so-called "non-transferable" land, or the right to hold such land, is freely bought and sold. Transactions of this irregular kind do not, however, lend themselves to the business of properly managed co-operative societies. We may now examine the various forms of land tenure existing in the Central Provinces and Berar.

A. *The Central Provinces.*—Villages are settled for revenue purposes with the *malguzars* thereof who are absolute owners of their proprietary rights subject, of course, to the regular payment of the revenue assessed on the village. The revenue is fixed for a term of years, and is based upon a very carefully prepared estimate of the village assets. The term *assets* is for settlement purposes used in a strictly technical sense, and does not include the whole of the annual income or *profits* which a village brings in to the *malguzar*. Thus, land cultivated by the *malguzar* himself (or, it may be, leased out by him), and included in his home farm—which is distinct from the tenancy land of the village—is presumed, for revenue purposes, merely to yield him a moderate rent. Miscellaneous income, or *siwai*, derived from the sale of forest produce, grass, etc., is computed

in such a way as to leave a liberal margin for any possible falling off ; and to the valuation of the home-farm and of the *siwai* are added the statutory rents fixed for the lands held within the village area in tenancy right. In this way the *village assets* are arrived at. Of the village assets a fraction is taken as revenue ; and this fraction is, as closely as possible, one half. *Malguzari* rights are freely transferable ; and it is often the case that these rights have been split up by sale, or by partition amongst the members of a family, or by inheritance, into a large number of small proprietary shares called *pattis*. In fact, in a few villages which are held on what is termed the "*bhaiya chara*" tenure practically every cultivator in the village is proprietor of a very small fractional share of the *malguzari* right. The proprietors of village rights, it must be noted, are of many castes and occupations, and of almost every degree of economic and social status—Rajas, bankers, lawyers, merchants and shopkeepers, Indian servants of Government, etc., etc. Many are absentee landlords, and a large number of villages are frequently to be found in the possession of a single family. Further, it is extremely difficult to find any compact area of country in which the proprietary body presents any of the features which betoken unity of interest, sentiment, or opinion.

The valuation of the proprietary rights in any particular village is a matter calling for the most exact local knowledge, though, over large tracts of country, an average value, based on a multiple of the land revenue assessed, would, from the co-operative banking point of view, furnish a safe enough guide to collective credit.

The *malik makbuza*, or plot proprietor, pays his revenue to Government, the *malguzar* being the collecting agent and getting a small commission for his trouble. These plot proprietors possess unrestricted powers of transfer ; but they are, generally speaking, not very numerous. They exist here and there, in some villages and not in others. As a class, they could never form special co-operative societies for plot proprietors only.

Under the Central Provinces Tenancy Act there are five classes of tenants, namely, (i) absolute occupancy, (ii) occupancy,

(iii) ordinary, (iv) village service, and (v) sub-tenants. Absolute occupancy tenants are comparatively few in number and they are gradually disappearing, for no fresh rights of this kind can be created. Occupancy tenants are far more numerous; ordinary tenants and sub-tenants are very numerous indeed. Village service tenants are of much social but not of great economic importance, the growing tendency being towards payment in cash for services rendered direct. There must also be mentioned the *ryot*, or tenant of Government, in villages settled under the *ryotwari* system.

Before stating, in detail, the legal rights of transfer possessed by the various classes of tenants, it may be as well to point out that the power of surrender as conferred by the Central Provinces Tenancy Act is held by some to stultify in practice the arguments which support the provisions of the Act restricting the power of transfer. It is pointed out that a tenant in debt to his *malguzar*, or in possession of land which the *malguzar* covets, can surrender his holding to the *malguzar* for consideration. Again, if a tenant who owes money to a co-operative society dies without heirs to inherit his rights, the land goes to the *malguzar*, and as the land carries no legal charge upon it, the society is left, so to speak, in the air. Thus, although it is the purpose of a co-operative credit society to keep its members on their lands, and though the security which these members offer is their productive capacity as cultivators, this security can, at any moment, be whisked away, leaving the society without any actual or prospective assets of the debtor to proceed against. It is contended, therefore, that the law should empower all tenants to pledge their rights in land, by lease or by mortgage, to the village co-operative credit society to which they belong. On the other hand, it is argued that a Raiffeisen credit society should deal in personal and not in real security; that the restrictions imposed by law exercise a healthy influence over the business of rural credit societies, inasmuch as they encourage short term and discourage long term loans and so help to keep banking assets fluid; and that the law ought not to show special favour to any private body, whether co-operative or capitalistic.



The Central Provinces Tenancy Act lays down that "the right of an absolute-occupancy tenant in his holding shall on his death devolve as if it were land, and shall be transferable subject to the conditions contained in this section" (section 41 (1)).

Sections 41, 42, and 43 of the Act contain the following provisions :—

" 41. (2) If an absolute-occupancy tenant intends to transfer any right in his holding by sale or gift, or by mortgaging the same for a sum which, together with the interest payable thereon during the five years immediately succeeding the mortgage and the previous sums (if any) secured by mortgage of it, would exceed eight times the annual rent of the holding, or by sub-letting the same in consideration of a fine or premium exceeding five times that rent, he shall give to his landlord a written notice of his intention, and shall defer proceeding with the transfer for a period of one month from the date on which the notice is given.

(3) If the intended transfer is by sale or gift, the landlord may, within the said period of one month—

(a) claim to purchase the absolute-occupancy right at such value as a Revenue-officer may, on application made to him in this behalf, fix ; or

(b) permit the sale or gift, in which case he shall be entitled to a sum equal to the rent for one year, and that sum shall be a first charge on the holding.

(4) If the intended transfer is by mortgage or sub-lease, the landlord may, within the said period of one month, claim to purchase the absolute-occupancy right at such value as a Revenue-officer may, on application made to him in this behalf, fix.

(5) When the right of an absolute-occupancy tenant in his holding is sold or is foreclosed by order of a Civil Court in execution of a decree other than a decree obtained by his landlord, the landlord shall have the same right of pre-emption as is given in the case of a sale by clause (a) of sub-section (3)

(6) When an application is made to a Revenue-officer under this section to fix the value of an absolute-occupancy

right which is already mortgaged, he shall fix the value of the right as if it were not mortgaged ; and, if the landlord purchases the right, the mortgage-debt shall be a charge on the purchase-money in exoneration of the land.

(7) Any transfer made in contravention of this section shall be *voidable* at the instance of the landlord.

(8) If a person to whom an absolute-occupancy tenant has transferred possession of his holding in contravention of the provisions of this section be ejected by the landlord, the tenant may apply to a Revenue-officer within one year of the ejection of such person to be reinstated in possession of the holding, and the Revenue-officer may order him to be reinstated in possession on his depositing within a stated period, for payment to the landlord, the cost incurred by the landlord in procuring the ejection. If the tenant fails to make such application within one year of the ejection, or if he fails to deposit such cost within the period stated, his tenancy shall be deemed to have lapsed.

42. Notwithstanding any contract to the contrary, or any provision of a record-of-rights, an absolute-occupancy tenant shall not be ejected from his holding by his landlord as such for any cause.

43. The rent of the holding of an absolute-occupancy tenant shall be the first charge on that holding, which shall, subject to the other provisions of this Act, be liable to sale in execution of a decree for arrears of the rent thereof."

As regards occupancy tenants the provisions of the law are as follows :—

" 46. (1) When an occupancy tenant dies his right in his holding shall devolve as if it were land :

Provided that except in the districts of Chanda and Nimar, a collateral relative of the tenant shall not be entitled to inherit that right, unless at the death of the tenant he was a co-sharer in the holding or unless, failing any such co-sharer, he held land, or was permanently resident, in the village in or from which the holding is cultivated, and is in the male line of descent from an ancestor who occupied the holding.

(2) Save in pursuance of a document duly registered before the commencement of this Act, no decree or order shall be passed for the sale of the right of an occupancy tenant in his holding, nor shall such right be sold in execution of any decree or order.

(3) No occupancy tenant shall be entitled to sell, make a gift of, mortgage, sub-let (except for a period not exceeding one year) or otherwise transfer his right in his holding or in any portion thereof, and every such sale, gift, mortgage, sub-lease (other than for a period not exceeding one year) or transfer shall be *voidable* in the manner and to the extent provided by the two next following sections :

Provided that an occupancy tenant may transfer his right of occupancy to any person who, if he survived the tenant, would inherit the right to occupancy, or to any person in favour of whom as a co-sharer the right of occupancy originally arose, or who has become by succession a co-sharer therein :

Provided, also, that nothing in this section shall affect the right of the Government to sell the right of an occupancy tenant in his holding for the recovery of an advance made to him under the Land Improvement Loans Act, 1883, or the Agriculturists' Loans Act, 1884, or the right of the purchaser at such sale to succeed to the holding.

(4) No contract for the sub-lease of a holding or any portion thereof shall be entered into or made during the currency of a sub-lease of such holding or such portion thereof, and every such contract shall be *voidable* in the manner and to the extent provided by the two next following sections.

(5) Notwithstanding anything contained in the Indian Registration Act, 1877, no officer empowered to register documents shall admit to registration any document which purports to transfer the right of an occupancy tenant in his holding or in any portion thereof unless the document recites that the transferee is a person who, if he survived the tenant, would inherit the right of occupancy or is a person in favour of whom as a co-sharer the right of occupancy originally arose or who became by succession a co-sharer therein.

47. (1) If an occupancy tenant transfers any portion of his right in any land in contravention of the provisions of the last foregoing section, any such person as would be entitled to inherit his right in the holding in the event of his death without nearer heirs, or the landlord from whom the tenant held the land, may, on application to a Revenue-officer, made within two years from the date on which in pursuance of the transfer the tenant parted with possession of the land, be placed in possession, subject, so far as the Revenue-Officer may, in accordance, with rules made by the Local Government, determine, to his acceptance of the liabilities of the transferring tenant for arrears of rent and for advances made by the landlord or other persons for the necessary expenses of cultivation.

(2) As among several persons so entitled and being desirous of being placed in possession, the right to be so placed shall accrue in the order in which such persons would have inherited the right of the tenant in the subject of the-transfer if the tenant had died. Failing any such persons, the right shall accrue to the landlord."

The rights of village-service tenants are as follows:—

"56. (1) When a village-service tenant dies, resigns, or is lawfully dismissed, his right in his village-service holding shall pass to his successor in office:

Provided that the Local Government may, by general or special order, direct that, where on the resignation, dismissal, or death of a village-watchman or patwari, his successor in office is not his heir, the village-service tenure shall cease, in which case the holding shall be retained in occupancy tenant-right by the late village-service tenant or shall devolve in occupancy tenant-right on his heir, as the case may be, at a rent which for the remainder of the term of the current settlement shall be that determined at such settlement as the rental value of the holding.

(2) A transaction by which a village-service tenant attempts to effect the transfer of his interest in his village-service holding by sale, gift, mortgage, sub-lease, or otherwise except by a sub-lease for a period not exceeding one year shall be void, and the

village-service tenant shall be liable to be ejected for such attempt.

(3) The right of a village-service tenant shall not be sold in execution of a decree."

Under Chapter VI of the Act a sub-tenant is thus defined:—

" 59. A tenant who is not an absolute-occupancy tenant or an occupancy-tenant, and who holds land from another tenant, or from a malik-makbuza, or from the holder of a survey-number, is a sub-tenant of that land."

The rights of a sub-tenant are, in certain parts of the Province, merely those which the tenant from whom he holds chooses to confer upon him by private contract. But in other parts of the Province special regulations are in force conferring the power upon Revenue and Settlement Officers to grant to sub-tenants all the rights of an ordinary tenant.

Every tenant who is not an absolute-occupancy tenant, or an occupancy-tenant, or a village-service tenant, or a sub-tenant is an ordinary tenant. In certain parts of the Province the system of cultivating land in partnership (or on " batai ") lent itself to such abuses that the Local Administration was compelled to issue notifications conferring the rights of an ordinary tenant upon cultivators taken into these so-called partnerships. Sections 70 and 71 of the Act run as follows:—

" 70. (1) When an ordinary tenant dies, his right in his holding shall devolve as if it were land:

Provided that a collateral relative of the tenant shall not be entitled to inherit his right unless at the death of the tenant he was a ~~to~~-sharer in the holding.

(2) Save in pursuance of a document duly registered before the commencement of this Act, no decree or order shall be passed for the sale of the right of an ordinary tenant in his holding, nor shall such right be sold in execution of any decree or order.

(3) No ordinary tenant shall be entitled to sell, make a gift of, mortgage, sub-let (except for a period not exceeding one year) or otherwise transfer his right, or holding, or any portion thereof; and every such sale, gift, mortgage, sub-lease

(other than for a period not exceeding one year) or transfer shall be *voidable* in the manner and to the extent provided by the two next following sections :—

Provided that nothing in this sub-section shall affect the right of the Government to sell the right of an ordinary tenant in his holding for the recovery of an advance made to him under the Land Improvement Loans Act, 1883, or the Agriculturists' Loans Act, 1884, or the right of the purchaser at such sale to succeed to the holding.

(4) No contract for the sub-lease of a holding or any portion thereof shall be entered into or made during the currency of a sub-lease of such holding or such portion thereof; and every such contract shall be voidable in the manner and to the extent provided by the two next following sections.

(5) Notwithstanding anything contained in the Indian Registration Act, 1877, no officer empowered to register documents under that Act shall admit to registration any document which purports to transfer the right of an ordinary tenant in his holding or in any portion thereof.

71. (1) If an ordinary tenant transfers any portion of his rights in any land in contravention of the provisions of the last foregoing section, any such person as would be entitled to inherit his right in the holding in the event of his death without nearer heirs, or the landlord from whom the tenant held the land, may, on application to a Revenue-officer, made within two years from the date on which, in pursuance of the transfer, the tenant parted with possession of the land, be placed in possession, subject so far as the Revenue-officer may, in accordance with rules made by the Local Government, determine, to his acceptance of the liabilities of the transferring tenant for arrears of rent and for advances made by the landlord or other persons for the necessary expenses of cultivation.

(2) As among several persons so entitled and being desirous of being placed in possession, the right to be so placed shall accrue in the order in which such persons would have inherited the right of the tenant in the subject of the transfer if the tenant had died. Failing any such persons, the right shall accrue to the landlord."

The right of a *ryot* in the survey-number allotted to him at revenue settlement is described in section 67 (e) of the Central Provinces Land Revenue Act which is as follows :—

“ 67-E. (1) The right of a Government *ryot* in a survey-number held by him shall devolve as if it were land, but is not transferable except to a person who, if he survived the *ryot*, would inherit his right, or to a co-sharer in such right, or, with the permission of the Deputy Commissioner, by a lease to a sub-tenant cultivating under the *ryot*.

(2) The right of a *ryot* in a survey-number held by him shall not be sold in execution of a decree.

(3) A *ryot* is not entitled to claim partition of a survey-number, but the Deputy Commissioner may, with the previous sanction of the Chief Commissioner, partition a survey-number and apportion the assessment between the holders thereof.

(4) Nothing in this section shall affect the rights of *ryots* on whom proprietary rights in survey-numbers held by them have been conferred by special orders.”

*B. Berar.*—The most common form of tenure in Berar is the *ryotwari*. The *ryot* has full proprietary rights over his survey-numbers; he may sell, let, or mortgage. So long as he pays the assessment he cannot be ejected. But in the case of lands allotted by Government after 1st January, 1905, the tenure is restricted. In the case of these lands neither the occupant, his heirs, executors, administrators, or approved assignees can lease, mortgage, sell, or otherwise encumber the survey-numbers or any portion thereof without the previous sanction in writing of the Deputy Commissioner.

The following forms of tenure occasionally exist in Berar :—

- (1) *Izara*.
- (2) *Jagir*.
- (3) *Palampat*.

(1) *Izara villages.*—These are commonly called “*ek numbri*” villages. An *Izara* village is considered to be one survey-number; and the *Izardar* is responsible to the Government for the land revenue. The tenants of the *Izardar* are tenants-at-will.

(2) *Jagir*.—A *Jagir* consists of one or more whole villages. A *Jagir* generally means a "revenue free" village, and is held on fixed conditions. So long as the conditions are fulfilled the holder cannot be ejected. The conditions of transfer are regulated according to the nature of the particular grants. There are two classes of tenants in *Jagir* villages, namely, *ante* *Jagir* tenants and *post* *Jagir* tenants. *Ante* *Jagir* tenants are those whose ancestors were in occupation when the *Jagirs* were granted. They have the same right in their lands as the holder of a survey-number has; that is the unrestricted right of transfer. *Post* *Jagir* tenants are those who came into existence after the grant of the *Jagirs*. These are tenants-at-will, and hold by private treaty. These tenants have no statutory rights of transfer.

(3) *Palampat villages*.—These villages resemble the *malguzari* villages in the Central Provinces. The holders of these villages are responsible to Government for the payment of land revenue. Their tenants, however, have unrestricted rights of transfer.

Let us now examine the structure of special institutions for co-operative mortgage credit, remembering that the possibility of imitation or of adaptation depends entirely upon the limitations imposed by local environment. As it is not the writer's purpose to present studies which can only be of academic interest to the practical worker, it may be said at once that the present environment and development of the Central Provinces is most unfavourable to the introduction of any form of co-operative mortgage credit except, perhaps—and the "perhaps" must be emphasized—for *malguzars*. It is improbable that *malguzars*, between whom the bond of sympathy and of fellowship is by no means strongly developed, will be quick to grasp the benefits of co-operation. A great deal of patient teaching will have to be given; or, it may be, that the success of our small village credit societies and of the co-operative agricultural improvement associations will, sooner or later, enlighten a class, the majority of which considers that "co-operation" is only for very humble persons. Nor, as I shall point out presently, are ignorance and lack of initiative the only difficulties in the way.



In Berar the prevailing form of tenure favours the introduction of co-operative mortgage credit. The load of mortgage debt is heavy, and the rates of interest are very frequently high. But the co-operative idea is not an easy one for the Berar villager; the *mouza* is full of factions, and the cultivator loves his law suit. What is required in Berar is education in co-operation, in its moral far more than in its material aspects, and this is being slowly given by the Raiffeisen credit societies which are gradually, and with much difficulty, being formed in the cotton producing tracts.

The universal type of co-operative land credit society is a non-profit-seeking association of proprietors of land, organized for a province or for some other administrative unit. Individuals become members when the Association becomes a mortgagee of their property. Membership ceases with the redemption of the mortgage. Just as in all other co-operative credit the main merit of this particular form of it lies less in the substitution of wholesale dealing for retail, than in the interposition of a body between borrowers and lenders, which, although composed exclusively of borrowers, has a supreme interest in safeguarding the lender's interest. As a class, all co-operative land credit societies have in their organization and in the management of their affairs certain features in common. Their object is to obtain for their members the credit they require by means of bonds, freely transferable and readily negotiable, which the holder can convert into cash, at any time if he sells in the open market, at six months' notice if he demands payment from the society. To provide for demands of this nature (a) reserve funds are accumulated, (b) the right is sometimes retained to charge mortgagor members the same rate of interest as a society may have to pay for loans taken and consequent on such demand, (c) members undertake a limited liability for supplementary contributory payments amounting to from 5 to 10 per cent. of indebtedness incurred. Methods (b) and (c) are not common, (a) being sufficient as a rule, as all sinking fund payments are made available as reserves. Formerly, these bonds were guaranteed by the landowners of the province or unit collectively. In some of the oldest European societies this collective guarantee

is still in force, either for all the estates entitled to obtain mortgages or for the estates actually mortgaged. But where a reputation has been gained for very careful valuation and the land records and mortgage registers are well known to be reliable, the collective guarantee (which, of course, is supplementary to the specific security held by the society for its loan), has been replaced by the guarantee afforded by the reserves or the limited contributory guarantee of the members. The latest type of society appears to favour the initial guarantee which is furnished by a substantial share capital, the object being, of course, that the society's own stake should cover any possible deficit in assets.

Societies dealing in co-operative mortgage credit have usually a semi-official character. They work under Government supervision and inspection, though their members do the detailed work themselves. In case of non-payment by a member they have, as a rule, the right to proceed to the administration of the mortgaged lands or to compulsory sale by auction, without recourse to the law courts. But the levy of a fine or of penal interest always precedes drastic action. The servants and officers of the societies are indirectly servants of the State, and generally they have authority to sign certain public documents, such, for instance, as the certificate required before summary procedure is taken.

In each society the supreme authority is vested in the general meeting of the members. Then come the central committees of management, and then the local or district committees. The Syndics, or expert legal members of the committee of management, conduct the current business of the society. They are paid and, in most cases, are bound exclusively to the service of the society. The landowning members of the committee are generally unpaid. The task of land valuation is performed by the local committees who are selected from members resident in the neighbourhood of the land to be valued and not very heavily in debt to the society. Local knowledge, in fact, is always made the utmost use of. To be quite safe, and not to risk losses, no society grants loans in excess of a certain proportion of the valuation made on the land; the usual limit

is 66%. Great care is taken to see that payments both on account of interest and amortisation (or to sinking fund) are regularly made, and that mortgaged property is not allowed to deteriorate. On the other hand, if the objects stated by the borrower are approved and the valuation shows that the security is good, loans are never refused and cannot be called in suddenly except, of course, as a penalty for misconduct. The mortgagor is at liberty to redeem his property before the date stipulated and, in fact, he can repay as fast as he likes.

Members who borrow have to make certain contributions towards working expenses and reserve fund, and to pay the actual cost of valuation. Interest on loans ranges from about  $3\frac{1}{2}\%$  to a little over 4% ; the longer the period of the loan the higher the rate of interest. The borrower chooses his own rate and period. In Germany, if the loan required does not exceed the land revenue assessment or other recognized unit of valuation multiplied by the normal multiple accepted for this purpose, the expenses of a special valuation are avoided. Loans are paid in bonds, not in cash, except in a few cases. The borrower either disposes of the bonds in the market, or, in those cases in which the societies have established their own special banks, takes them to the society's bank for sale or for pledge against a loan. If the borrower of a loan of Rs. 100 chooses, say, 4 per cent. bonds he may obtain, at the predominant market rates, Rs. 100.6 to Rs. 101.6 for his bonds on sale ; if he selects  $3\frac{1}{2}$  per cent. bonds he obtains Rs. 92, and thus, with 3 per cent. bonds, though he receives only Rs. 84, he pays interest on Rs. 100 and his sinking fund payments are likewise based on this latter sum. He is entitled, however, to repay the loan by re-purchasing similar bonds in the open market and returning them to the society. While mortgagors obtain the advantage of a rise in value of bonds, they may, of course, suffer loss through an unfavourable market at the time of selling their bonds. If the bonds are sold, however, above *par*, mortgagors gain the balance, being only obliged to repay the nominal value ; and should they repay their loan by purchasing such bonds in the market and returning them to the society, at a time when the bonds have declined in price, they obtain the advantages of

both premium and discount. Societies make it a regular practice to buy in their own bonds when the market is favourable.

Holders of bonds issued possess no rights against any particular real property but only a right to recover from the society. Conformity between bonds and mortgage claims is, however, fully secured ; bonds do not become legally valid documents until completed by the supervising officials, upon whom it is incumbent to ascertain by inspection of the public register of title that a like amount is thus secured by mortgage upon property and that such mortgage claim is also definitely assigned to meet the bond claim. In face of this assignment the registry official may only cancel the mortgage charge on proof that bonds of like value have been withdrawn from circulation. Bondholders have not, however, claims against specific properties thus mortgaged and earmarked ; the method indicated merely guarantees that there are never more bonds in circulation than are covered by mortgages, and that other credit operations likely to weaken the security of the bonds are not undertaken by the societies. First mortgages only are dealt in ; but societies grant loans to pay off previous mortgages. Most of the bonds have an international reputation and market, and they have seldom been below and sometimes above *par*. They are legally recognized as trustee securities. Issues of bonds are made in distinct series ; every series carries the same rate of interest, and is dealt with as a distinct issue, having its own management fund, reserve fund, and sinking fund. Four per cent. is the most common rate of interest on bonds. In order to float the bonds the societies have united to form their own special banks, which, again, are more or less under State control, are recognized as places for the deposit of trust monies, and are not conducted for the sake of profit. All the profits made by these banks, which are at liberty to engage in any banking business which is not speculative, go to the reserve funds of the societies. The market for land bonds is consistently good.

The regulations adopted by the societies respecting amortisation differ widely. It is, however, the general rule that the contributions towards redemption are not applied to the immediate reduction of the debt, but are accumulated in a special

fund. But the fact that most societies allow the withdrawal of accumulated contributions or readily grant fresh mortgages prevents the proper aim—complete removal of indebtedness—from being realised. On the other hand, it is urged that, unless such facilities are granted, landowners may be obliged to seek mortgage credit elsewhere and on more unfavourable terms. Various proposals have been made to secure removal of indebtedness; one, for instance, is that the mortgagor should pay an insurance rate for a redemption policy in addition to his annual amortisation payment to the sinking fund; another that the amortisation payment should be devoted to a life insurance policy. In the latter case the burden on the mortgagor is lighter.

There is, I think, an idea prevailing that mortgage credit societies of every kind are for big landowners only. Nothing is further from the truth. Judicious methods of decentralisation—and of centralisation as well—local knowledge and local resources bearing their full share of the task, can make the mortgage credit society a very valuable friend to the small landowner. But the environment must be favourable and the volume of business considerable.

The principal merits attaching to a mortgage credit association as an agency for providing the landowner with long term credit may be summarised as follows:—

- (1) They enable landowners to mobilise the wealth represented by their landed possessions by the creation of bonds passing into the general system of securities. These bonds are not, like an ordinary mortgage security, of very restricted currency but are realisable at any time in the open market.
- (2) The loans granted are not subject to recall.
- (3) The rate of interest is as moderate as possible—far more moderate than the borrower could secure if single handed, and is regulated by the market rate.
- (4) The rate of interest cannot be raised.
- (5) The right is conceded to reduce the debt by payments made at the mortgagor's convenience.

- (6) The necessary extinction of the capital debt is accomplished gradually.
- (7) The costs for valuation and other charges are low.
- (8) Their administration is at once relatively inexpensive and their office-holders highly qualified for their work.

An indirect advantage realised by landholders arises from their being made acquainted in a minute way with the value and properties of their lands, by means of the valuations carried out by their societies, the results of which are always communicated to them.

It may, perhaps, be asked whether land mortgage credit based upon some other system than that which has just been described would not secure equal benefits for the small landowner and be far more convenient, even if rather more expensive, for the large proprietor. It may be pointed out that in most countries savings banks and land mortgage banks play a very important part in providing owners of land with long term credit. Now all capital is derived from savings, and as all credit should be based on thrift and prudence, the stimulation of thrift and prudence is a necessary antecedent to the grant of credit. It is emphatically *not* the mere outpouring of cheap capital that is required in these Provinces, *not* the mere grant of cheap and facile credit to classes unprepared for the boon. What is wanted is the promotion of facilities for saving, the encouragement of banking deposits, the inculcation of the true objects, uses, and limits of credit; in other words, the development of the essential virtues of thrift, foresight, and self-help, through institutions organized for those ends. Savings banks are not of one universal type. In England, France, and India the Savings Bank is one which accepts the petty deposits of small folk, and, for the purpose of absolute safety, invests the whole of the deposits in the State Treasury. In Germany, Austria, Italy, and the United States of America, the Savings Banks are institutions established, managed or supervised, and guaranteed by the communal, district, or urban authorities, apart from whom they do not exist as legal entities; they not only have, within certain limits laid down by law, the free

disposal of their funds, but they can fix and vary their rates of interest according to the local circumstances. Official supervision is, of course, universal; and the justification for it, just as in the case of the co-operative organizations, is that experience and common public sense teach that matters of vital national importance affecting the moral and material development of the people, cannot be left to themselves. Savings Banks, however, of whatever description, deal exclusively with deposits repayable at short notice; for small depositors never know when they may want their money back. Savings Banks must, therefore, be at every moment prepared to meet large demands for cash, and it follows that their investments must be easily realisable. Thus, the very nature of the liabilities of the Savings Banks renders it necessary for them to make all loans liable to recall. Moreover, in the case of dealings by Savings Banks with individual mortgagors, the preliminary enquiry and valuation are expensive and troublesome, while, in the event of the mortgagor's failure to repay, the Savings Bank is saddled with a parcel of land, often remote but seldom small, for the small owner is a troublesome and not very remunerative client and is not looked upon with favour. On the whole, then, the best method of employing Savings Bank money for agricultural credit is that which recognizes the bonds of regular co-operative mortgage credit societies as trustee securities.

I am now going to turn to the Report of the United States Commission on "Agricultural Credit and Rural Co-operation in Europe." As a preliminary to the discussion of land-mortgage credit, the Commission first defines it as "credit to meet the capital requirements of the farmer," and distinguishes between such credit and short term or personal credit, which serves "to meet the current or annually recurring needs of the farmer." The capital requirements of the farmer are then defined as "his need for large sums of money to be used in aiding to pay the purchase price of his farm, in improving the farm, or in equipping it so as to bring his operations to the highest stage of efficiency," and the annually recurring needs of the farmer as "the money needed by him to finance

his operations during the time that the crops are being produced."

In the opinion of the Commission the development of a system of mortgage banks, dealing principally (if not exclusively) in long term loans to meet the farmer's capital requirements, must necessarily precede, *in the United States of America*, the establishment of short term or personal credit banks. "In this country," says the report, "it is urgently necessary to create a land-mortgage security which will be entirely liquid by reason of having a ready market, which will run for a long time, which can be paid off in small annual or semi-annual instalments, and which will enable the land-owning farmer to use most advantageously his best banking asset, land, as the basis of credit."

The Report next calls attention to the danger of assuming that because a system has proved successful in one country, it will, therefore, prove successful in another country where conditions may be widely different ; and in this connection draws a contrast between agricultural conditions in Germany and in the United States, as follows :—" In size the German Empire is about equal to the area of the State of Texas after cutting off from Texas an area as large as the State of Alabama. In population the German Empire contains about 68,000,000 people, or more than two-thirds of the population of the whole United States. In intensive farming the Germans are far ahead of our own farming population, and the average production in Germany has increased greatly, while our average yield per acre has increased but slowly. In Germany the population in a given district is largely homogeneous, and the individual is, so to speak, attached to the soil, the same farms continuing in the same families for generations. In this country such a condition is seldom found. In Germany, on account of the limited supply of land and the large population, and on account of the known productivity of each piece of land, the value of that land is easily ascertained and varies within very slight limits. In this country the variations in value are very great. In Germany the average farm is about twenty acres ; in this country the average farm is 138 acres.



In Germany the credit and resources of the individual in a community are known to practically every other individual in that community ; in this country no such accurate information is obtainable. In Germany the small farmer, his wife and children all do manual work on the farm ; in this country such a condition is rare. In Germany the people have been trained to a supervision and control of their operations by strict Government regulations which would not be favoured in this country."

The Commissioners then discuss the plan of a single central mortgage bank for the United States, and reject it in favour of a system of independent banks.

In brief, it is proposed to permit any ten persons to organize a land mortgage bank under a Federal charter and subject to Federal supervision, but limited as to its sphere of action to the territory of a single State. The minimum capital necessary is fixed at Rs. 30,000 in shares of Rs. 300 each (except in the case of co-operative banks, whose shares may be as low as Rs. 75), and each bank would be empowered to issue bonds, guaranteed by first mortgages on farm land within the State, to an amount not exceeding 15 times its capital and accumulated surplus. Under certain conditions the mortgage bonds issued by such banks could be used : (1) as security for the deposit of postal savings funds ; (2) as a legal investment for funds accumulated as term deposits in national banking associations ; (3) as a legal investment for trust funds under the charge of United States courts.

The capital of the banks, as well as the mortgage bonds themselves, would be exempt from taxation. For the supervision and control of the banks, and in general for the carrying out of the provisions of the Bill, it is proposed to create, in the Treasury Department, a special bureau under the direction of a " Commissioner of Farm-Land Banks."

The exemption from taxation accorded to the bonds is justified by the Commissioners on the ground that any tax imposed would fall ultimately on the farmers who borrow from the banks and that such a result would amount to double taxation of land, since land is already the object of taxation in the separate States. The proposal to recognize the mortgage

bonds as a medium for the investment of postal savings deposits, trust funds and national bank deposits is intended to raise the status of such bonds by making them easily negotiable in a wide market. The legislation proposed would, it is hoped, at once place the bonds of the mortgage banks on an equality with Municipal, State, and Federal government bonds.

With respect to the loans which the banks would be permitted to make upon farm lands, the Bill lays down the following conditions :

(1) That such loans be made for not more than 35 years ; (2) that all farm-mortgage loans shall be on first mortgages only ; (3) that they shall not exceed 50 per cent. of the value of improved farm lands or 40 per cent. of other land ; (4) that every farm mortgage loan shall contain a mandatory provision for the repayment of such loan by amortisation ; (5) that the borrower may repay the loan at any interest period after five years.

The value of any land or other real estate offered as security for a mortgage loan would be determined for each bank by an Appraisal Committee consisting of three members of the Board of Directors. Each report of the Appraisal Committee must be signed by at least two of the members, and must show the value at which the land in question is assessed for taxation and such other information as is required by the Directors of the Bank or the Commissioner of Farm-Land Banks. The adequacy of these provisions has already been questioned, and it would evidently be the duty of the Commissioner to issue stringent regulations with respect to the methods of valuation before giving any bank the power to issue bonds.

The conditions upon which the banks would be permitted to issue bonds are as follows :—(1) the difference between the rate of interest charged for loans and the rate paid by the banks on the bonds issued, shall not exceed 1 per cent. ; (2) all bonds shall be payable on a date specified ; (3) bonds shall be protected by the deposit of first mortgages of equal nominal value, maturing not less than five years from date ; (4) the amortisation payments as made must be credited on the mortgages and the bonds issued against such mortgages must be redeemed to that

extent ; (5) the mortgages held as security for bonds shall be in the joint possession of the bank and of the special official known as the Federal Fiduciary Agent ; (6) no bond shall be issued against any mortgage running for less than five years.

In order to furnish the banks with the fluid working capital necessary in any type of banking institution they would be authorised to accept deposits to the extent of 50 per cent. of their capital and surplus, and to do an ordinary banking business (including the purchase and rediscounting of commercial paper) within the limits set by the amount of such deposits. The banks would also be free to invest not more than 50 per cent. of their working capital in mortgage loans for periods not exceeding five years, against which, however, they would not be allowed to issue bonds.

Further, each bank would have power to buy and sell its own bonds as well as those of any other national mortgage bank, provided always that at any time not more than 50 per cent. of its capital and surplus was invested in such bonds or in short term mortgages.

The provision that a bank may buy in and become a temporary holder of its own bonds is regarded by the Commissioners as of the utmost importance as it enables the bank to maintain a steady market for its bonds and at the same time earn a legitimate profit by opportune dealings in them.

The amount of deposits which could be accepted by the banks is limited to 50 per cent. of each bank's capital and accumulated reserve on the grounds, as stated by the Commissioners, that the banks are not intended to compete with commercial banks and that the holding of deposits for which there may be a sudden demand is likely to endanger the safety of an institution which is engaged principally in making loans for long periods.

The limitation, however, does not apply to deposits of postal savings funds (or other Federal deposits), or to deposits of State funds. A bank must, if required, accept postal savings funds up to 50 per cent. of its capital and reserves, but may accept such deposits, as well as deposits of State funds, to an unlimited extent.

Postal savings funds can only be invested in first mortgage loans on farm lands, and the funds held on deposit for the State in which the bank operates can only be invested as provided by the laws of that State.

It is probable that the Commission intend that a bank shall be restricted to accepting deposits on behalf of the State in which it is situated, although in more than one section of the Bill, where "State funds" are referred to, the restriction is not explicit.

The Federal Fiduciary Agent who would be jointly responsible with the bank for all mortgages and deeds of trust held by the bank, and who would, in addition, certify to every bond issued, is the representative both of the bank with which he is acting and of the Federal Bureau of Farm-Land Banks. He would be nominated by the Commissioner of Farm-Land Banks, but his salary would be paid by the bank and it is expressly stipulated that he must not be objectionable to the directors of the bank. He would apparently have no security of tenure and it has been urged that his position, in view of the fact that he is intended to represent the controlling authority, would hardly be sufficiently independent.

The balance of the capital and surplus of any bank may be invested in interest-bearing securities approved by the Commissioner of Farm-Land Banks.

The student must remember that in America agricultural labour is very scarce and very dear ; that farms average 138 acres in area ; that fresh land is constantly being put under the plough ; and that the use of machinery of all kinds alone renders farming possible. The farmer, if he can hold his own at all, must be in possession of qualities far in advance of those at present owned by the average ryot. Different countries, different problems, different aims, and different solutions. Of what use would an American land mortgage bank be in the economic development of the Central Provinces ?

Let us return to Japan once more. Another name for Japan is *Mizuho-no-Kuni*, or the "Land of luxuriant rice crops." Communications between Japan and foreign countries date, for the student of economic history and world development,

from 1868 only. Japan spreads over the two zones, temperate and torrid, and enjoys the benefit of a fertile soil. In the greater portion of the country crops are raised twice, thrice, and even four times a year. Agriculture furnishes the greater portion of the national products, but imports of cereals exceed by 5.6 per cent. the total produce of the cereal crops. Efforts to produce a home food supply are, however, meeting with success; agriculture yields much raw material necessary for the development of technical industries; and the cultivating classes (over 60 per cent. of the total population) are the greatest consumers of the commercial products of the country. The condition of agriculture at once affects the general economic circle, for the prosperity and adversity of commerce and industry are regulated by the condition of agriculture. "The very existence of our nation," so a Japanese statesman has declared, "requires that agriculture should be held in high esteem and not be neglected."

We have already considered the co-operative rural credit system of Japan; and it is worth while examining the organization of the non-co-operative banks which work in direct connection with that system. All of these banks are of comparatively recent origin, and they are called the *Nippon Kangyo Ginko* (the Mortgage Bank of Japan), and the *Noko Ginko* (Agricultural and Industrial Banks). The former is a concern which does business all over the country, making large loans, while the latter operate within the limits of each prefecture only; thus, there is one *Nippon Kangyo Ginko*, and there are forty-six *Noko Ginko*. The Department of Finance has recently begun to lend money at low rates through the Mortgage Bank of Japan. The banks work under special rules prescribed by Government; and in accordance with their charters it is their business (1) to make loans to co-operative societies and kindred organizations, without the pledge of real property, and (2) to make long-term loans upon immovable property. An excellent system of land records and of registration is in force in Japan.

The *Nippon Kangyo Ginko* began operations in August, 1897, with a capital of Rs. 1,50,00,000 of which one quarter was paid up.

According to its charter, the bank is to be in existence for one hundred years ; and yet it is provided that the term can be extended by means of a resolution of shareholders duly approved by the Government. In March, 1911, an amendment was adopted to enlarge the scope of its business, by authorising it to make loans upon immovable property in cities. The functions of the Bank are as follows :—

- (1) To make loans, on the security of immovable property repayable in annual instalments within a period of fifty years.
- (2) To make loans, on the security of immovable property or fishery rights, repayable at a fixed time within a period of five years ; provided, however, that the total amount of such loans may not exceed one-tenth of the total amount of loans repayable in annual instalments.

*Note.*—There is a restriction in making the loans mentioned above in 1 and 2. With the exception of loans made on the security of lands or buildings, or the property belonging to factories the total amount of loans made on the security of lands or buildings located in places subject to municipal administration or in towns designated by Imperial ordinance, may not exceed one half of the paid-up capital and the mortgage debentures issued.

3. To make loans repayable in annual instalments on the security of loans repayable in annual instalments made by Agricultural and Industrial Banks together with the mortgages connected therewith.

4. To make loans without security to prefectures, districts, municipalities, towns, villages, or other public bodies organized by law.

5. To take up the Agricultural and Industrial Banks debentures issued.

6. To make loans, without security, to Farm-Land Adjustment Societies, or persons co-operating in carrying out such adjustment with joint liability, Co-operative Societies, Fishery Societies, Forestry Societies or their federations.

7. To take deposits and accept for safe deposit gold or silver bullion or negotiable instruments ; provided, however, that the total amount of deposits may not exceed the paid-up capital.

Besides, by virtue of the charter, the bank is authorised to buy national bonds with surplus funds or to turn the amount over to the Bank of Japan on deposit.

The bank may not accept as security such forms of property as schools, hospitals, sanitariums, theatres, mines, quarries, swamps, and mineral springs.

In granting applications for the loans secured by immovable property the bank must carefully scrutinize the pledges furnished, and is directed to make sure :—

1. That the properties are such as will enable the bank to acquire a right of priority.

2. That in the case of lands, they are such that continued assured profits can be derived from them so that the fixed annual repayments bearing upon the loans can be guaranteed after the taxes have been paid.

3. That, in the case of insured buildings or mortgages, the value of the security is double the amount of the loans.

The total amount of the loans of the bank shall not exceed two-thirds of the value which is set upon the securities. With reference to the loans repayable in annual instalments, the amount of the yearly instalments must be equal, calculating capital and interest together, and must never vary according to the circumstances of the year ; the only permissible deviation from this being when the partial repayment of a loan is under consideration. When the bank comes to determine the rates of interest, it consults the Minister of Finance who fixes a maximum rate within which the Bank may operate.

It is natural that banks like the Mortgage Bank are always confronted with a difficulty in attracting deposits, because unlike commercial banks, they cannot keep their assets fluid. This caused the Government to bestow upon the Mortgage Bank the privilege of issuing mortgage debentures, with a premium, subject to the restriction that they may not exceed the total sum of loans repayable in annual instalments and the

Agricultural and Industrial Banks debentures actually on hand, nor ten times the paid-up capital. And its own debentures are to be redeemed by means of drawings twice a year at least, in amounts corresponding to the payment of loans repayable in annual instalments and of the Agricultural and Industrial debentures taken up by it.

During the first ten years after its establishment, the bank was empowered to ask the Government for a subsidy, in case its dividends fell short of 5 per cent. per annum, until that amount was reached; and it was given the further privilege of being exempted from paying the registration and stamp duties. As the bank occupies such a unique position and enjoys many privileges granted solely for the purpose of encouraging agriculture and industry, it is under the control of two supervisors and has to consult the Financial Minister as regards its business. It has issued debentures and made loans to the extent of Rs. 24,39,73,000.

At present the Minister of Finance has approved 7·10 per cent. as the maximum rate of interest.

The *Noko Ginko* which are found in each prefecture, were brought into existence to make long-term loans upon immovable property, similar to those made by the Mortgage Bank. The latter does business on a large scale, and does not care to deal with small manufacturers and peasants, many of whom possess nothing of worth to a big bank. According to the law, the *Noko Ginko* are joint-stock companies created in each one of the prefectures with a capital of Rs. 4,50,000 and upwards, and the forty-six banks in the country were founded during the three years from 1897 onwards. They do not give personal credit to individuals, unless found together in groups of twenty or more with joint liability. While many amendments have been made from time to time, the scope of their business stands to-day as follows:—

1. To make loans on the security of immovable property, repayable in annual instalments within a period of thirty years.

2. To make loans, on the security of immovables, repayable at a fixed time within a period of five years; provided



however, that the total amount of such loans may not exceed one-fifth of the total amount of loans repayable in annual instalments.

*Note.*—In making the loans mentioned above in 1 and 2, care is to be taken that the amount of the loans for city lands shall not exceed one-fourth of the total of the paid-up capital and the debentures issued.

3. To make loans, without security, according to 1 and 2 to the districts, municipalities, towns, and villages or other public bodies organized by law.

4. To make loans, without security, according to 1 and 2, to Farm Land Adjustment Societies, or persons co-operating in carrying out such adjustment with joint liability.

5. To make loans, without security, repayable at a fixed time within a period of five years, to groups of twenty or more agriculturists or manufacturers with joint liability whose credit is sure.

6. To make loans, within the provisions of the second clause, repayable at a fixed time with a period of five years, on the security of fishery rights.

7. To make loans, without security, according to 1 and 2, to Co-operative Societies, Fishery Societies, Forestry Societies, or their federations.

8. To take deposits and accept for safe deposit gold or silver bullion and negotiable instruments, provided, however, that the total amount of deposits at any time *except gold* may not exceed the paid-up capital.

Furthermore, an Agricultural and Industrial Bank is authorised to buy negotiable instruments with surplus funds, or deposit it in other banks, and the regulations regarding the conditions of the pledges and loans repayable in annual instalments are the same as those relating to the Mortgage Bank.

By way of raising the necessary loan funds these concerns are granted the privilege of issuing debentures, to the amount of five times the paid-up capital, for which they are, however, obliged to offer as security all the mortgages they possess, and also their own capital; but the bonds are without premium. The fact that they are provincial concerns, engaged in their

respective localities, prevents any widespread subscription of their debentures ; and consequently they are allowed to turn them over to the Mortgage Bank. Another concession is that they are entitled to approach the bank whenever need arises, to get capital, on the security of loans repayable in annual instalments together with the mortgages connected therewith. Further, it is to be mentioned that they have utilised the great part of their deposits for loan funds.

In order to guarantee their business, the Government enacted " The Law of Subsidising Agricultural and Industrial Banks " by virtue of which the authorities appropriated Rs. 1,50,00,000 to be distributed proportionately among prefectures. With these sums, the prefectural offices were enabled to become shareholders of the banks ; but strict measures were taken in order that their shares should not bear dividends for the first five years after the concerns had been in business, and that during the following five years the dividends accruing therefrom should be set aside as reserve funds. Later, an amendment was proclaimed to prolong the latter term to fifteen years. The Government provides for the same supervision as in the case of the Mortgage Bank, save that their supervisors are chosen from among the higher prefectural officials. These banks have a loan and debenture business amounting to Rs. 9,48,73,575.

The Minister of Finance has imposed 8.5 per cent. as the maximum rate of interest.

Several years ago, the Japanese Government commenced to make use of postal savings, which are entrusted to the Deposit Sections of the Department of Finance. That is, it commenced to circulate them in the shape of loans through the *Nippon Kangyo Ginko* and the *Noko Ginko*. To public bodies this was put in practice early in 1909 ; to Co-operative Societies, in 1910 ; to Forestry and Fishery Societies, in 1911 ; and to farmers, manufacturers, or traders, with petty loans within the amount of Rs. 750, in the same year. The amount of these funds appropriated to agriculture furnishes most of the sums lent to Co-operative Societies, and a part of the petty loans to farmers.

A close examination of the work done by these Japanese banks reveals the fact that by themselves they, in common with similar banks in other parts of the world, do not succeed in providing the small landowner with the necessary long term credit. As a means of augmenting the resources of the co-operative system and of rendering co-operative finance elastic and fluid the *Ginko* are invaluable. But the tendency is for the business of the big man to crowd out that offered by the small man, so remote, so difficult to appraise the credit of, and so expensive and troublesome to collect from if he fails to make voluntary payment. From the small man's point of view, also, the big bank is a bad creditor to have direct dealings with; for it is impersonal, colourless, cold, and cannot always distinguish the misfortune which merits and will repay further assistance from deliberate neglect of obligations incurred. In fact, all things considered, co-operative organization provides the only satisfactory solution of the problem presented by the need of the small landowner for long term credit.

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## CHAPTER V.

### CO-OPERATION IN AGRICULTURE.

The study of agricultural credit includes the study of the whole of agricultural organization. Credit signifies one or two definite structures, and agriculture, where it needs co-operative credit, adopts a fairly constant type. The processes of agricultural production, however, depend upon environment, and such things as bad communications, climate, religious prejudices, the state of general education, and narrowness of outlook, impose natural limitations upon the immediate scope for co-operative action. The rate of co-operative progress cannot be forced; for the movement cannot run ahead of the general development of the country and of the people in it, though, of course, it can and does greatly stimulate that development. The successful practice of co-operation in agriculture postulates, on the part of the cultivating classes, an ingrained appreciation of the value of association which only years of patient work can instil.

Agricultural co-operative societies for supply and for production are of comparatively recent origin ; they appeared on the continent of Europe about 1860, but not in France or Italy till about 1884, and, in England, not till 1900. Roughly speaking it was only in 1895 that agricultural co-operation for purposes other than (a) credit or (b) supply became important in any country. In most countries, as has already been pointed out, the tendency of legislation is in favour of a peasant proprietary ; even in Belgium, a country in the main of tenancy, the influence of French example, combined with the natural inclination of Belgian agriculture, has been sufficient to sustain an atmosphere favourable to the small holder. Great Britain, on the other hand, has come to be known as the landlord country *par excellence* ; and, what is of greater significance to its agriculture, as the country of big farms. When, as during the first half of the 19th century, the cultivation of cereals, and especially of corn, was the kind of agriculture most profitable for Western Europe, large-scale farming was in its most suitable element : and Great Britain was not only the pioneer of agricultural reform, but was held up by foreign countries as a model, just as Denmark is now held up as a model to her. When, however, during the last half of the 19th century, the conditions of European agriculture came to favour small farming products, the Continental countries, which had, a half-century previously, established a peasant proprietary, found the trend of agriculture playing into their hands and giving to them the kind of agriculture most suited to their land tenure. Great Britain, on the other hand, was paralysed by the change : she had lost her small-farming tradition, and has, therefore, had to content herself with following, by means of her recent small-holding legislation, in the wake of that irresistible change in the nature of her agriculture which is making the small holder indispensable. And just because the small holder is indispensable, the association of small holders is absolutely necessary.

Now the Central Provinces and Berar are, broadly speaking, most certainly a domain of small holders, whether tenants or proprietors. In the Jubbulpore District, for instance, there are 60,225 tenants. In the wild eastern tracts of the district

co-operation in agriculture is not possible; excluding those tracts the average size of a holding is from 12 to 18 acres. And these figures are, for all practical purposes, sufficiently typical of the well cultivated tracts of the Province; if anything, they are too big. In view of the general conditions prevailing it would be futile to ask the practical student to devote attention to the study of very advanced forms of agricultural co-operation such, for instance, as co-operative societies for the use of electric power. I shall, then, in this chapter, write nothing which is, in my humble opinion, superfluous; and throughout it must be remembered that the object of this book is not so much to indicate precise models—to be taken like so many bottles of patent medicine for economic ailments—as to suggest to the worker the path of future progress and to teach him to apply the broad principles of co-operation for himself.

The supply society corresponds to the credit society in meeting a general need. All land is the more fertile for some kind of manure; and all land must have some kind of implement and seed. In India it is to be regretted that comparatively little land gets manure; but, in this connection, it is important to distinguish between the processes which affect soil particles in cold and hot climates. In the former, Nature releases from the soil the necessary supply of plant food very slowly; in the latter, the natural action is more violent, the disintegration of the soil particle and the creation of a fresh supply of plant food more rapid. Hence the fallacy of comparison, as regards fallows and fertility, between cold and hot, or dry and moist climates. There is no satisfactory proof that the unmanured lands of the Province have reached the point of diminishing yield which in tropical countries is long postponed. To avoid argument, let us concede that manure is not in the Central Provinces and Berar the indispensable adjunct of every kind of agriculture. We are still left with implements and seed.

The economies of the co-operative supply of the materials of agriculture are parallel with the economies of the town store which we shall study in a succeeding chapter. But whereas the town store represents for its members the sum total of co-operation, the agricultural supply society is but one point in a

series of co-operations in the direction of production and sale. The organization of co-operative supply presents a fairly uniform type, the local society and the central or wholesale union. This wholesale may be either for a district \* or a province. If for a district it may (as in Germany) have a higher organization above it, or (as in France) it may not.

There is nothing in the functions of the supply society which necessitates its limitations to a strictly parish area. But the tendency amongst all small cultivators is to make the parish or village the primary unit of association. This means that the society can reach down to all and can associate all in local government. The disadvantages of local isolation disappear if the primary units create their own central union. Here, for instance, is a picture of the simplest form of co-operative purchase and supply. The establishment is simply a shed. The sole official, the Secretary, works also at the local credit bank and does his business either there or at home. Each quarter the Secretary obtains from the members an estimate of their requirements and transmits the orders to the office of the central union. Deliveries are taken by individual members, and they arrange for all transport from the railway station. The society pays cash to the central union and collects its own dues from its members. Small stocks slightly in excess of orders are maintained in the Society's shed in order to supply emergent and unforeseen demands.

The fixing of price and the distribution of the surplus profit are conducted on the same principle as in the retail store in the town—sale at market price and division of the surplus according to the amount of trade done through the organization. An agricultural supply society has only one dividend to reckon with. Ordering from its wholesale for the individual accounts of its members, it serves as the channel for the payment of a single dividend from the wholesale to the different members of itself. The wholesale society of the town co-operative stores pays a slight dividend to the separate stores, based on the difference between the manufacturer's and the wholesale price ;

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\* Any given tract of country.

and the store pays a further dividend to its members based on the difference between the wholesale and the retail market price.

Some agricultural supply societies have limited, others unlimited, liability. Many lay down in their rules that their members shall bring all their custom to the society. The loyalty of the societies themselves to the wholesale is also variously regulated. In one form of organization the liability of the societies towards the wholesale is limited, but that of the member towards the individual society is unlimited. Societies are allotted profits according to the custom they bring the wholesale, but are bound to carry such profits to an indivisible reserve fund. In the Raiffeisen system supply is worked as a subordinate branch of credit. The working capital of the societies is raised by loans, often from the members themselves; that of the wholesale is derived from reserved dividends and deposits by the societies. The wholesale has the right to call up a society's reserve fund as a loan if it wants money, and loyalty in custom to the society and to the wholesale is rigidly enforced.

The strongest supply organizations, those of Denmark and Switzerland, supply household requirements as well as the materials of agriculture. Not only has the Danish organization a huge wholesale warehouse at Copenhagen, but it has also, like the British Town Store Wholesales, its own productive departments, factories for rope, soap, tobacco, cocoa, and chocolate. Other countries confine themselves strictly to agricultural requirements—seeds, manures, foodstuffs for cattle, etc., and sometimes machinery, the supply of other commodities being considered outside the scope of an agricultural society for co-operative supply.

As contemplated by Raiffeisen, the village credit society was apparently to represent a co-operative organization which primarily furnished credit to its members, but which also bought their agricultural requisites, sold their produce, provided machines for common use, and even engaged in production (*e.g.*, dairy operations); in the society were to be concentrated, in effect, the economic forces of the village community.

Experience has proved that the supply of agricultural requisites can be suitably carried on as a department of a credit institution, but that co-operative undertakings, involving technical skill in their management and considerable capital liabilities, are best taken in hand by societies independently constituted. One of the principal difficulties operating against the creation of a separate agricultural supply society in a village in which a credit society is already established is the dearth of suitable men to fill the responsible offices in two societies. The advantages of amalgamation, moreover, are considerable. The credit society need not raise special capital in order to be able to carry on the business of a supply society as it either has cash at disposal or, by reason of its credit at the co-operative central bank, can settle accounts through that agency. The recovery of sums due by purchasers is assured by the knowledge of the financial condition of members possessed by the committee of management. The small percentage added to the cost price by the society constitutes a useful source of revenue to meet the cost of management and strengthen the reserves; and, when this business is large, enables perhaps the rates for loans and deposits to be respectively lowered and raised. This extension of business, of course, increases the work of the management. In most cases, however, the society confines itself to collecting orders from members, transmitting these to the central trading society, advising members of the arrival of their goods, carrying out the necessary book-keeping, and recovering the payments from members on receipt of goods. When the society is very large, and the members make great use of these facilities for obtaining reliable commodities at reasonable prices, either additional remuneration is paid to the member who acts as Secretary, or a store is maintained, the work in connection with which is often allotted to another member, who receives payment in return for his services.

It is of the utmost importance that co-operative business should be kept as simple as possible and, of course, that liabilities should never overlap. When the student grasps what "unlimited liability" really means, he will understand at once how important it is that the members of a Raiffeisen credit



society should concentrate their liabilities within the circle of their society. To lose control over the doings, borrowings, and pledges of members is to lose control of liability; a society with unlimited liability out of mutual control is a grave source of danger to its own members and to its creditors. If then a credit society is to go in for the business of agricultural supply it must *not* pledge its own unlimited liability, nor must it allow any of its members to pledge again an unlimited liability which already forms part of the society's assets. It may, however, and that quite legitimately, advance money to its own members (a) for the purchase of agricultural supplies in their individual private capacity, without any collective order being given, (b) for the purchase of shares, or for contribution towards the price of the society's share or shares, in any co-operative institution *with limited liability*,\* and (c) in order to place a collective order (the liability being imposed first of all on each individual member for the price of the supplies he has ordered) with a central supply agency, whether that agency be the co-operative central bank to which the society is affiliated or not. The safest and most simple method is to make the co-operative central bank an agency for supply, the financial risk remaining on the shoulders of the principal (*e.g.*, some private firm or co-operative central organization), and to allow the central bank to fill only definite orders for supply on cash payment, or to sell *for cash* from the principal's stock kept at the agency depôt of the central bank. The central bank can, if a society's credit warrants an advance, lend money to societies in their corporate capacity; and societies, in turn, can advance money to their individual members. There is, in this procedure, no overlapping of liability and great simplicity in accounts, while the local credit society remains the unit which assesses the credit of individual borrowers and collects money from them. The business of the central bank remains legitimate, and its credit dealings are with societies only and not with individuals. In a tract of country which is studded with strong co-operative credit

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\* Section 32 (1) (c) of the Indian Co-operative Societies Act II of 1912 conceals a possible pitfall.

societies an enlightened and well managed central bank can with great advantage to the cultivator, be made the channel for the distribution of pure and improved seed and for the sale of agricultural implements specially designed and manufactured to suit local requirements. Manure, of course, can be procured and distributed by the same agency. The central bank need not charge for these services to agriculture anything more than is necessary to cover any special expense incurred, and the credit society requires no profit. All that is necessary is good organization on the part of the central bank, and, on the part of the cultivators of the tract, a thorough understanding of the value of association and the exercise of those virtues which we include comprehensively in the term "the co-operative spirit." But, before even this stage of co-operative development can be reached, business must be on a large enough scale to support the necessary organization. And this, in short, means that there must be in the tract to be served a large number of well trained co-operative credit societies.

In almost every country there are many agriculturists who for one reason or another find the Raiffeisen type of co-operative organization unsuited to their requirements. Such persons either require no credit, or can procure it at cheaper rates than those which are offered by village co-operative credit societies with unlimited liability. But there are very few agriculturists indeed, no matter how substantial they may be, who cannot increase their profits by means of societies for purchase, supply, production, and sale. For these we find provided a separate type of organization following what is generally known as the *Haas System*. Under this system membership of the primary society is not confined to the narrow limits of a single village or parish but may extend to a larger though a definitely restricted area. This area must not be so large as to prevent the holding of meetings which all members can easily attend. The main objects of a co-operative society of this kind are supply, or purchase, or sale, or production—perhaps a combination of two or more of these objects. Founded on a basis of limited liability, share capital is, of course, an essential feature of their constitution and furnishes the

necessary pledge, earnest money, or margin of security required by lending institutions. Sometimes the share capital is wholly paid up, sometimes a definite liability is incurred in addition to the share or shares taken, and, in a comparatively few instances, shares are subscribed for but are held in reserve liability. These societies are generally arranged in groups and are affiliated to a central union in which the societies of the group are enrolled in membership. The central union is a society with share capital and limited liability, the shares being held by the primary or unit societies which are its members. Generally speaking, the societies and the central union alike are not banking institutions at all ; in some cases, it is true, they accept deposits from their own members but their ordinary channel for credit, when such is necessary, is the apex or provincial bank. This apex bank deals with the central unions, and the central unions in turn dispense credit to the primary societies. Credit is not allowed for general purposes but only for such specific objects as are clearly laid down in the by-laws of the primary societies. For audit, supervision, and control, the primary societies and the central unions come under the wing of the provincial federation. Thus, although the central co-operative banks of the Raiffeisen type conduct their entire business on a basis of unlimited liability, the provincial banks and federations have working under them distinct organizations which follow what may, for the sake of convenience, be referred to as the systems of Raiffeisen and of Haas.

The short studies which follow will, it is hoped, prove useful, if only as a guide by which to measure the limitations imposed by environment.

#### A. AN IRISH CO-OPERATIVE DAIRY.

In the matter of internal organization, modern dairying is a machine industry, using steam or electricity as its motive power, and the modern butter-making process, the "centrifugal" process, is highly specialised. The plant of a fair-sized dairy, worked throughout with steam power and the latest machinery, costs between Rs. 14,000 and Rs. 25,000. Each morning the milk is brought from the farms into the dairy yard, and, after

a sample of each supplier's milk has been taken for testing purposes, poured into large tanks. The milk is then separated at pasteurising temperature, the skim milk (about 75 per cent. of the whole weight) being returned to the farmer for cattle food. The cream which remains (with the exception perhaps of a small quantity reserved for local consumption as cream) is ripened in large vats, and then conducted along cooling pipes so as to reach the churn at a suitable temperature. When the resulting butter and butter milk are emitted from the churn, the butter milk is sucked down by pumps and led away along pipes to be pasteurised and returned to the farmers also for cattle food. At first, the Irish farmers grumbled because their butter milk was not so valuable as before, not realizing that this decrease was more than compensated by the complete extraction of the more valuable butter material. Lastly, the butter passes into the finishing room, where it is rolled, salted, and packed. By noon the work of the dairy is at an end. The whole process, occupying altogether but a few hours, is thus one which depends for its excellence on a combination of expert direction and special machinery. The Manager, who must have had a special "butter" education, is generally assisted by an engineer and half a dozen butter workers, usually women.

#### B. THE LUCKNOW BARAF-KHANA CO-OPERATIVE DAIRY SOCIETY UNLIMITED, UNITED PROVINCES.\*

1. *Date of Registration.*—The Husainganj Ghosi Co-operative Credit Society registered on September 14th, 1911, was reconstituted and registered under the above name as a dairy society on March 17th, 1914. The dairy actually started operations in December, 1913.

2. *Constitution and Management.*—The number of members is 40. As a qualification for membership applicants must be owners of milch cattle and carry on the business of the sale of milk and dairy produce in Lucknow. The Managing Committee

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\* This account is taken *verbatim* from the Report of the Committee on Co-operation in India, 1915.

consists of 7 members, of whom 4 are elected by the members and 3 are nominated by the District Co-operative Bank, Lucknow, which finances the dairy. Among these latter is the Deputy Commissioner of Lucknow who is the *ex-officio* Chairman. Committee Meetings are held not less frequently than once a month. Up to January 31st, 1915, 23 meetings had taken place. A sub-committee of 3 members, presided over by Mr. M. Azhar Ali, Pleader, has been appointed to carry on the ordinary administrative control of the dairy and had held 49 meetings up to January 31st, 1915. Every member of the society is required to take up at least one share and as many more, not exceeding 50, as the Committee may decide after considering his general position. Shares are of Rs. 20 each, payable by 20 equal half-yearly instalments.

3. *Sources of Capital.*—The following are the main items which constitute the working capital:—

|  | Rs.    |
|--|--------|
| Paid up share capital .. .. .          | 1,494  |
| Loan from District Bank .. .. .        | 14,140 |
| Loan from Lucknow Municipality .. .. . | 6,000  |
|  | 21,634 |

As regards share capital, 441 shares have been subscribed and are being paid up by half-yearly instalments. The loan from the district bank is being repaid by monthly instalments as recoveries come in from members. The society was lent Rs. 6,000 by the Lucknow Municipality at 5 per cent. repayable in 3 years for the construction of suitable buildings.

4. *Employment of Capital.*—Cash loans are made to members at the rate of 15 per cent., chiefly for the purchase of milch cattle and fodder. Small loans are repayable by monthly instalments, and others according to their object and the condition of the borrower. The borrower is required to furnish two sureties and to sign a pro-note. Loans are ordinarily repaid punctually, but owing to the high price of food-stuffs prevailing last year \* some have become overdue.

The members buy and look after their own cattle. They also buy their own fodder which is inspected by the Manager. In its corporate capacity the society has leased some pasture land in Lucknow itself for the use of the cattle kept in the dairy premises, and also last hot weather leased some pasture land in the Bahraich district to which dry cattle were sent. The Agricultural Department in conjunction with the Municipality propose shortly to start a sullage farm in the neighbourhood, and have promised to sell fodder to the dairy at reasonable rates as soon as it becomes available.

The society in its corporate capacity has also secured a convenient site for the dairy near the civil station and cantonments, and has invested about Rs. 8,000 of its working capital in erecting (1) a dairy fitted with modern dairy appliances, together with an office room, (2) two sheds for the housing of the cattle, which number 214 and include cows, buffaloes, and calves, and (3) two rows of dwelling houses in which 32 of the members reside including both Mussulmans and Hindus. The cost of each house is debited as a loan to the member occupying it, and when the loan is recovered, the house will become the member's private property. It is proposed, as funds become available, to build (1) additional sheds for cattle, (2) quarters for the Manager, and (3) a compound wall.

5. *Profits and Reserve Fund.*—All animals are milked under the supervision of the Manager. The milk is received direct in the dairy room at the rate of 11 seers per rupee. From there it is sold direct to the public at 8 seers per rupee as whole-milk, or at 12 annas a pound as butter or cream, or at 14 annas a pound as *ghi*. There are about 100 regular customers, both European and Indian. *The rate of sale approximates to the market rate as there is little demand for milk at a higher rate.* The total receipts on account of sales between December 1913 and January 1915 amounted to Rs. 14,468. The milk is distributed by hand by some of the members who are remunerated at the rate of 6 annas per house per month.

The society is one of unlimited liability. No dividends are to be paid on the shares of members for ten years and after that period a dividend limited to 10 per cent. will be admissible on

fully paid-up shares. At present all profits are carried to the reserve fund, which on June 30th, 1914, amounted to Rs. 885. The profits for the following seven months were Rs. 848. The reserve fund is used as part of the working capital of the society.

6. *Staff*.—(1) A Manager on Rs. 35 who has visited some military dairies and been trained in co-operative work. He lives in the compound and supervises the whole institution, (2) a whole-time Accountant on Rs. 10 per month, (3) a butter maker on Rs. 9 per month, (4) 2 salesmen on Rs. 6 per month, (5) 1 *bhisti* on Rs. 3 per month, (6) 1 sweeper on Rs. 2-8 per month, (7) 1 *chowkidar* on Rs. 6 per month, and (8) about half a dozen members distributing milk at the rate mentioned above. The total cost of the staff is about Rs. 110 per month.

7. *Special Features*.—The dairy, being at the headquarters of the Province of Oudh is fortunate in the amount of supervision which it receives. It is regularly inspected by the Honorary Manager of the District Bank, the Municipal Health Officer, the Sanitary Commissioner with Government, the Superintendent of the Civil Veterinary Department, and the Officers and Staff of the Agricultural Department, as well as by the Registrar. The Agricultural Department have put down a small silo in the compound to demonstrate the system of ensilage, and have presented a bull buffalo to the dairy. The Municipal Board has also given a bull to the institution. These two bulls serve only dairy cattle, and a record of their service is regularly maintained.

### C. MILK SELLING SOCIETIES.

Close scrutiny shows that co-operative dairies of the advanced Irish type are, in all countries, most numerous in predominantly agricultural regions, where market conditions do not favour the regular despatch of fresh milk to the towns. It is, in fact, necessary, in such regions, for the producer to turn his milk into something that will keep and can be easily handled and transported, *e.g.*, butter, cheese, tinned milk, *ghi*. The decisive question, of course, concerning the establishment of a co-operative dairy, or of a milk selling society, or of a society of consumers pure and simple, is whether the prospective

members are in a position to ensure the regular delivery of a sufficient quantity of milk. In many co-operative dairies and milk selling societies, members are obliged, under penalty of fine, to deliver all milk beyond what is required for their household or farm, and not to make butter or to sell milk. The situation of a dairy being of great importance, sites are chosen in close proximity to the main traffic routes, the post office, and the railway station. Nearness to the railway means saving of expense both for the transport of produce and for the receiving of milk, coal, and other necessaries. Other factors to be considered in choosing the site are a liberal supply of cool water, freedom from dampness, and means for the effective disposal of waste matter.

The society which undertakes the sale of milk only is generally constituted by combinations of milk producers of all kinds either for the purpose of sending milk to a central cooling station, or for the establishment of urban central sale stations. In the former case the object is to secure the production of pure milk on the individual farms, to collect this milk in local cooling stations where it is thoroughly cleansed and cooled, and to despatch this milk of a guaranteed standard quality to the towns. The members of the society undertake to adopt prescribed measures in regard to the equipment of cow sheds, the maintenance, feeding and giving to drink of their cows, their milking, and the treatment of the milk. They also agree to submit their arrangements to the supervision of the officials of the society, which provides the necessary collecting and cooling station and subsequent suitable method of transport and sale. For small producers the advantages are very great; the milk is better cleaned and better cooled, and it is preserved for a longer time. The producer is saved the cost and trouble of marketing, and obtains generally higher prices. Such milk selling societies of a local character tend to join or form urban societies which establish a central dairy with branch shops in some large city. Central dairies, however, require not only adequate equipment but a large fixed and circulating capital. In general, it must be observed that it is the object of these societies to pay the highest possible prices to their members for



milk supplied, and that unless there is co-operation for the supply of cattle food, etc., working expenses are invariably too high in proportion to sales. In dairy and milk selling societies alike the formation of adequate reserves is of special importance, for the whole business may be brought to a standstill at any time by the resignation of a considerable body of members, who, by such action, would not only upset the finances of the society but would deprive it of the necessary supplies of milk. Provided arrangements could be made to secure a regular milk supply and to engage skilled and honest management, *consumers* in Indian cities might, with great benefit to their health if not to their pockets, co-operate to open their own dairies and shops. Such enterprise would require the support of a considerable body of subscribers in order to make it possible and economical, and the members of societies would, without active supervision and interest on their part, most certainly be disappointed in results. It must also be recognized that there are numbers of people who place cheapness above every other consideration, careless of the truth that adulterated and dirty milk is a grave source of danger to health. If milk must be sold so cheap as to render the addition of water necessary then, instead of wilfully shutting his eyes to the fact that there is not much of the genuine article in the "milk" he purchases, the consumer might at least protect himself and his family by arranging that the water, at any rate, shall be pure and that the grosser forms of adulteration and unwholesome feeding of cattle are prevented. The poor man might buy a small quantity of pure milk and add the water for himself.

#### D. SPECIMEN BUSINESS RULES FOR CO-OPERATIVE THRESHING SOCIETIES.

I. The steam-threshing machine shall, whilst at work, be under the care of a mechanic appointed for the purpose by the Committee of Management of the Co-operative Society.

His duties, as well as his wages, shall be fixed by a special service agreement, which latter shall require the approval of the General Meeting

2. Members are under obligation to use only the threshing machine of the Society for the purpose of steam-threshing.

3. Every member is bound, for each share held in the Society, to employ the steam-threshing machine for—hours annually.

Infringements of this regulation shall be punished by a fixed fine, the amount of which shall be determined by the General Meeting.

4. The right of use of the plant by the members shall be regulated as follows:—

(a) In the period from the beginning of harvest up to September 20th of each year, every member is entitled to use the threshing plant for half the number of hours to which he is bound by the terms of section 3.

(b) In order to avoid unnecessary moving of the machine backwards and forwards, the members in each locality must make use of it in turn within the period stated under (a).

(c) The use of the machine shall be a matter of yearly arrangement. If an agreement cannot be reached as to the locality in which the machine is to be first employed, the same shall be decided by lot.

5. Any person desiring to use the threshing machine must himself provide for its transport. Immediately upon completion of the work he must again return the machine to a highway.

The transport of the machine from one place to another shall be a common charge on the society.

6. Requests for the hire of the threshing machine must be sent to the Secretary. The order in which the requests shall be complied with shall be settled by the Committee of Management as a whole. The charge for hire shall be settled by the General Meeting.

7. Fuel and binding twine shall be paid for by the user of the machine. The materials will be delivered by the Society at cost price. The user must provide for the necessary water-supply.

8. The return of the machine after hire shall be the business of the user.

The above business regulations are approved by the General Meeting of \_\_\_\_\_, the (date)

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The Co-operative Steam Threshing Society  
registered society with limited liability.

The Board of Supervision

The Committee of Management

These rules can, of course, be adapted to suit any kind of agricultural machinery.

#### E. A GRANARY SOCIETY.

The illustration given comes from Germany, and the student must understand that State aid plays a most important part in the organization of German corn selling societies. The State has not only granted liberal subventions, but provides a ready market, the Army frequently taking the whole of the available supplies and selling stable litter, etc., to the members of granary societies on favourable terms.

The Halle Granary Society—the most famous of German granary societies—was founded in 1896 by 60 members with shares of Rs. 3-12, carrying a liability of Rs. 75 per share; each member was obliged to take up a number of shares in proportion to the area of his land, the maximum holding of shares per member being fixed at 100. The number of members eventually reached 500. Members were not at first obliged to deliver any fixed proportion of their production, the result of this, according to one statement on this point, being that the Society got inferior corn while the good corn went to the factors. The most usual method of payment was to pay in full in cash at current market prices. In the seven years 1897-1904 profits totalling Rs. 11,400 were obtained in three years and losses totalling Rs. 1,68,000 for the other four years. In 1903 the shares were raised to Rs. 75 in value; and members agreed to deliver a minimum of three tons of cereals and to buy at least two tons of manures and feeding-stuffs each year from

the society. In 1904 the original warehouse was surrendered to the State, on the refusal of the latter to lower the rent of Rs. 15,000; the building and site were not purchasable as the land was the property of the State Railway. The Society continued business in a warehouse rented for Rs. 3,000, corn purchased from farmers being despatched, as far as possible, directly from the farm to its final destination. In the two succeeding years its profits were Rs. 12,000 and Rs. 15,000 respectively. The Society was ultimately merged in the central trading society of the Saxon Co-operative Union, the shares of the warehouse society being taken over by the trading society, which guaranteed an interest of  $4\frac{1}{2}$  per cent. on them,  $3\frac{1}{2}$  per cent. to be paid to members, and 1 per cent. in liquidation of the debt of Rs. 1,50,000. The central trading society, which has a business turnover of over Rs. 1,50,00,000 per annum possesses a large warehouse on the river at Halle.

Dr. Rabe gives the following reasons for the non-success of the Halle Granary Society. (1) It was one of the first to be established in Germany, and its granary was too large, being, in fact, the largest to be built, and the cost of its upkeep was very great. Lack of experience was thus largely responsible for the failure. (2) The machinery equipment was very wasteful—for instance, to handle even a hundredweight of grain all the motors had to be set working. (3) The area from which the members were drawn was too extensive—some members lived about 80 miles distant. (4) The original working capital was too small (the shares being only Rs. 3-12) in comparison with the turnover (about Rs. 3,00,000) with the result that interest charges were unduly heavy,—in one year Rs. 30,000 was paid as interest upon borrowed capital. (5) The Society did not sell manures, etc., during the earlier part of its existence. According to Dr. Rabe, experience proves the sale of agricultural requisites to be indispensable (a) because farmers are otherwise obliged to purchase from dealers, who often give them credit on condition that they sell their cereals to them, the societies thus losing supplies, and (b) because the profits from this business contribute to meet the general expenses without entailing much extra cost as regards space and management. (6) Mismanagement

in certain directions, for instance, by holding excessive quantities in stock. In spite of its non-success, however, the general influence of the Society had been beneficial to the farmers in various ways, especially as regards improving prices and making corn dealers more amenable.

#### F. SWISS CATTLE BREEDING SOCIETIES.

For the Swiss agriculturist cattle-rearing is the chief source of gain. Small holdings are the rule in Switzerland, and necessity has brought breeders together into associations, formed chiefly with the object of improving the breeds. A small proprietor rarely has the means to procure well-bred bulls; but if small proprietors are well organized, as in co-operative cattle-breeding societies, the disadvantages of small holdings are no longer felt, and it is possible to create those conditions which are indispensable to the systematic, continuous, and successful breeding of cattle. There are in Switzerland (1916) 850 societies for the breeding of cattle; there are also some societies solely for purchasing and keeping bulls. The objects of co-operative societies for cattle-breeding are as follows:—

- (1) The selection and proper maintenance of the best bulls;
- (2) the selection and marking of the best cows and heifers;
- (3) the systematic maintenance of animals for breeding purposes and the proper rearing of their calves;
- (4) the regular keeping of a Herd Book with correct particulars as to the pedigree of the animals;
- (5) enquiry as to capacity of production;
- (6) the encouragement and facilitation of the sale of cattle for breeding purposes, and the protection of the interests involved;
- (7) the exchange of information among the members of the Society as to questions of breeding and feeding.

Some particulars may now be given as to the foundation, the constitution, and the work of a co-operative cattle-rearing society.

The Society is founded by a certain number of agriculturists or breeders of the same neighbourhood or of adjoining districts, who subscribe to the by-laws.

The capital required for the purchase of a bull is generally collected by means of a quota of from Rs. 12 to Rs. 60 per person. The association comprises the general body of members, a President's Committee composed of from three to seven members, a Committee of Experts or Valuers, and a Committee for the Examination of the Accounts. The Secretary of the Society usually keeps the Herd Book, and is nearly always one of the President's Committee. The Committee of Experts is generally composed of three members who may be all or in part elected from among the members of the President's Committee. The share capital may be formed out of subscriptions and premiums paid by members joining the Society later, from fees for animals entered in the Herd Book (one or two rupees per head), from prizes gained by bulls belonging to the Society, and from contributions from the State and the commune. The co-operative societies do not aim at making large profits, but they often endeavour, more especially the larger and older societies, to form a reserve fund to meet any eventuality. Members are not responsible for engagements made by the co-operative society to which they belong: it must fulfil them exclusively with its own capital. Since 1910 the Swiss Federation has shared the cost of establishing co-operative cattle-rearing societies, granting to them sums of from Rs. 60 to Rs. 180. The amount of the contribution depends on the quality of the cattle, and more especially of the bulls belonging to the Society, as well as on the correct keeping of the Herd Book.

Individual co-operative societies vary much in importance; as a rule the number of members is from 10 to 50, but in exceptional cases there are 60 and even 100. The number of animals entered in the books varies from 30 to 100, sometimes even to 200 and more. The territory of a society may include one or more communes and extend even over a whole valley. The

choice of sires from among cattle belonging to members is made by the above mentioned Committee of Experts solely from among animals of pure breed and of the proper age. This Committee also buys bulls for the Society and decides, generally only provisionally, as to the acceptance and entry of cows and heifers in the Herd Books. Their definite acceptance is in most cases made by the Cantonal Examining Commission, which every year revises the assets of the Society. Animals to be entered are marked on the left horn with the mark of the Society and a progressive number. Should the animal be sold to any person not belonging to the Society, or to a butcher, its name is erased from the Herd Book. This must be done also should the animal prove of inferior quality or of insufficient reproductive power. The bulls are chosen with the utmost care. The societies as a rule keep bulls which have certificates for service. A bull belonging to the Society must not only possess beauty of form and have proved reproductive capacity, but must also be of a good breed and give reasonable expectation that its good qualities will be transmitted to its descendants. The questions both of descendants and pedigree are of great importance in the selection of bulls. The co-operative societies generally buy only those bulls acknowledged to be the best, and therefore the prices paid are considerable, sometimes Rs. 2,500 to Rs. 3,000 and even more. It often happens that one bull is not sufficient for the larger co-operative societies, which are sometimes obliged to buy a second or even a third, though others limit themselves to one, which they hire. In this case a regular contract is made by which members possessing bulls of good breed agree to put them at the disposal of other members on payment of a fixed sum by the Society. Bulls thus hired are entered in the Herd Book of the Society.

Cows and heifers are not entered in the books unless they are of good breed. Since the intervention of Government has made itself felt in the breeding of cattle, every animal must be examined according to a uniform system (classification by marks, highest number 100). In this way a certain uniformity is obtained in the acceptance of cattle, and now the only difference is as regards the minimum number of marks necessary

for entry in the books. In consequence of the improvement in the quality of the animals the minimum has been raised and the examinations are more strict.

Co-operative societies for cattle-rearing have also brought about an improvement in the management of the animals. The Society generally entrusts its own bulls to the care of one of its members who signs a regular contract by which he engages to feed and take care of the animal for a certain sum as compensation. There are special rules laid down by the Society for the management, feeding, and hiring out of the bulls. Besides fodder (hay and sometimes fresh grass) bulls should also have a certain quantity of more substantial food. For cows and heifers there are common pastures. Alpine co-operative societies have mountain pastures to which they can send the animals for the summer months. The societies of the valleys are now continually endeavouring to buy or hire mountain pastures for the cattle of their members, for the beneficial effect of a summer in the mountains on the health and development of the animals, especially of the younger ones, is well known. It will be seen that, owing to the co-operative societies, much progress has been made in the breeding and management of cattle. The calves are more scientifically fed, receiving sufficient whole milk for a much longer time, and substantial food as they grow older. They are prepared for the mountain pastures by having full liberty in fields adapted to their needs. The development of the animals is encouraged and protected by sound methods, too early breeding being avoided. The co-operative societies have also undoubtedly contributed to encourage the breeders to perfect themselves by mutual instruction and good example.

These societies have always made a point of requiring a regular registration of cattle and in this respect they are worthy of all praise, for breeding could have no durable result without a precise knowledge of the pedigree of the animals, and for that a carefully kept Herd Book is indispensable. The Swiss Department of Agriculture gives precise and minute directions as to the keeping of these books, so that the system is uniform throughout all the cattle-rearing territory. Private Herd Books



without official character, are of little importance now that co-operative cattle-breeding societies are widely diffused.

The Society's registers comprise the following books, principal and secondary.

The Herd Book divided into two parts, one for bulls, the other for cows and heifers.

The Register of Admission.

The Stall Book.

The Service Certificates.

The Register of Service Certificates.

The Register of Births.

The Certificate of Sale, etc.

The Register of Young Animals.

The Extract from the Herd Book.

As already stated the animals to be entered in the books of the Society must be marked on the left horn. In the Register of Admissions the name and age of the animal and the name of its proprietor, &c., must be entered, and from these particulars the regular entry in the Herd Book is made. For the exact keeping of the Herd Book, the Stall Book is of great importance; it must be kept ready for reference by every owner of a bull. In this book must be entered in chronological order all the services of the bull, also its name, number, and countersign or metal token, also the age of the cow and the name of her owner. From the Stall Book these particulars are taken for entry in the Herd Book in which births must also be registered when duly announced by the owner of the calves. If a member should hire a bull other than that belonging to the Society he must inform the Society by sending in the Service Certificate. When a bull is sold, the owner must give notice to the Society by means of a Special Certificate of Sale. Note of this must be made in the Herd Book in which there is a space for entering the pedigree, the measurements, the classification of the points, and the reproductive capacity.

An essential part of the Herd Book is that which contains the certificates of service given by the Federation. Since 1891 the Swiss Department of Agriculture has distributed to cattle owners the best bulls selected according to the Service

Registers. The certificates are numbered, and contain the name, number, countersign, and generally the pedigree of the bull. Cows and heifers also receive Service Certificates containing the name and address of the owner, the name, age and marks (number and countersign), the metal token (number and entry), and colour of the bull. The certificate holds good for four services, and bears the date of its issue and the signature of the writer (either the keeper of the bull or the keeper of the Herd Book). Another essential part of the certificate is the entry of the birth with the pedigree of the mother, the day of the birth, the name of the calf, the number and the entry of the mark on the ear and the date, also the signature of the Registrar.

The calves of such bulls and cows themselves destined for breeding purposes must bear on the right ear the federal mark placed there by men duly appointed. The owner of the animal must confirm the birth and pedigree of the calf before the Registrar, calling two witnesses as prescribed by law. The Registrars are appointed by districts, and are given the status of Government officers, and must be persons worthy of trust if not the district veterinary surgeons.

The respective cantons must supervise the keeping of the Registers of Service Certificates. The registers are submitted in June of every year to the Swiss Department of Agriculture. Such registers are now in use all over Switzerland. By these registers and the consequent marking of calves with the federal metal token, the pedigree of the animals is securely established. Such a guarantee is daily required in commercial transactions, offering as it does, a means of identifying the animal much more precisely and surely than written notes. The pedigree of the animal is also proved by the federal Herd Book, and (a very recent innovation) by pedigree tables, which are becoming more and more general from their clearness and completeness. The appraisal of descent considered in the adjudication of prizes, and in part also in the admissibility of the bull for service, is calculated by marks.

A Pedigree Book is a new factor in guaranteeing pedigrees. It treats of the best breeding stocks and their descendants. In researches for purity of blood it is one of the best helps and

renders excellent service in the purchase of animals for breeding. In 1911 the Swiss Agricultural Department published Pedigree Books.

#### G. FEDERATIONS OF SWISS CO-OPERATIVE CATTLE-REARING SOCIETIES.

After the establishment of numerous co-operative societies the need for concerted action between them became evident. And soon Federations came into existence in the chief cattle-breeding districts. In 1890 was formed the *Swiss Federation of Co-operative Societies for the Rearing of Simmenthal Cattle*; in 1897 the *Swiss Federation of Co-operative Societies for the Rearing of Brown Cattle*. Both extended rapidly. At the present time the first comprises 340 co-operative societies with 10,371 members, and 26,510 head of cattle; the second numbers 190 co-operative societies with 6,347 members, and 21,900 head of cattle.

The aim of these federations is to improve the organization of the co-operative societies and of cattle-rearing in general, to facilitate the exchange of sires, to create uniformity of method in the examination and valuation of cattle, to institute conferences of judges appointed for the conferring of prizes after due researches as to production, to take part in exhibitions, and to favour trade in cattle for breeding. They also aim at a uniform system of keeping the Herd Books, instituting inspections and prizes.

To encourage the exchange of sires, these federations organized special fairs for bulls, which are held annually. To each of these fairs, which are also of the nature of exhibitions, are sent from 800 to 1,000 bulls; they continue for three or four days and are frequented by foreigners as well as by Swiss, offering an excellent opportunity for the purchase of good breeding material. The bulls are judged and prizes awarded by a specially appointed jury. To the best bulls are granted certificates for service; to the younger bulls for one year, to the older without a time limit. Sometimes whole herds of breeding-cattle are sent to the fairs for exhibition and competition for prizes. They comprise the heads of the herd and their

male descendants, thus affording an opportunity to visitors to the fair of ascertaining precisely the pedigrees of the animals and of guidance in questions of breeding. The federations encourage the sale of breeding-cattle by sending them to exhibitions, especially those in foreign countries. Convenient permanent offices for the transaction of sales have been established, and they furnish every possible information, and conduct the exchanges of sires. There have been several meetings of members of the juries appointed to confer prizes, and these have contributed in a remarkable manner to uniformity of method in judging the animals.

They have also done much to secure uniformity in the method of keeping the Herd Book.

Modest in their origin, the Swiss co-operative societies have, within a brief period, attained a high state of development ; but notwithstanding the general success there have been occasional failures of a serious nature and these have been caused by mistakes in the selection of sires, disease and epidemics in the herds, unfavourable local conditions, errors in the selection of managers, and lack of co-operative qualities in the members. Cases of failure, however, have been exceptional.

#### H. CATTLE INSURANCE.

The importance of live-stock insurance for the agriculturist may be said to be in inverse ratio to the number of his cattle and the size of his holding. Large cattle-owners may dispense with outside insurance and spread the risk over their flocks and herds, occasional losses being unlikely to affect their general financial position ; but the loss of one or two head of large cattle may seriously embarrass the small owner, not only by the loss of the value of the stock, but also by the loss of income, of his means of cultivation, of manure, or (in India) of fuel, or of milk and *ghi*. Yet it appears that, in most countries, small agriculturists, as a class, make the least use of insurance. In fact of the total value of the 22,000,000 large cattle existing in Germany in 1910, a percentage of 8 only was insured at all, and most of the animals insured were the property of large owners.

Direct dealings with the small owner are not entered into by ordinary insurance companies. Just as the small rural borrower is too remote from the Joint Stock Bank, so the insurer of a few beasts offers business which the big insurance company cannot touch except at prohibitive rates. Cattle insurance is, therefore, most suitably undertaken by local organizations of a mutual or co-operative character. The members of such organizations can, among other things, observe and supervise the care given to insured animals and the action taken when anything occurs ; and it is to their interest to do so. They are, also, in a position, without incurring any appreciable expense, to estimate correctly the value of the animals both upon insurance and in case of loss. The drawback of local organization consists in the fact that the risk is covered by too small a number of animals and in a too restricted area. Should numerous losses occur more or less simultaneously, local societies may not be able to meet their obligations. It is, therefore, necessary for local societies to establish schemes of re-insurance either by combining among themselves, or by arrangements with large insurance undertakings.

As regards the raising of funds, there are three methods practicable and actually in use. In the first place, funds may be raised by a levy covering the more or less varying actual expenditure incurred *after* the event. " This, " says Mr. H. W. Wolff, " is sometimes extolled as ' the most co-operative ' of the three methods, inasmuch as it deals only with expenditure actually incurred and simply distributes the burden, making the member receiving compensation bear his own proper share." There is, however, under this method, no ready cash to pay out, and the loser of the animal may have to wait for payment of his claim. To meet this difficulty, some societies borrow, but this adds to the expense.

In the second place, a society may levy fixed premiums. But under such a scheme the money accumulated may be insufficient to satisfy claims. Some societies pay out till the premium fund is exhausted and then no further claims are allowed during the year. In Europe, cattle mortality in an ordinary year and from ordinary natural causes works out at

about 3 per cent. ; but there are exceptional years, and in individual societies the figures of mortality are sometimes very high. Death by glanders, tuberculosis, and epidemic diseases, on account of negligence on a journey to market, or from one town or village to another, is not accepted as an insurance risk. And in Belgium, the *Boerenbond*, or Federation, of which country has an arrangement for re-insurance with the Norwich Union Insurance Company in England, war risks and death from lightning are excluded, though the law makes insurance compulsory. The fixing of premium rates is not so difficult a matter in Europe, with its exact statistics and Government inspection of animals, as it would be in India.

The third method is to levy a fixed subscription to keep the society in cash, with liability attached to it to pay an additional levy after the event, should occasion require it.

"The most systematic attempt to organize live-stock insurance in several grades, and on a national basis," writes Mr. H. W. Wolff, "is that upon which the French Government, not without reason, not a little prides itself. The disfiguring feature\* about it is that it is to so large an extent the result of State pressure and State subvention. Provided that certain conditions are complied with, to keep the scheme 'mutual' the French Government pays Rs. 300 towards the formation of each local insurance society, with additional assistance, at the discretion of Government in very bad years. If the first kind of assistance offered is questionable, as leading people to believe that they are rather obliging the bountiful taxpayer than providently studying their own interest, the second seems absolutely vicious, because it leads people to misunderstand the principles of insurance and disregard actuarial foresight. Such criticism is supported by the fact that the money thus far contributed by the State has gone mainly to the reserve funds. A little more subscription or a little more federation would, therefore, have made State aid superfluous altogether.

The conditions imposed by the French Government under a law to entitle societies to State aid are these. The services

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\* State pressure and State subvention may be necessary in the public interest. Every case must be judged on its own merits. State necessity is a factor to be reckoned with.

given by officers of the Society must be unremunerated ; there must be no funds shared out among members ; the premium or subscription levied must not fall below 1 per cent. of the value of the beast ;\* and compensation must not exceed 80† per cent. of such value. *Partial compensation for loss is, it must be remarked, a feature of cattle insurance schemes in every country, the owner having to bear his share of the burden.* Provided the prescribed conditions are complied with, societies not only get the financial aid just mentioned, but are, in addition, exempted from every kind of taxation, stamps, or fees. Under this fostering treatment something like 8,500 local societies have come to be formed. And they are reported to be doing well in the main. There is no pressure used to make them combine, but the majority have combined in about sixty regional societies, re-insuring risks. In addition there are two moderately large re-insurance companies, the services of which are not sufficient for the large host of village societies. Accordingly the Government has a measure now on the stocks which is to create a 'National' Re-insurance Society, designed to act as the coping stone of all, endowed with Rs. 10,80,000 of taxpayers' money and drawing, in addition, an annual allowance of Rs. 180,000."

In the Central Provinces and Berar the co-operative movement must advance some stages, I think, before regular cattle insurance is attempted. Credit societies are the best schools in which to teach people what co-operation means, and there is very much to be done in the way of propagandist and educative work before we can venture very far beyond the confines of credit. When cattle insurance is started, the societies should be small and local, and they should be of the nature of "insurance clubs." Liability for claims in any one year should be limited to the amount of premiums received *in that year* and *all* risks should be included. Very careful arrangements should be made to record accurate statistics and tables of mortality. If the people are really imbued with the co-operative idea they

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\* Cf. the German rates, 4 to 6 per cent. Cahill, op. cit., p. 293.

† 75 per cent. only in Germany, as a rule.

will welcome the scheme, and they will be able to understand why a preliminary humble and experimental stage is necessary before anything ambitious can be attempted. All profits, *e.g.*, excess premium payments left after meeting claims for the year, should be carried to reserve. If success be met with in this initial stage, then with increased knowledge, understanding, and experience, natural development will follow. Above all, the temptation to be impatient of slow progress and to ask for Government money ought to be resisted, simply because lasting success in co-operation can only be obtained at the cost of the necessary effort on the part of co-operators, and that is the lesson which is so hard to teach in India. With the accumulation of reserves, funds will become available for organization on a large scale, and of the ultimate necessity for this higher development there can be no doubt. On this point we have the ripe experience of other countries to guide us.\*

#### I. INSURANCE AGAINST HAIL.

Co-operative insurance, unless it follows the purely "local mutual club" plan, must, if success is to be gained, be a matter of "big battalions." Risks must be spread over large numbers and large areas. Both the latter might be forthcoming in an area covered by co-operative credit societies and served by a good central bank; and, in such an area, the members of societies, *if advanced enough*, would welcome any scheme of hail or cattle insurance which they considered likely to benefit them. But the writer's opinion is that in the Central Provinces and Berar, the organizer can be sure that the motives behind the welcome are of the right kind *only* if his scheme is to be worked with money found directly by the people or by their own credit organization. The Indian peasant is quite ready to play with money provided by Government and to accept a sporting chance that he *may* not have to pay it back; the debt will, he thinks, like revenue, rent, or *taccavi*, be remitted if all does not go well. "Therefore," he argues (except where his own money is at stake) "it is better to agree with all that the

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\* Cf. H. W. Wolff "Co-operation in Agriculture," p. 241. Cahill, *op. cit.*, p. 294.



representative of Government says, "although it is very difficult to understand what this new scheme is. One must obey the Government order." If co-operative credit really does its work, thrift will be inculcated, and funds will accumulate, while the cultivator will become less fatalistic and more expert in that process of arguing from cause to effect which is at the bottom of the shrewdness that makes the "business man." Till co-operative credit has done its work and broadened the outlook of the cultivator, hail and cattle insurance are things beyond him; it is the new wine and the old bottles over again. Operations on a big scale are necessary for good schemes of insurance; the practical education given by co-operative credit societies will, in time, produce a large enough number of new bottles; and we had better not offer the new wine till then.

Mr. Wolff has some very valuable remarks to offer on the subject of insurance against hail. "Hail," he writes,\* "as every one knows, is a most capricious customer to deal with. It picks out the districts to be swept over without any regard for actuarial calculations, lumping its ravages together, either locally or in respect of time, in the most unaccountable manner. Its heavy depredations in Hungary, in 1897 and 1898, caused insurance companies to raise their premiums suddenly by 100 per cent. There is even worse to tell of 1909, the losses sustained in which year caused the six largest hail insurance companies in Germany—being 'mutual'—to supplement their ordinary levies by additional surcharges ranging from 160 to 350 per cent. of the former. No small folks' co-operative society could have stood such a test.

In Italy the trouble is that hail visits—and that heavily—only certain districts, namely, the valleys of the great rivers, leaving the higher ground unmolested. Under such circumstances it is exceedingly difficult to secure sufficient support for co-operative hail insurance. Elsewhere insurance, whether co-operative or otherwise, is practised only partially, applied only to distinct crops, or within a fixed limit of damage. Hence, after all, the first Napoleon's advice to his countrymen seems

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\* "Co-operation in Agriculture," p. 243.

still good, that they should insure with particularly strong companies, such as he found established in Germany, instancing more in particular one in Mecklenburg. Even in the hands of companies, however, insurance against hail is now generally 'mutual.' 'Mutualism' in such sense, in which its 'Co-operativeness' consists purely in fluctuating premiums and elastic liability, applied under ordinary commercial and centralised management is, of course, not the same thing by a long way as 'co-operation,' which makes every participant an active co-worker and sharer in the burdens and responsibilities of the undertaking. It seems, as observed, the proper method for hail insurance. Nevertheless, there are some instances in which the co-operative method has been applied. Thus France, which has also co-operative insurance against spring frosts, possesses about 25 co-operative hail insurance societies, seven of which insure only growing tobacco crops. The entire value-insured by the 25 does not much exceed £1,000,000. Societies of this sort frequently find themselves compelled to fix a limit to the compensation to be allowed. Thus, in Belgium, the *Westvlaamsch Landbowers* draw the line at 450 francs per hectare, which corresponds to about £7 4s.\* per acre. Switzerland, which is probably the country most fully provided with agricultural insurance, with Government support, has a few co-operative hail insurance societies, more particularly for its vineyards; but the business is circumscribed. There is also some little co-operative hail insurance in the Scandinavian kingdoms, but fortunately as a rule very little hail. Italy, on the other hand, is sorely visited, as has been shown; but in spite of official attempts at persuasion, people are slow to combine. The Belgian Government has used much persuasion to induce its farmers to form mutual hail insurance societies; but there is little response. Hail is, then, a risk which, like burglary, glass, fidelity and some others, had best be left to capitalist enterprise."

Mr. Wolff's verdict was given in 1912. In 1914, in the Austrian province of Moravia claims for damage by hail amounted to the whole of the premiums received, and this although

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\* Rs. 108.

risks are selected in Austria by a great central insurance institution, with all the possible *data* to guide it. Writing in 1913 of the 27 French mutual hail insurance societies, with their 38,000 members, M. Anatole Weber explains why they are making no progress. "There is nothing more hazardous," he says, "than these associations of a few members all unequally liable to suffer from disasters, and consequently likely to have recourse in varying degree to the common fund, which is insufficiently provided with means to meet such considerable losses. In such a case, and even more than in the case of the insurance of live-stock, the dispersion of risks is a law which ought to be as closely observed as that of large numbers. The absolute need of re-insurance is confirmed."

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## CHAPTER VI.

### THE CO-OPERATIVE STORE.

FOR a co-operative store, success will only be forthcoming where the members have the brains and energy necessary to secure it. Above all, members must be loyal to their store, and this they cannot be unless the store supplies their wants. It is the business of the members to see that their wants are supplied; they must, therefore, take an active and intelligent part in the control and management. The co-operative store is a centre of thought as well as of trade. It is the business of the store to buy pure goods with ready-money wholesale, and sell for ready-money at ordinary market rates. For capital a fixed price is paid in the shape of interest, and all profits are shared amongst the members in proportion to the custom they have brought to the store. Most successful institutions of this kind have been started on a very small and humble scale. At first, the store is situated, perhaps, in the house of a member, and all service is unpaid. Later on, premises are rented and a salesman is employed. If the business becomes big a manager is engaged, and the society builds, or buys premises of its own. There must be no great flourish of trumpets and ambitious

schemes at first: the members have to learn all about their business before they can expand it, and the greatest care must be taken to see that nothing superfluous is stocked. Cash dealings are essential; the store must not ask for credit and it must not give it.

The purchaser at a store ought to be able to buy without misgiving. Adulteration is so common in competitive shops that no one can depend on anything being genuine, neither clothes to wear nor things to eat. The majority of buyers are too ignorant of qualities to find out deception. The co-operative store is a public shop opened in the public interest, and every co-operator who helps to keep a store open, and who assists it with his custom and stands by it loyally, is a benefactor of the public as well as of himself. In England, the model of all countries in this branch of co-operation, women have always been staunch supporters of co-operative stores, and many of them have been distinguished by their success as managers and administrators. To the mother of a family honest quality in goods is a great consideration, as the health of her children greatly depends on it. If purity of goods is a feature of co-operative stores it is only so because the members have learned where to buy and what to buy. Good co-operators never leave themselves entirely in the hands of a paid manager. A passive union of consumers is not of itself sufficient to secure that certain economies should fall, as it were, heaven-sent into their lap. We thus arrive at three main principles, and these are:—

- (i) The members must make known their wants to the store.
- (ii) They must satisfy their wants from the store.
- (iii) They must control those who attend to their wants in the store.

If the members of a store make known their wants to the store and then refuse to satisfy them from the store, the knowledge which the store has of its members' wants is ineffective. If the members of a store are ready both with a knowledge of their wants and with loyalty, but omit to control the action of the paid servants of the store, then the communication and loyal satisfaction of their wants are intelligence and virtue wasted.

Can the store realise any economies of business organization which are impossible to the non-co-operative establishment? In the department of retail distribution, yes. The private shopkeeper can only guess at the wants of his customers; he cannot formally assure himself of the continuance of their custom by any honourable method, though he may, of course, bind them by getting them into his debt. The co-operative store, on the other hand, possesses a knowledge that such and such goods are required, and, in many societies, a guarantee is required that these will be taken. The store is under the control of its members, and the expenses of general management are small.

Sale at market price has a two-fold advantage. First, for a purely business reason, even if sale at cost price were aimed at, this would in practice be a trifle higher than the cost of production or the price paid to the wholesale merchant, as the case may be. For the division and cutting up of goods for retail consumption entail a certain amount of waste which it is not easy to estimate in advance. It depends on very irregular circumstances, occasional unskilfulness in carriage and sale, changes in the weather, the discovery of defects not apparent in the wholesale condition, the distaste of customers for a particular piece of a particular commodity, and so forth—so that the estimation of an average charge under this head would be particularly liable to error; and if the error were much on the wrong side, it might be necessary to make a call on the purchasers for a further payment, which would certainly cause difficulty and irritation. The second reason is psychological. By selling at market price and accumulating the surplus at the end of the year, the store displays its benefits to the most striking advantage. A few annas may seem a very petty affair: but Rs. 15, or perhaps more, is a sum worth the having. Thus the store first sells according to a price-list fixed by the private retailer, and then subsequently, by its dividend, impresses on its customers the financial benefit which it confers. Under the policy of cheapness the store enters into competition with the private dealer and is a continual irritation to him; whereas stores which keep to the market price benefit the shopkeeper,

who can obtain better prices for his commodities, since no customer can say he can get things cheaper at the co-operative store.

The advantage of the dividend in proportion to custom is its equity. The dividend is the net profit after deduction, first of the allotment to the reserve fund, educational and other propagandist funds, and secondly, of a fixed remuneration to capital. Outside Belgium, where no interest is paid on shares at all, capital in the co-operative store receives a fixed rate, usually 5 per cent. Shares are small in value, it must be remembered, and holdings are restricted in amount. Capital is, therefore, more of the nature of a savings deposit, with a slight risk and moderately easy obligations, *e.g.*, the promise to give custom to the store, attached. The remaining profit accrues to members in proportion to their trade. Except in Germany, sale to non-members is permitted and generally practised.\* As a rule, non-members are only encouraged as potential members.

In the course of and through its commerce the co-operative store has conferred on its members certain social boons.

(i) It has introduced humble people to the task of self-government; it has, in doing so, taught them that, without thought, experience, knowledge, and self-restraint, there can be no self-government but only muddle and mismanagement.

(ii) It has, by insistence on cash payments, taught the disadvantages of debt.

(iii) It has made thrift easy. "All beginning is difficult," and in nothing more than in saving. The co-operative store asks for a very small initial payment for a share in cash, the balance due being, very frequently, provided by crediting a member's share account with the sum to which he becomes from time to time entitled as his share in the profits.

(iv) It has definitely called upon its members to make sacrifices for the improvement in intelligence and character of themselves and the working classes generally; while the

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\* In June, 1916, proposals are being put forward in England, to tax profits accruing from sales to non-members.

creation of the Co-operative Union\* for co-ordination of aims and of policy, and of the wholesales for centralised business organization, has taught them what co-operation really means as an economic force. Every member is entitled to one vote in the general meeting, and no one has more than one vote. In the general meeting the most junior member has a voice in the election of the management and often a real opportunity of submitting suggestions or criticism. No doubt, as a rule, only the few enthusiasts are regular attendants. From membership to a seat on the committee, from the committee to the post of Secretary or President, there is a graduated ladder of responsibility which the intelligent member can climb.

The Educational Committee of the English Co-operative Union defines co-operative education as "primarily the formation of co-operative character and opinion; and secondarily, though not necessarily of less import, the training of men and women to take part in industrial and social reforms and municipal life generally." The work done may, perhaps, be classified under three heads, (a) Co-operation; instruction in its history and principles, (b) General; libraries and lectures, (c) Recreative; reading rooms, social entertainments, excursions, etc. The various forms of educational and social activity, from the two scholarships of £100 per annum for the sons of working men co-operators at Oriel College, Oxford, down to the social entertainment following the presentment of a store's balance-sheet, have been systematically fostered by the Co-operative Union which has, in England, shaped itself into a general unifying link for the security no less of commercial than of social harmony. The model rules of the Co-operative Union recommend the putting aside of  $2\frac{1}{2}$  per cent. of the profits as a fund for educational and social development.

For women the co-operative store and the dividend have the greatest fascination. They are, generally speaking, the wage spenders, and they appreciate the value of the dividend which awaits them at the end of the year. It is this which has overcome a very natural and serious resistance on the part

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\* In Agricultural Co-operation the term Federation is the equivalent.

of women to the co-operative store. M. Henri Rivet\* classes "women" as one among nine obstacles to the co-operative movement. The co-operative store does not provide a good gossiping place. But encouraged by dividend, or by the vouchers for purchases made, which represent so much money saved and available for further supplies, women have progressed to the assumption of most important duties, from those of local educational to central committees. In England, the women co-operators have a special guild of their own and do a vast amount of good social work.

It is not of itself the dividend according to custom, or the  $2\frac{1}{2}$  per cent. to education, which gives to the British stores their significance *as a movement*; it is rather their policy of centralised expansion under the direction of the English and Scottish wholesales. *But the attitude developed by the educational atmosphere of the co-operative movement fitted members to understand and support a progressive policy.* Education, once more, does not simply mean book knowledge or an ability to pass examinations. *The thrift developed by the dividend provided the capital for carrying out a progressive policy.*

As the British stores developed, they found themselves with funds amounting to some millions sterling, which could not profitably be used in their own distributive businesses or in their wholesales, as long as they confined themselves to distribution. Unless, therefore, they deliberately rejected savings, they had to re-invest them either in productive establishments within the co-operative movement or in ordinary commercial enterprises. The leaders saw and used the opportunity given them. By carrying co-operative effort back to the previous stage of production, co-operators might make their business independent of outside trade, and themselves a "State within a State." So it has come about that for general large-scale industrial production the Wholesale Society has been created and placed at the apex of the organization. This is the side of co-operation which is peculiar to Great Britain but which other countries aspire to imitate; and the only limit to its expansion—the

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\* "Les Boulangeries Co-operatives en France," p. 234.



figures of annual production run into many millions of pounds sterling—is the demand of the constituent stores for those goods which can be made in Great Britain. The development and constant support of home industries is thus intimately connected with the progress of the co-operative movement.

In "Co-operation and the Great War"\* Mr. G. R. Carter points out the influence of co-operation in reducing the dislocation of trade which occurred in England on the outbreak of hostilities. "The days at the beginning of the War were marked by a rush for obtaining food-stuffs. Those responsible for the policy of the co-operative stores had to take protective measures. The societies as a whole showed a remarkable effort to keep down prices, to re-assure their customers, and to avoid the tendencies to the exploitation of prices shown by various private dealers and retailers of provisions. The prices of goods in existing stocks were maintained, and this action tended to steady the retail and wholesale markets considerably. The Co-operative Wholesale Societies adopted a similar prudent and public-spirited policy. The whole resources of these vast organizations were utilised to ease the situation for the millions of consumers dependent upon the policy of the Wholesale Societies. The action of the latter and of the stores was essentially public-spirited and proved of the utmost value to the whole body of co-operators. And in view of their commanding position in the marketing of necessaries, their policy also steadied the situation to the advantage of the community in general."

For town dwellers in India, the co-operative store as an immediate means of economy, thrift, and general education ought to possess great attractions. As an ultimate agency for the promotion of home industries the store deserves serious consideration.

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\* P. S. King and Co., London, 1915.

## APPENDIX I

### CAUSES AND EFFECTS OF THE RECENT WANT OF SUCCESS IN THE DEPARTMENT OF CO-OPERATIVE AGRICULTURAL CREDIT IN GERMANY AND THE LESSONS TO BE LEARNED FROM IT.

BY

DR. GRABEIN OF BERLIN.

*(An article published in the Bulletin of Economic and Social Intelligence for  
December, 1913)*

THE recent failures, involving in ruin a series of loan and savings banks in the Grand Duchy of Hesse and the loss of millions by two central co-operative banks, the *Landwirtschaftliche Genossenschaftsbank* (Agricultural Co-operative Bank) of Darmstadt and the *Reichsgenossenschaftsbank* (National Co-operative Bank) of Frankfort-on-Main, have attracted the attention, as may be easily understood, not merely of those engaged in co-operation, but also of the general German public. With the 27,373 agricultural co-operative societies now existing in Germany, amongst which there are 17,274 rural loan and savings banks, there are so many and such important interests associated, that it is easy to understand the interest taken by the public in these unfortunate events. Even in foreign countries, where the splendid development of German agricultural co-operation was followed, fully approved and often taken as an example, these recent events have produced a profound impression in co-operative circles.

Since the National Federation of German Agricultural Co-operative Societies, to which the organizations that have failed belonged, published these facts at the Wiesbaden Congress held this year,\* it is time to speak of them in this Bulletin of the International Institute of Agriculture. Considering the character of this periodical and its wide circle of readers, it will be well to set forth clearly here the causes and effects of these failures, and especially the lessons they teach.

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\* Report of the new Manager of the National Federation, *Herr Gennes*, on the causes of the want of success of certain co-operative societies.

§ I. THE FAILURE OF THE LOCAL LOAN AND SAVINGS BANKS OF THE GRAND DUCHY OF HESSE.

In a pleasant valley of the Odenwald, a few hours distance from Darmstadt, which was up to recently the head-quarters of the National Federation of German Agricultural Co-operative Societies, we find the apparently thriving little village of Nieder-Modau, with 622 inhabitants. In 1874 the peasants and tradesmen founded there a loan and savings bank under the form of an unlimited liability co-operative society. From the start, they went wrong in regard to the management of the business, for they did not observe the first fundamental rule, to which rural loan and savings banks must conform, of contenting themselves with a restricted field of action. By the promise of high interest, they succeeded in attracting deposits from every part of the province of Starkenburg and from others more remote. During this period of great prosperity, to which the characteristic name of *Blütezeit* has been given, about 3,000,000 marks were deposited with the co-operative bank of this little village. It would be superfluous to say that such a rain of gold was far in excess of the members' ordinary credit requirements. It only led the bank to do business with outsiders, granting its debtors too large credits, but more than all risking its money in financial schemes even outside the limits of the village. The society entered into relations with thorough-going speculators, in connection with building lots in the city of Darmstadt. The savings of the rural population were unwisely invested in urban real estate and building lots of doubtful value, in second and third mortgages or even less safe investments, and were also utilised in granting loans for purchase of real estate. Nieder-Modau became the easy prey of speculators in building in the large towns, whose acts and adventures are sufficiently well known. In their slang they gave the bank in question the unflattering title of *Schuttbladestelle* (Rubbish heap). The cashier, who had not only the charge of the loan fund but also of the communal and church funds, besides this, managed a large farm and a hotel. It does not seem he was suited for the business. The same may be said of many of the members of the board of management and council of supervision. In addition, they had the greatest confidence in the cashier, who passed for being well off and even rich; so they signed accommodation bills at the cheerful after dinner stage of banquets, and stood security for others with the most inconceivable recklessness. As if all this were not enough, the cashier ended by forging and he was sentenced to several years' imprisonment.

Such maladministration, continued over the space of years, could not but lead to disaster. The Federation of the Co-operative Societies and the Central Bank had long been aware of it. It was attempted to avert ruin by a reorganization of the board of management, and by obliging the members of the board and of the council of supervision to give security, by enlisting new members but every effort was in vain. The catastrophe was hastened and on December 19th, 1911, the Nieder-Modau loan and savings bank had to be declared insolvent. The balance sheet showed assets, including

the investments of doubtful value above referred to, amounting to 900,000 marks and debits of 2,500,000 marks. The members of the society, 196 in number, had therefore to meet a deficit of 1,600,000 marks.

According to information supplied by the commissioner in bankruptcy, some of the members had absolutely no assets or almost none, while others had only a few thousand marks. Only one member had, it appeared, about 200,000 marks. As, according to the provisions of the law in force, the deficit had to be made up by the members, in equal proportions, the bankruptcy commissioner, to meet the deficit which there was certain to be, owing to some of the members being without funds or not being well off, considered this amount of 200,000 marks as a loan granted to meet the case of bankruptcy and distributed it among all the members. A strict application of the procedure for bankruptcy would have resulted in the ruin of the members and their absolute destitution. In addition, it would have seriously damaged the interests of the depositors. It would, therefore, have been a terrible blow to many of them who might thus have lost their savings accumulated by means of hard work. The strict application of the procedure would also have been the cause of financial embarrassment and often even of bankruptcy for the debtors of the society who were not members.

Attempt was made to succour all these persons, threatened with loss or already suffering losses, and save them from greater misfortune. After much consideration, a society (*Schutzverein*) for the defence of the interests of Nieder-Modau was formed under the management of the Darmstadt People's Bank (*Darmstadter Volksbank*), a co-operative society of the Schulze-Delitzsch type. The object of this society is to substitute itself for the creditors and especially for the depositors and take over their claims. In order to proceed with the greatest prudence in the matter, it purchases the credits held by these latter, for which it pays 50% in cash. It gives them, besides, a bond issued by itself, entitling them, at the end of the liquidation, to so much per cent. of the balance, if there are sufficient credits to cover it. The creditors who are depositors have a considerable advantage; as they may recover all or part of their money more rapidly than by following the ordinary procedure in cases of bankruptcy. The facilities granted to the members and to the debtors are even more considerable. As the society is the sole or principal creditor, the commissioner may, by previous understanding come to with it, show some consideration to the members and debtors, whilst otherwise he should seize all the assets, without exception, of all the members and proceed against the debtors without the least consideration. Thus, at least the worst, the forced sale of houses and land, at very probably absurdly low prices, may be avoided. The *Schutzverein* obtained the money needed for the purchase of the depositors' rights out of the total assets administered by the commissioner and was aided, to a small degree, by a loan contracted for the purpose, with the Darmstadt People's Bank. It must be recognized that, thanks to its intervention, the disastrous effects of the catastrophe have been reduced. The matter standing so, no exact idea can be formed as to how far it has succeeded.

The case of Nieder-Modau is enough in itself to cause anxiety; what makes it more serious is that unfortunately it is not isolated. If the ruin of the Nieder-Modau bank was due to unadvisable extension of its sphere of action, the excessive amount of deposits attracted to it, risky undertakings, careless management and insufficient supervision, unfortunately other banks have followed on the same lines. Statisticians may show that the same conditions are found in a total number of more than 17,000 rural loan and savings banks. But this is rather poor consolation, and we must in any case say here that all co-operative organizations must take energetic action to prevent the repetition of such errors in the future. Unhappily, there is still a certain number of banks in the Grand Duchy of Hesse, which may be expected to suffer extraordinarily heavy losses, or have already suffered such losses, due to causes similar to those that have ruined the Nieder-Modau bank. Thus we may now speak of a crisis in the agricultural co-operative societies of the Grand Duchy of Hesse. What has contributed to render it appreciably more acute is the failure of central financial institutes like the Darmstadt Agricultural Co-operative Society, the Darmstadt Administration and Sale Society, the National Co-operative Bank and the Agricultural Credit Bank of Frankfort-on-Main. We shall now deal with the vicissitudes of these establishments in the following section.

#### § 2. FAILURE OF CENTRAL CO-OPERATIVE CREDIT INSTITUTES.

At the end of March, 1913, the co-operative societies of the Grand Duchy of Hesse received the startling news that their Central Co-operative Bank, the Co-operative Agricultural Bank of Darmstadt (*Landwirtschaftliche Genossenschaftsbank*), formed in 1882 as a society limited by shares, found itself under the sad necessity of choosing between two courses, either suspending payment or asking for a delay in which to arrange for the gradual winding up of its business.

There were two principal causes that had led to this: first of all, the locking up of 8,500,000 marks in the National Co-operative Bank (*Reichsgenossenschaftsbank*) and then the grant of 5,000,000 marks as a credit to the Administration and Sale Co-operative Society (*Verwaltungs-und Verwertungsgesellschaft*).

The *Genossenschaftsbank* had shares to the amount of 500,000 marks in the *Reichsgenossenschaftsbank* of Frankfort-on-Main, which was founded with the idea of its becoming a central co-operative bank for the National Federation, and had gradually granted the latter credit to the amount of 8,029,923 marks. In view of the situation of the *Reichsgenossenschaftsbank*, of which we shall speak hereafter, it seemed there would be great difficulty in realising on the shares and securing repayment of these credits. The management of the *Genossenschaftsbank* considered the amount invested in *Reichsgenossenschaftsbank* shares as absolutely lost, and took steps for its reduction from 500,000 marks to 1 mark in the books. With regard to the eight millions entered to its credit, the management hardly knew in March at what figure to estimate it.

Everything depended upon how and when the *Reichsgenossenschaftsbank* would be able to sell certain assets it found it difficult to dispose of. In any case, a considerable loss might be foreseen.

The position was similar with regard to the credit for 5 million marks to the *Verwaltungs-und Verwertungsgesellschaft* at Darmstadt. This was a limited liability society, founded a few years since by the loan and savings banks of the Grand Duchy of Hesse, for the purchase, administration and sale of real estate and mortgages. The object, in itself beneficial, of this society was to purchase, administer and sell the real estate of the banks of the Grand Duchy of Hesse, which, like those of Nieder-Modau and other places, had come, through a mistaken system, to be possessed of urban real estate, mortgages, and credits granted for purchases to be carried out. The *Verwaltungs-und Verwertungsgesellschaft* proposed to relieve the managers of co-operative societies, little versed in these matters, of this administration and sale business, in order to obtain better conditions of sale by means of a uniform and competent management. It purchased from the co-operative societies their real estate or their rights over real estate and, at the same time, it attempted to obtain for them certain guarantees against the losses they might have to suffer.

The capital necessary for the purpose was supplied by the *Genossenschaftsbank* of Darmstadt. In the course of years, the loan reached the considerable amount of 5,000,000 marks. The unfavourable conditions of the market for houses and buildings rendering impossible any profitable sale of the real estate of the *Verwaltungs-und Verwertungsgesellschaft*, the *Genossenschaftsbank* found it had another 5,000,000 marks of immobilised capital under this head.

As a result of the failure of the Nieder-Modau bank and other co-operative societies of the Grand Duchy of Hesse, the delay accorded to the National Co-operative Bank, and the news circulated with regard to the state of the accounts of the Darmstadt Co-operative Bank, there was a panic among the co-operative societies and the depositors of the Grand Duchy of Hesse. The co-operative societies withdrew considerable amounts of their deposits. The *Genossenschaftsbank* thus found itself in a difficult position which, it was able to meet to a certain extent by means of the credit generously accorded to it by the Prussian Central Co-operative Bank (*Preussische Centralgenossenschaftskasse*). But at the end of March, 1913, so many claims against it had matured that it also was obliged to ask for a delay. It thus went into liquidation. The fact that the co-operative societies holding shares in it consented, with a few isolated exceptions, to concede a delay up to the end of 1914, in order that it might be privately liquidated, shows their good sense.

It was absolutely necessary to have a Central Co-operative Bank. To meet this need, a new establishment was at once started, the Central Bank of the Agricultural Co-operative Societies of the Grand Duchy of Hesse (*Central-kasse der Hessischen landwirtschaftlichen Genossenschaften*), under the form of a limited liability co-operative society. And, under the circumstances, we

may consider it as a success that 245 societies, 204 of them loan and savings banks, adhered to the new central bank at its first plenary meeting held on June 30th, 1913. However, the financial basis of the establishment is not as yet very firm. The members' shares are 500 marks each and the amount guaranteed per share is 1,000 marks. Up to the end of June, 1913, 481 shares had been sold, so that the capital appeared as 218,850 marks. If we add to this the deposits of the co-operative societies, or a total of 528,356 marks, we get a total of 747,206 marks as the available working capital. The Central Bank and its affiliated co-operative societies have therefore had to have recourse to a large extent to the Prussian Central Co-operative Bank for credit, which has been granted to them to the amount of 4,200,000 marks. However, in that bank the rate of discount is nearly the same as that of the *Reichsbank*. Now, for a long time that has been 6%, recently lowered to 5½%. The payment of this rate of interest leaves too small a margin to allow of the Central Bank paying its expenses. So an attempt has been made to obtain a credit of a million marks from the Government of the Grand Duchy of Hesse at the lowest rate possible. With this credit from the State and the guarantee of Government supervision, its necessary consequence, the new Central Bank hopes to inspire greater confidence in the public. No definite step has, however, yet been taken in this connection.

This is, then, the history of the crisis in the central financial institute of the agricultural co-operative societies of the Grand Duchy of Hesse. For the moment, we can form no certain estimate of the *amount of probable loss* and the effect on the societies concerned. Only its credits at the National Co-operative Bank and with the Administration and Sale Society can be estimated with precision. At the Bank, it is thought that the share capital amounting to 2½ million marks and the reserve fund, shown as 500,000 marks, are certainly lost. What the depositors, almost exclusively co-operative societies, must lose cannot as yet be accurately ascertained. The total amount of their credits is about 15,800,000 marks. For the moment it is thought the loss may amount to 50% of the deposits. Therefore, the Administration of the Bank has recently proposed to the societies that they should provisionally renounce 50% of their credits, so that the debt of the Bank may not be too large. If the above estimate is correct, the co-operative societies of the Grand Duchy of Hesse have lost about 11,000,000 marks through their central bank. This is an amount the loss of which will be an extremely severe blow to the co-operative societies of the region and connected interests.

If we consider the matter from a purely statistical point of view, we might think there was a remedy, for the societies affiliated to this bank have more than 10,000,000 marks of their own. But we must remember that the losses of the Co-operative Bank are distributed very unequally among the various societies. The societies indebted to the Bank only lose the amount of their shares. Whilst those that, trusting it to the last, placed their surplus funds with it, run the risk of extremely heavy losses. In their case, it will be a matter of between 200,000 and 300,000 marks and even more. If half these

credits are to be considered as probably lost, the assets of the bank still would not be even approximately enough for payment of the rest. The members of these societies will therefore very probably have to make serious sacrifices to meet the demand for new and considerable contributions towards the share capital. To avoid such serious consequences the management of the new central bank is thinking of urging the State to intervene and gradually make up the loss by contributions continued over a long series of years. This is, however; only an idea and therefore we need not delay over it.

Another thing seriously to be deplored from the point of view of the co-operative societies is that confidence is shaken and this is no less serious a matter than the material losses already sustained, not to mention those still to be feared. But, on the other hand, it is, humanly speaking, very easy to understand that these catastrophes have caused a panic among the depositors and members. In April, there were veritable runs on a number of banks, which was certainly needless and rather a cause of loss. The bank managers were able, however, to prevent the banks being ruined by the withdrawal of deposits. However, the next balance sheets of these societies will probably show, in a certain number of cases, a considerable decrease in the savings deposits and, at least at first, a decrease in the amount of new deposits. Similarly, we may understand that, above all, the better off members declare their desire to withdraw from banks founded almost exclusively on the system of unlimited liability. There are other consequences, such as the changes caused by passing from the system of unlimited to that of limited liability, which will appreciably reduce the basis of credit; as a result, the weakest societies will be dissolved and a group will leave the *Reichsverband*. It is certain that hasty decisions of this kind are very often ruinous, but, at a time of great nervous excitement, people reason little and do not reflect quietly on what they are doing. So, some more time will have to pass before the storm subsides. There is another thing which may also have its influence on the further course of events, the result of the enquiry now being carried out by the Commission of Studies, instituted at the General Meeting of the *Genossenschaftsbank*, into the position of the Bank, the immediate causes of the catastrophe and the eventual liability of the members of the Board of Management or the Council of Supervision. On none of these points have we as yet definite information.

It will be well to stop here to give the sad story of the National Cooperative Bank and the Agricultural Co-operative Bank.

The *Reichs-genossenschaftsbank* with headquarters, first at Darmstadt and afterwards at Frankfort-on-Main, founded in 1907 as a co-operative society and transformed in 1912 into a society limited by shares, was first intended to be a central institute for the money and goods business of the territorial central banks and the central co-operative societies for purchase and sale belonging to the National Federation. Through unwise speculation and the too limited purchases made by the members from their societies the special goods department at Hamburg had to be suppressed in 1908 and



there only remained the banking department at Frankfort-on-Main. In this branch of its work there was only too little to do, as there also existed a Central Co-operative Bank of Prussia (*Preussische Centralgenossenschaftskasse*). In 1904, in fact, it had to give up its connection with the Prussian Central Banks. Its field of action was thus restricted to the other Central Banks of Germany and a certain number of Prussian Central Co-operative Purchase and Sale Societies. We shall not here enquire whether such a limited business could permit of the long existence of the *Reichs-genossenschaftsbank*.

What hastened its end were the relations it entered into in 1908 with the Agricultural Credit Bank (*Landwirtschaftliche Kredit-Bank*) of Frankfort-on-Main. This establishment, founded in 1872 as a mixed mortgage bank, was at the time (1908) on the point of failing through the bad management of its board. But as it had the profitable right, it had for some years ceased to exercise of issuing land bonds, the *Reichs-genossenschaftsbank* allowed itself to enter into permanent business relations with it. The board thought that by means of an alliance with a mortgage bank it might give a wise direction to the real credit business of the loan and savings banks of the Grand Duchy, as well as that of some other banks, and, in principle, the idea was sound. Unfortunately, those at the head of the *Reichs-genossenschaftsbank*, when they made their agreement with the Agricultural Credit Bank, which led to the purchase of the large number of shares in that establishment, were largely deceived in regard to its condition. Only afterwards they discovered it had engaged in extremely hazardous undertakings, from most of which little gain could be expected. We shall not here enter into the details, some of which were very complicated. Let it suffice to indicate that, for example, about 5,500,000 marks were invested in a mine that could not be worked at once, other important sums in societies for speculation in land, brick kilns, mortgages giving little security, etc. To prevent the failure of the above credit establishment, the *Reichs-genossenschaftsbank* found itself obliged to give it and the societies dependent on it large credits up to the amount of 13,000,000 or 14,000,000 marks. These investments were in the end too large for the bank, and in the difficult circumstances of the money market at the time, its money-lenders, the Central Banks of other regions than Prussia, began to find themselves hampered in the development of their business. Thus, in September, 1912, the *Reichs-genossenschaftsbank* had to go into liquidation privately and ask its principal creditors for a delay of five years.

As in the case of the Darmstadt Co-operative Bank, so also here it is scarcely possible to give a definite opinion as to the ultimate results of this liquidation and its effects upon the Central Co-operative Societies affected. We have only to remark that the circles concerned have made every effort to save out of this sad shipwreck at least the precious privilege of the issue of mortgage bonds (*Pfandbriefe*) enjoyed by the Agricultural Credit Bank. With this intention they decided to change the form of the establishment, transforming it from a mixed mortgage bank into a pure mortgage bank, under the name of Agricultural Mortgage Bank. The engagements of the

Credit Bank, in so far as they were not in conformity with the provisions of the German Law on mortgage banks of this new form, had to be transferred legally to the *Reichsgenossenschaftsbank*, which already held them in fact. The transfer is now almost complete. It is now only to be hoped that the right of issuing mortgage bonds, abandoned for so many years, will again be granted to this credit bank as converted, and that thus the road may be opened for the natural development of the work of this real credit establishment now reformed and again in working condition.

### § 3. LESSONS TO BE LEARNED FROM THE FAILURES OF THE CO-OPERATIVE CREDIT BANKS.

A consideration of the facts briefly related in the preceding sections leads us to a number of conclusions and furnishes many lessons of the utmost importance. In the case of Nieder-Modau and other banks, the disregard of wise economic and co-operative rules has led to ruin. In their commercial business they did not keep within strictly local limits. Deposits were attracted from too remote regions and too large credits were granted to private individuals, above all, to members of the board of management. Unprofitable real credit business was carried on at a distance from the place where the bank was situated. There was confusion and disorder in the conduct of business, a want of supervision and an insufficiency of share capital. These and other errors led to failure. The co-operative societies and their federations must seriously try to avoid them in future. And, for the purpose, suitable provisions must be made in the rules and internal regulations and they must be conscientiously observed.

In the first place, *the field of action* of the rural loan and savings banks must always be *clearly defined*. This is absolutely necessary on legal and social grounds. The district chosen must not be too large, a village or a few communes near one another. The field must be limited, not only as regards the grant of credits, but also as regards the credits received. It is a mistake to attract deposits from every quarter by means of high interest and active advertisement, and so to accumulate a working capital far in excess of the ordinary credit requirements of the district. This too easily leads to the investment of surplus amounts in hazardous credit business, even outside the district. There is no need to waste words in showing that operations of this character, especially the investment of the farmers savings in speculation in houses, real estate, mortgages, concessions of loans for the purchase of real estate, industrial business, etc., in large urban centres, are errors in absolute opposition to several co-operative principles.

Perhaps these sad events are, in spite of everything, a blessing in disguise: they will serve forcibly to recall the agricultural loan and savings banks to a recollection of their specific duty, to remind them that they must serve to *satisfy the needs of the country districts for short term credits*. And there is besides much still to be done in this field, to which the loan and savings banks owe their origin. On many farms, cultivation is still comparatively

undeveloped. With the help of manure, cattle foods, selected seeds, suitable machinery, improved breeding stock and farm improvement, a considerable increase both in the gross and net yield may be obtained. At the same time as the other agricultural institutes, the banks should encourage this technical progress, and, while always free to make provision for the security of the loan, place at the disposal of those in need, the necessary means for the realisation of these improvements. Thus, even in a fair number of cases, a large number of new members may be won for the Co-operative Credit Societies. Many farmers now have recourse to credit from merchants, which costs them more and is less adapted to their purpose. It must not be imagined, indeed, that these are poor people to whom credit could not be granted without some anxiety. The private lender who risks his money is generally at least as prudent as a co-operative financial institute, and often even just the best off farmers, for reasons well known, though economically without justification, prefer to deal with private individuals. The attraction of such persons to the banks is another object the societies should endeavour to attain by means of their patient daily work.

There are other social classes among which the need for small credit may increase and which consequently may furnish an increased number of members, namely, tradesmen, labourers, etc. On the contrary, *much prudence must be used in dealing with large manufacturers and dealers*. It is often said that the loan and savings bank must become the village bank, ready to provide for all banking business *for all the inhabitants of the locality*. In this there is a dangerous exaggeration. Their economic constitution and the condition of the members show that the rural savings banks are intended quite simply for small credit business. Megalomania incites boards of management, composed of vain or avaricious members, to convert co-operative banks into banks on a large scale. Generally, loan and savings banks are not intended for such work; the large banks must be left to provide for the credit needs and financial business of the large industrial or commercial businesses of the country. It is only very rarely the managers of a rural bank are in a position to judge accurately of the financial position, the value or the yield of this class of undertakings. It must also be observed that generally it is just those businesses the finances of which are exhausted and to which the large banks refuse credit that have recourse to the loan and savings banks. Thus, many of these banks have had bitter experience of relations with them. The greatest prudence is to be recommended in such business and it must be remembered that the grant of excessively large credits of hundreds of thousands of marks to private individuals is contrary to the nature of the loan and savings banks.

In many of the oldest banks, above all in South and West Germany, the deposits, however, have reached such a figure, that it seems inconceivable that so much money could be invested in small personal credit business. In this case, they should be above all recommended to *deposit their surplus cash with the Central Banks*. But higher interest is desired; and the tendency is, and it is justifiable, to satisfy all the needs of local credit. This leads to

the grant of real credit, the investment of money in mortgages and in loans for the purchase of real estate. That this has been so appears from the fact that, according to the rather incomplete statistics in the Year-Book of the National Federation, at the end of 1911, 187 million marks had been invested in loans on mortgage and 74 million marks in purchase of real estate. The Banks of the Federation of the Grand Duchy of Hesse themselves had at that date invested 63,630,000 marks, out of their working capital of 147,000,000 marks, in credit on mortgage and credit for the purchase of real estate.

We must not here go further into the question now so much discussed as to whether this *real credit business* is allowable or advisable.

Certainly the arguments against it have weight ; it is said, in fact, that it is not a good thing to use short term deposits for long term loans, and that besides there are special credit institutions like the *Landschaften* and *Landeshypothekenbanken* to arrange for real credit business.

But there are also arguments in favour of it which deserve consideration. Not without reason is it affirmed that even short term deposits remain for years in the bank and are continually increasing all the time. For this reason, the public savings banks have also been able to invest in loans on mortgage about 60% of their deposits, amounting in all to 17,000,000,000 marks. Again, often, credits on mortgage or other real security are not long credits, but, and this is specially true in the case of credits for purchase of land, are repaid within a short period, of about from 6 to 8 years, and we must not overlook the fact that *small credit* on security of real estate is not granted by other financial establishments or, if granted, it is on less favourable terms than those allowed by the rural loan and savings banks. The local co-operative bank is in a position to form a much more accurate idea of the financial situation of its debtors and of their personal character, so that, while running no risks, it is in a position to grant larger loans than a financial establishment at a distance.

On these various grounds, it seems that the investment of surplus funds in real credit business is allowable under certain conditions : it is economically and socially a benefit to debtors, above all to small rural landowners or householders. First of all, however, the banks must always have available large amounts of capital that cannot be used for personal credit. It cannot be considered right for a bank, which has to have recourse to the Central Banks for credit, to engage in real credit business. If all the affiliated banks acted so, the Central Banks could no longer exist, for they are founded precisely to serve as clearing houses for banks, some of which have surplus funds, while others are in need of credit.

Thus there can be no question of long term credits being granted except by banks which have always available a number of large deposits and at the same time have no need of credit from the Central Bank. But, even in this case, there is still need for prudence. In the first place, it must be seen that the investments offer the best possible security and, consequently too considerable loans, especially to large undertakings, must be avoided.

because the grant of a large number of small credits corresponds better with the economic nature and social aim of the banks, which must serve for the elevation of the poorer classes. It must, therefore, be arranged that the amounts lent be repaid within a rather short period, either five or ten years, which as a rule is economically possible for the small farmers and the workmen engaged in agriculture or industry.

And above all it is not advisable to invest too large a part of the working capital in long term loans. There are banks that have invested 80%, 90% and sometimes even more of their available capital, most of it formed by deposits, in mortgage loans and advances for purchase of land. These banks have seen the amount of their available funds decrease to a considerable extent and have been less and less in a position to pay on demand. It is true that, in the ordinary course of things, the payments into current account or the savings deposits annually exceed those collected or the repayments. But it is always possible that just the contrary may happen. It is enough to remember the large amounts withdrawn one after another last winter, as a result of the rumours of war, fortunately unfounded. In the same way, unfavourable occurrences in the economic sphere, bad seasons, industrial crises, a loss of confidence in the banks, whether justified or not, may give occasion to veritable runs. It is especially of this latter cause that we have had numerous examples in the recent events occurring in the Grand Duchy of Hesse. It is true, it seems, that the bank managers have succeeded in tranquillising the minds of the depositors and thus preventing their crowding to withdraw their capital, but, for the moment, a definite opinion cannot be expressed. To be always well prepared for this class of events, the banks must have fluid capital under the form of deposits and a credit opened to them in the Central Banks.

The General Committee of the Prussian Central Co-operative Bank (*Gesamtausschuss der Preussischen Centralgenossenschaftskasse*) has issued regulations for the purpose, in which definite figures are given, that, in our opinion, however, can only represent a minimum. The Committee thinks that the banks ought to have easily realisable at least an amount varying from 20% to 30% of their capital, according to the conditions in which they find themselves, and, in particular, according to the amount of their own capital, the nature of their investments in the locality and the term at which the deposits may be claimed. Consequently, the credit opened to them and their eventual deposits in the Federal Bank must amount to 20% or 30%, 20% may suffice :—

- (i) When at least 30% of the investments consists of loans repayable before the next harvest ;
- (ii) When their own capital is in suitable proportion to that provided by outsiders ;
- (iii) When the deposits constituting the largest amounts are only accepted on condition that notice for repayment shall be long and the term be kept to even at ordinary times ;

(iv) When the co-operative societies have relations exclusively with their Federal Bank (*Ausschliesslichkeitsverhältnisse*), that is to say, when they apply to it alone for credit and deposit only with it.

If we suppose that this 20% is divided equally between the credit opened and the deposits made with the Central Bank, it would be allowable to invest 60% of the capital in loans repayable after the following harvests. An examination of co-operative statistics and the balance sheets of loan and savings banks shows that it is no rare thing for this limit to be passed. In fact, the amount of mortgages and loans granted for purchase of real estate is sometimes 80%, or 90% of the capital and even more. However, this amount of 60%, to the detriment of the deposits in the Federal Bank, still seems to us too high. If, according to the hypothesis, only about 10% of the capital is deposited in the Central Banks, it will be difficult for them to thrive. They will be unable to perform their task of meeting the requirements of the loan and savings banks for credit as well as those of other kinds of co-operative societies of recent foundation with insufficient means. In our opinion, not 10% should be set aside to form deposits in the Federal Bank, but much more, for example, from 20 to 30%. Happily, a certain number of banks act on this principle. It is to be hoped that others will follow their example, and will reduce the amount of credit they grant on real estate, of which they have been up to the present too lavish.

As already shown, there is another essential condition for the regular development of the banks and for long term credits, namely, that the societies must possess *sufficient capital* of their own in shares and reserve fund. The capital in the reserve fund cannot leave the safes and the share capital can only be withdrawn when the members leave the society.\* It will serve to counterbalance the fluctuations in the capital supplied by outsiders (deposits and bank credits). It is therefore specially necessary for banks which have used their working capital for long term investments, so that, consequently, it is less easy to realise it. As these investments have considerably increased in the last fifteen years, both absolutely and relatively, there is reason for alarm in the fact that the statistics of the National Federation show, on the contrary, during the same period, a comparative decrease in the amount of capital belonging to the societies themselves. This, which includes the share capital, the reserve funds, the amounts brought forward from previous working years, the property of the society, etc., amounted

at the end of 1896 to 6.2% of the working capital,

„ „ 1901 „ 4.5% „ „ „

„ „ 1911 „ 3.8% „ „ „

In the urban co-operative credit societies, the capital of the societies themselves was 21.16% at the end of 1911 and even in 158 large banks it was 22.4% of the total working capital. Certainly, the urban credit co-operative societies, and more still the large banks are, in their economic constitution and their

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\* Compare German methods with the provisions of § 22 of Act II of 1912.

aims, very different from the loan and savings banks, but, even when account is taken of this difference, it is seen from the figures given above that the capital belonging to the rural societies themselves must be considerably increased, the rather, as the years 1896, 1901 and 1911 show a gradually decreasing percentage from 6.2% to 4.5% and finally to 3.8%. This decrease is explained by the comparatively more rapid increase in the amounts owned by outsiders and especially in the deposits. Statistics also show that payments into the reserve fund are insufficient to increase this capital, but that rather the value of the shares should be raised.

The National Federation recommends that the value of the shares should be at least 100 marks, but if possible higher, up to 500 marks. It is considered in this connection, that by far the most of the loan and savings banks are regulated in accordance with the system of unlimited liability, and that the law lays down in this case that no members may have more than one share.

More than 90% of the rural loan and savings banks are still far from following the above counsel. According to the statistics of the Prussian Central Bank, it appears that, among the unlimited liability loan and savings banks at the end of 1908 :

|        |                                     |        |          |
|--------|-------------------------------------|--------|----------|
| 56.20% | had shares of a value not exceeding | ..     | 10 marks |
| 30.90% | " " " " between                     | 10 and | 100 "    |
| 12.78% | " " " " " "                         | 100 "  | 1,000 "  |
| 0.12%  | " " " " more than                   | ..     | 1,000 "  |

The average amount of the shares, given as only 20 marks, also shows how small they are and how small the amounts paid up in most cases. In recent years there has been an improvement, but not yet very appreciable. The difficulties presented in recent months, owing to the small amount of money on the market, and the lessons learned from the crises in the co-operative societies in the Grand Duchy of Hesse, certainly not the last factor to be considered, should urge them, more strongly and more effectually to increase the amount of their shares.

In any case, in loan and savings banks in which there are large sums deposited, amounting to millions of marks, even if the value of the shares and the amounts paid up were increased to 500 marks, it would not yet be enough to provide the co-operative societies with enough capital of their own. The Statistical Year-Book of the National Federation supplies valuable information on the subject. We learn from it that a bank with only 32 members has 3,190,886 marks working capital, 2,988,122 marks of which are derived from deposits. It has, it is true, 150,600 marks in its reserve fund. Consequently, its share capital is 44,800 marks; the value of the shares must be 1,500 marks or even more. Its own capital is therefore only 195,400 marks or 6.1% of the total of its working capital, which is not a sufficient economic foundation. The situation of another bank is still worse. It has 368 members. Its working capital is 10,980,000 marks, 10,470,000 marks being derived from deposits. Its own capital consists of 151,388 marks in shares and 182,946 marks in reserve fund. It forms, therefore, only

3·3% of the working capital. If these banks, and others yet, wish to form a really sufficient capital of their own, they should increase the value of their shares up to 5,000 and even 10,000 marks. We can scarcely say whether such an increase would be possible economically speaking. But in any case shares of such high value would be little suited to the nature of the loan and savings banks. The only remaining course is to increase the number of members, and in this way appreciably increase the capital belonging to the society. Unfortunately, it is not rare to find a certain unwillingness to accept new members who are not rich, whether through fear of a diminution of the dividends, or through mistaken ideas of the members. The lessons taught by Nieder-Modau and other banks, in which a small number of members had to bear heavy pecuniary losses, will, it is to be hoped, help to the reassertion of the principle that the economic foundations of the loan and savings banks must be reinforced by the largest possible increase of members.

The precautionary measures of which we have just spoken may reduce the fears with regard to large grants of long term loans on mortgage and advances for purchase of real estate. Yet, it seems desirable to limit these loans in future and rather to encourage the *deposit* of the surplus funds in the *federal banks*. If this principle is advanced to-day, it is also necessary, in view of the unfortunate occurrences recorded in section 3, at the same time to require the *Central Banks to use the most scrupulous diligence in the management of the amounts entrusted to them*. All the commercial and co-operative rules applicable to the local banks must also be observed, and even far more carefully, by the Central Banks. The severest blow is given to the principle of clearing by means of co-operation, when the savings made in the country, which should return to the rural population in need of credit, are invested in building lots or mortgages or in industrial undertakings in large towns. Even if investments of this kind were safer than they were unhappily in the cases considered, it would still be an error to use agricultural savings for other than co-operative purposes.

The theory that, by means of the increase of the deposits in their Central Banks, an excess of available money may be obtained, which there is no means of profitably utilising, is untenable, at least under existing conditions. What is also true is that, in view of the small amount of money on the market, the Central Co-operative Banks find their situation difficult and have had to ask for large credits from the Prussian Central Co-operative Bank and other institutes, and when the conditions of the money market improve there are still serious co-operative problems attending a solution for which the co-operation of the Central Banks is indispensable. It is with very good right, that, a few months ago, Dr. Heiligenstadt spoke, in the Prussian *Landes-Ökonomie-Kollegium* of one of the greatest tasks before co-operation in the future, namely, the increased technical and agricultural improvement of the country districts. And it will be a very serious duty for the Central Banks to give financial support to the efforts made for this end, with all requisite precautions, of course. They will then have need of considerable funds, which



may be obtained from the local loan and savings banks. They will reach this end if, even leaving aside the question of a wise policy of remunerative interest, they keep the confidence of their affiliated co-operative societies, by means of a scrupulously conscientious and competent management.

In all we have said, we have desired, within the limits assigned to us, to set forth some of the most important lessons to be learned from the crisis in co-operation in the Grand Duchy of Hesse.

There remains only one question which requires to be briefly illustrated : that of the *work of the Inspection Federations for the prevention of the recurrence of such events*. Criticisms, above all in the circles connected with the co-operative societies that have suffered from these events, reproach the Co-operative Federation more or less severely. They say that its inspections should have revealed the serious errors committed and its board of management have taken energetic measures to correct them. Here, first of all, another principle must be enunciated. The supervision to be exercised in a business, is, in accordance with the law and the regulations, the first duty of the board of supervision, which is also the most competent for the purpose, as it has a precise acquaintance with the personal and economic conditions of the debtors and their sureties. To relieve the board of this duty would be to shake the very foundations of co-operative institutions, the principles of autonomous administration and liability. It is only in consideration of the serious losses that may be caused through insufficient control on the part of the board of supervision, in the case of particular societies and the entire co-operative system generally, that the system of inspection was instituted, the inspection being first of all optional and then, after the promulgation of the 1889 law on co-operative societies, compulsory. The inspection consists of an examination at definite intervals, in order to see if the constitution of the society, the administration of the board of management and the control exercised by the board of supervision are in harmony with the laws and regulations. It is a matter that has been very much discussed of late years, but has not yet been finally settled either by co-operative practice or by jurisprudence, whether this inspection should only be concerned with the management and book-keeping or whether the exact value of the business operations should be investigated. We need not here again express our opinion on this point. However, one thing, that none can deny, is that when all sorts of commercial and co-operative rules are infringed, when credits of hundreds of thousands of marks are granted to private persons ; loans made for purchase of houses, and building lots and industrial undertakings of doubtful success in large towns at a distance ; excessively large credits given to members of the board of management, without the usual guarantees and without the authorisation of the board of supervision as ordered by the law ; arrears of interest and sinking fund allowed to accumulate to a large extent ; when there is great inaccuracy and carelessness in the book-keeping, when Central Banks invest three-fourths of their working capital in a small number of loans, each for some millions ; faults so enormous cannot or should not escape the attention of a competent

inspector who should make them known. Happily, it must be recognized, as has been now ascertained, that the inspectors knew of all these irregularities and had denounced them.

Some people also maintain that by proceeding energetically, and expelling the co-operative society from the Federation and refusing it credit at the Central Bank, the catastrophe might have been prevented from assuming such proportions. But, in those years, no prophet could have foreseen the seriousness of the present state of things. Perhaps there were reasons for hoping that this ruin with all its consequences might be averted, and the society brought again into the right road and allowed gradually to make up for its errors. With regard to the idea of the expulsion of the society from the Federation, we must also reflect on the risk of its continuing its bad management with less control and thus more certainly coming to ruin, with all the terrible consequences for co-operative circles whether near or at a distance.

Certainly, the recent sad occurrences have given the Federations a lesson which ought to lead them to greater activity and better supervision. And it ought to be equally certain that, in the future, if they discover errors, instead of being indulgent, as they have been up to the present in certain cases, they will apply energetic measures without pity. Thus it must be hoped that the failures of the co-operative societies, which have been so deplorable, will lead to the elimination of whatever is opposed to the very spirit of such societies. This will bring about the return to wise co-operative and economic principles, and so to the most extensive reinforcement of agricultural co-operation, which has been so beneficial in such a variety of ways.

## PART III.

### THE CO-OPERATIVE SYSTEM IN THE CENTRAL PROVINCES AND BERAR.

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#### CHAPTER I.

##### GENERAL DESCRIPTION.

THE main principle upon which the Central Provinces system of co-operation is based is that, apart from the necessary control by Government of a movement deeply affecting public interests, nothing must be done for co-operators (*i*) which they ought to do for themselves, and (*ii*) which they are competent to do for themselves. The ultimate objective is a co-operative organization internally self-governed and financially self-supporting. Now (*i*) above covers practically the entire range of co-operative effort ; whereas (*ii*) may, quite legitimately, cover a narrow and restricted field of operations. The Co-operative Credit Societies Act, X of 1904, was only passed twelve years ago, and, at that time "there was considerable scepticism as to the possibility of any real progress in India."\* And a perusal of the report submitted by Sir Edward Law's Committee in 1903, on the establishment of Co-operative Credit Societies in India,† shows quite clearly that the organization of a system of co-operation on broad and scientific lines was not contemplated as being within the bounds of early possibility. The report is, in fact, altogether silent

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\* Proceedings of the Sixth International Congress, Budapest, 1904 ; report by Mr. H. E. L. P. Dupernex, I.C.S.

† Presented to both Houses of Parliament by Command of His Majesty. May be obtained from Messrs. Thacker & Co., Bombay.

about the higher organization and finance of the co-operative movement. Between 1904 and 1912 there was much progress ; and the new law, Act II of 1912, not only conferred recognition upon forms of co-operation other than for credit, but gave legal status to a society the members of which are other registered societies. The society of the People's Bank type would, so Sir Edward Law's Committee thought (*vide* the fourth paragraph of the report just referred to), prove to be a suitable agency for the financing of the rural credit societies. But short term and long term credit institutions require, as the student of this book will understand, distinct and separate organizations. The Central Bank, including rural credit societies in membership, soon became an indispensable part of the system of agricultural credit, and even before the new Act of 1912 had seen the light, a Provincial Co-operative Bank was found necessary for the rapidly increasing requirements of the Central Provinces. An article by the present writer, published in 1907,\* will help the student to appreciate what our early difficulties were and with what caution we had to proceed, and it is, with apologies, re-produced as Appendix I to this part of this book.

I have said that (*ii*) above may, quite legitimately, cover a narrow and restricted field of operations. This statement wants explanation. We have seen that the exact methods of a practical system of co-operation depend upon and are limited by the nature of the environment. People who may, at first, be ignorant of co-operation must be taught and trained. Local custom, local prejudice, may be inimical to the existence of the co-operative spirit. Opposition of many kinds may have to be met and conciliated. The illiteracy of the population may be a serious obstacle to the creation of self-contained and self-managing village societies. In the Central Provinces and Berar only 33 *per mille* of the total population are literate. "It is a fact," writes Mr. Marten (Census Report, page 173, "that many who go through the primary schools in youth lapse into

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\* "Co-operative Credit and the Central Bank," *Agricultural Journal of India*, Vol. II, Part I, January, 1907.

complete illiteracy at a later age, this being specially the case in the cultivating classes, who have little stimulus to keep up their education on leaving school." At first, therefore, much may have to be done for co-operators which they ought to do for themselves, the simple truth being that they are incompetent. Still, whatever co-operators can do, that they should be made to do; and unless the degree of efficiency exacted from the members of the co-operative body is a continuously increasing one, something is radically wrong with the methods of training employed. It may be, perhaps, that no training is being given.

Quite a common idea amongst the educated pioneers of the movement is that, though Central Banks can be managed by them, the village societies cannot and *need not* be managed by their own members. That is to say, self-government may be very good for a Central Bank but is very bad for the societies working under that bank. It is difficult to understand the reasoning which permits sincere and thinking men to fall into an error of this kind. Unless the societies are instructed and patiently trained they will never know what self-help is; and unless they are left to apply what has been taught them, they will never know what self-help *means*. A Central Bank which does not train its societies to independence is not doing its duty and is working on lines which are not only wrong but injurious to the country.

Another false notion, shared by Central Banks and by societies alike, is that the various units of which the complete system is built up are not only internally independent, in the sense that each unit is at liberty to place its own construction upon the meaning of the term "co-operation" and to adopt whatever methods may be most pleasant, but are independent in their relationship to each other. It cannot be too thoroughly understood that the credit enjoyed by each unit depends entirely on the stability and business reputation of the system as a whole. The correct view of our organization is that of an Army, with its General (the Governor of the Federation), its Staff (the Federation Congress), its Corps Commanders (the Directorates of the Central Banks), its Regimental Colonels (the Committees of the

Unions of primary societies), and its Company Officers (the Pan-chayats of the primary societies). Without a plan of campaign, without discipline, and without a responsible and guiding head, an army would be nothing but a disorderly mob, futile as a fighting machine. Without a definite policy, without co-ordination of effort, and without a liberal allowance of unselfishness, our co-operative system would be futile as a machine for the promotion of the economic welfare of the Province. It is, therefore, the task of every educated co-operator to teach and train the men for whom he is responsible, to instil into them the virtues upon which the movement is based (and in the absence of which it cannot exist), and to set his face resolutely against the blighting influence of the parochial spirit. It is very wrong, for instance, to say "We in the Sabtik district are doing very well, and we do not mind whether the bank in the Bahutkarab district fails or not." The studies given in the first part of this book will have been written in vain, if they have not taught that co-operation does not begin and end within the village, nor within the district, nor even within the Province.

Yet another wrong idea is prevalent. "Co-operation" is interpreted by many to mean a state of things from which discipline of any kind is absent, and in which compulsion plays no part. The fallacy of this interpretation is obvious to those who know how co-operators in other countries have voluntarily submitted themselves to mutual discipline and control and, thereby, emancipated themselves and their children from servitude to the money-lender and petty dealer. The great lesson which co-operative history has to teach us is that without the stern discipline of a mutually controlled organization nothing good can be accomplished. If a man objects to discipline, and refuses obedience to any laws except those of his own making, there is no place for him inside the co-operative movement.

It must be remembered that the officers of co-operative institutions are elected by the members themselves, and that every member has a vote and, with scarcely an exception, one vote only. Executive authority must, of necessity, be vested in somebody's hands; no work could be done otherwise, and

business, especially banking business, would be brought to a standstill. But the executive authority must be under control ; and the system itself places ample powers of control in the hands of the committee and general meetings. What is essential is that every member of a co-operative society should possess the sense of association, should feel his responsibility, and do his duty. After all, registration and legal privileges, as well as the right to seek for credit, are granted only on the express understanding that a society will observe its by-laws. It must, therefore, be made a point of honour by those responsible for the purity of the movement, that no mercy shall be given to persons who are deliberately slack and dishonest. If a man, in his private capacity cheats, he is branded as a criminal. The abettor of a criminal offence is also a criminal. Societies which promise to obey their by-laws, which obtain credit on the strength of that promise, and then break it, are criminals in co-operation ; \* and, if Central Banks are aware of malpractices, and do nothing to stop them, they are abettors. Such words as " tax " and " compulsory " are, I would point out, appropriate only if used with the intention of presenting a picture of down-trodden cultivators, herded against their will into co-operative societies, and then subjected to harsh treatment. Now no man need join, and no man need remain in a co-operative society unless he wants to. As a condition of enrolment in membership he makes, of his own free will, certain promises : and it is due to depositors who entrust co-operators with their money that he should keep, or be made to keep them. The second main principle of the Central Provinces system is, then, that the moral fibre of co-operators must be strong and tough enough to secure honesty.

The next point which requires explanation is the position which the Registrar and his assistants occupy with respect to the movement. What are the views of Government upon the matter ? They are to be found clearly stated in a resolution issued in June, 1914, by the Government of India. " It is certain " runs the resolution " that in India without initiative

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\* " What I fear," wrote John Ruskin, " is Co-operation amongst Scoundrels."

and help from Government co-operation would still be unknown. Government alone was in a position to supply the knowledge and organization necessary to start the work, and Government alone is able by its association with the movement to create the outside confidence necessary to give it stability. Registrars are not, and are not intended to be, merely registering officers; they are also expected to provide supervision, assistance, counsel, and control. It is not to be imagined that societies will become perfect models of co-operation on formation and it is necessary that Government, through its own and the societies' staff, should continue their co-operative education long after they are registered. Unless a society is co-operative in fact as well as in name—and it can only be so if all its members understand the main principles—it is a fraud on its members and on the public. The fact too that societies, though primarily self-contained and self-governed, are subject to supervision by Government officers, has an important effect in attracting public confidence, and the benefits thus accruing to the country at large fully justify the expenditure of public money on official supervision. Lastly, the co-operative movement by bringing the officers of Government into close touch with the people in economic matters, provides opportunities for developing those closer relations in other respects which it is so desirable to foster. But just as there are some critics who deprecate Government assistance, so too there are others, both non-official and official, who plead for a far greater degree of Government intervention than has hitherto been permitted. They urge that in order to touch more than the fringe of the population, a far more rapid rate of progress is called for, and that unless the Government staff be largely increased, and unless active measures be taken by Government to propagate the movement, its effect must be small and progress slow. This too represents a policy which Government has not felt itself at liberty to adopt. Not only is it the case that work done by a large centralised department tends to become mechanical and listless, but the movement must in its essence be a popular one, and nothing should be done to weaken the feeling among co-operators that it is based upon self-reliance and independence. Government,



therefore, in the best interests of the movement, must not allow co-operation in this country to become an official concern managed by State establishments.

“ As regards the difficult question of control and audit, it is recognized that these duties cannot be left entirely to the private agency of unions and central banks. It is desirable that this non-official agency should be utilised as much as possible and that purely departmental routine in the work of audit and control should be avoided, but the success of the movement would be endangered if this principle were carried to an extreme. Without some degree of Government supervision Registrars would lose touch with the societies ; and the outside public, who depend largely on the information possessed by Registrars, and who value the scrutiny carried out by those on whom they rely, would lose that confidence in the financial position of the societies which it is so essential to maintain. Had this safeguard been neglected, it is doubtful whether societies would have escaped—as fortunately they have almost everywhere escaped—the evil effects of the recent banking crisis in India, and the circumstances attending that crisis indicate that any arrangement which would dispense altogether with Government supervision is impracticable. The audit, moreover, of a group of societies by a central society, whose own credit is bound up with that of the societies dependent on it, will not be accepted by the public as equivalent in value to an audit by an outside agency. It is necessary, therefore, that societies should be controlled and audited by a reliable staff which can keep the Registrar informed of the financial position of the societies, and it is also necessary that the agency employed should be such as will ensure the confidence of the money-lending public. The staff need not be paid by Government, and it is indeed as a rule better that societies should themselves be responsible for the payment of the controlling and auditing staff than that they should be indebted to Government for its services, but whether the staff is paid by the societies or not, it is ordinarily advisable that it should be appointed subject to the approval of the Registrars, and that it should remain under their general control. If by this, or any

other means, the two main conditions above noted are satisfied—first, that Registrars should possess reliable information regarding the financial position of societies, and secondly, that the outside public should have confidence in the control and audit—it is an advantage that the number of Government officials employed should be as small as possible.”

We may now turn to the Report of the Committee on Co-operation in India,\* paragraph 191. “In the creation of a Registrar not only to fulfil the formal requirements of the Act, but also to guide and control the whole movement, the Indian Government occupies a unique position and one which we think has been of great, and could be made of still greater utility to the movement. When the appointment was first created in 1905, the retention of a Government officer as Registrar was looked upon as a more or less temporary measure, and it was hoped that as experience was gained and societies became more able to stand alone, the fostering care of the Registrar would be found less necessary, until ultimately he would be able to confine himself to his statutory functions only. We cannot subscribe either to the disappearance of the post or to the transference of its functions to non-official agency. As Mr. Wolff has put it to us, the Registrars should not be set down as officials, but as “guides, philosophers, and friends to the societies, appointed and paid by the State.” In his book “People’s Banks,” Mr. H. W. Wolff writes,† “Official supervision of some sort, of course, there will always have to be, just as we cannot in the United Kingdom do without it in our co-operative societies. The State must see that its laws are obeyed. But, once the proper stage of development is reached, further than that official interference should not go. We cannot yet be said to have arrived at that point in India. For sometime still the Registrar will have to go on directing the work of the movement, taking for the time the place of the coming Union.”‡

The Registrar, it will be understood, has a dual rôle to fill. He is not only the official representative of Government, but

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\* Government Press, Simla, 1915.

† Third edition, pp. 534-535.

‡ “Federation” is the correct term.

he is the non-official *Generalanwalt*, or elected head of the Union, or more correctly, the Federation of Central Banks. What the duties and functions of such a head should be, may best be gathered by reading the short sketch of the life and work of Wilhelm Haas which is added as an appendix \* to this part of this book. "Find Raiffeisen" wrote Sir F. Nicholson, and thus summed up the problem of Indian co-operation. Is it too much to hope that from the ranks of the great army of non-official co-operators men will, in the course of time, be forthcoming to lead the movement? Education in co-operation is proceeding; practical experience is being gained; the co-operative idea is no longer quite the novelty it was. The present environment, with its limitations, is becoming more spacious; and though it is of paramount importance that no man should aspire to lead the movement unless he has the necessary qualifications—not merely the zeal but the expert knowledge as well—I hold that the process of education will, in the end, turn out men able, qualified, and willing to lead. Meanwhile, the organization is much too young, financially too weak, and too disjointed, to be able to find and pay its own *Generalanwalt*.

What are the different units in the Central Provinces system? Some of them are regular troops (on the permanent establishment), others are irregular troops, experimental or not sufficiently tested. The regular units are as follows:

In the organization of agricultural co-operation, the basic unit is the primary co-operative credit society, with unlimited liability, and with a very restricted area from which to recruit its members. Generally, members come from a single village and are all neighbours. Seldom, two or more *small* villages are included within the area allotted to a single society. More frequently, two or more societies are to be found in the same village, mutual trust and knowledge imposing their own limitations upon membership.

Next in order of progression comes the guaranteeing Union of primary societies. Just as full knowledge of the circumstances

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\* Appendix II "Wilhelm Haas."

of individual members is essential to the safety of a society with unlimited liability, so local knowledge is required for the reliable assessment of the credit of primary societies. In the early stages of its career a Central Bank can deal satisfactorily with the difficult question of assessing credit ; but when the societies affiliated to it become numerous, decentralisation of detailed work is unavoidable, unless banking is to be conducted on rigid and artificial lines. Some Central Banks, indeed, show a deplorable affection for red tape and elaborate (but unsafe) methods of office procedure. Security is not to be found in pens, ink, and paper—nor yet in figures. Full local knowledge is what the assessing agency must possess. For this reason, the guaranteeing Union is a very valuable link in the chain of co-operative banking. Nor must the great importance of the Union as an agency for the imparting of education in co-operation be neglected. The area which a Union is allowed to deal with is, of course, restricted, the radius being, roughly, not more than an easy morning's walk from the Union headquarters.

Above the Unions of primary societies is the Central Bank, including amongst its shareholders not only private individuals but (a) the Unions in their corporate capacities, (b) the primary societies in their corporate capacities, and (c) every individual member of the primary societies. The objects of this arrangement are not only to promote thrift and to ensure that the stake represented by local capital is sufficient to procure credit, but also to instil into the individual that sense of association and of interests in common which is so indispensable to a powerful *co-operative* movement, and to secure stability and permanence of banking funds. The area allotted to each Central Bank is also restricted, but its size is regulated by administrative reasons, such, for instance, as the local talent available for management, the probable volume of business, the density of population, the intensity of cultivation, and the fact whether communications are good or bad. The system of guaranteeing Unions not only adds to security but enlarges the sphere of a Central Bank's operations, and turns, what would otherwise be unco-operative into co-operative business

At the apex of the organization for credit and thrift stands the Provincial Bank, which is not, at present, purely co-operative. In the record of this Bank there is nothing which the most ardent advocate of co-operative methods could find fault with—from the financial and business point of view. There has been no hankering after big dividends and no pressure upon Central Banks to bring much or exclusive custom. But the time must arrive, and that shortly, when the Central Banks (and all that they represent) will become the most important shareholders in the Provincial Bank, with an influential, if not a deciding, voice in its affairs. The most serious problem which the co-operative movement in the Central Provinces has to face is the provision of *Generalanwalten* (or legal representatives and heads of the system in its strictly non-official aspect), with the necessary time, knowledge, and practical experience. The solution of this problem, as well as the transformation of the Provincial Bank from a society of individuals to a society of societies, will be reached by gradual stages, the length of which it is impossible to measure beforehand. Briefly, the exact date of the solution depends entirely upon the aptitude of the people of the Province for practical co-operation. There are many formidable obstacles to be overcome.

Of the Central Provinces Federation of Co-operative Banks it may be stated in these introductory remarks that it aspires to carry out precisely those functions which are allotted to the big Federations in other countries. To the reader who has mastered the studies contained in the first part of this book nothing more need be said.

We may now proceed to make a detailed inspection of the internal machinery of (a) the regular units on the permanent establishment, and (b) the irregular units, experimental in nature, or not sufficiently tested to be recognized as part of the standard organization.

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## CHAPTER II.

THE PRIMARY CO-OPERATIVE CREDIT SOCIETY WITH  
UNLIMITED LIABILITY.

The following standard by-laws have been adopted by the Central Provinces Federation of Co-operative Banks for the use of primary credit societies :—

## NAME AND ADDRESS.

1. *This society shall be called the Co-operative Society, Unlimited. Its registered office is at*

## QUALIFICATIONS FOR MEMBERSHIP.

2. *Subject to the condition that without the previous sanction of the Registrar the number of individuals elected to membership of this society shall not exceed 50, any person of good character who resides in* *is qualified for*  
*admission to membership if he*

- (1) *is above 18 years of age;*
- (2) *agrees to pay an entrance fee of annas eight and an annual subscription of Re. 1 (to be paid in advance) to the Central Provinces Federation of Co-operative Banks, Limited;*
- (3) *undertakes to free himself as soon as possible from such pecuniary obligations as he may be under to any person or institution other than this society;*
- (4) *binds himself to purchase one share of Rs. 5 in the Co-operative Central Bank to which this society is affiliated, for every complete fifty rupees or fraction of fifty rupees which he may owe to this society. This society is at liberty to advance money for the purchase of shares acquired in accordance with this by-law and loans taken for the purchase of shares may be repaid to the society in annual instalments not exceeding ten in number. As long as any part of the purchase money of any share thus acquired has not been paid back to the society by the*

*purchaser the dividend on such share shall be taken towards the price of the share ;*

- (5) *undertakes after admission to membership to refrain from borrowing money on any pretext whatsoever except from this society unless he has given previous notice to the Panchayat and has obtained the instructions of the Panchayat concerning his intention to borrow ;*
- (6) *undertakes to acquaint himself fully with the meaning of the by-laws of this society and with the main principles of co-operation as expressed in the leaflet pasted in his Pass Book ;*
- (7) *undertakes to furnish the society on becoming a candidate for admission, or whenever necessary, with a full and true statement of his assets and liabilities. Any member guilty of concealment of debts or of obtaining money from the society by means of such concealment renders himself liable to prosecution in a Criminal Court.*

(i) Just as small classes are easier to teach than large ones, so the society of moderate size learns its work more quickly and more thoroughly than a big unwieldy society. Mutual knowledge, the basis of *unlimited liability*, is more likely to be complete and up to date in a small than in a big society. Our experience is that when a village co-operative credit society includes more than fifty persons in membership, the quality of co-operation suffers.\* In practice, the general rule works out at one society to one village. There are, however, just exceptions to this rule.

(ii) Section 6 of the Co-operative Societies Act makes it clear that every society must consist of at least ten persons above the age of eighteen years.

(iii) The annual subscription of Re. 1 is the penalty of illiteracy. People who cannot keep accounts must pay for work which has to be done for them. At the same time, the

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\* Cf. paras. 25 and 26 of the Report of the Committee on Co-operation in India.

members of primary societies are very carefully taught that the Union servants are the servants *of the societies*. Without regular accounts there can be no banking system ; without paid service there would be no regular accounts ; and India cannot afford to put off the movement towards co-operation until that vague future date which will find the necessary degree of literacy prevalent and societies able to write their own accounts. The annual subscription of Re. 1 covers all expenses, and it is an absolutely inclusive charge for what is intended to be a complete and efficient banking service brought to the villager's door.

Entrance fees can be carried straight to the society's reserve fund, or they can be applied towards the purchase of the society's share in the Central Bank.

(iv) If members are to bear the burden of joint and unlimited liability for the borrowings of their society, it is necessary that credit should not be pledged either secretly or indiscriminately. Hence the provision of by-law 2 (3) above.

(v) The primary society without share capital provides the simplest form of co-operative credit institution.

Section 33 of the Act lays down that "in the case of a society with unlimited liability no distribution of profits shall be made without the general or special order of the Local Government in this behalf." Where there are no shares there are no dividends, and, consequently, no dividend hunger. Accounts are more simple, and no arrangements need be made to meet the withdrawal of share money by members who leave the society.\* It is, however, essential (a) to preserve a definite proportion between share capital and borrowed money ; (b) to promote thrift ; (c) to widen the sense of association and to teach the members of the primary societies that the Central Bank is their own institution and the local pivot of co-operative enterprise ; and (d) to do everything possible to create purely co-operative control. By-law 2 (4) above has been framed with these objects in view, as well as to guard against possible tyranny

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\* See section 22 of the Co-operative Societies Act from which it is clear that the share capital of an unlimited liability society has no legal stability.



by the paid servants of the Central Bank over individual members of societies. Payment for shares by loans repayable in easy instalments is a practice which has its counterpart in other countries ; and the last sentence of by-law 2 (2) merely gives effect to the requirements of section 12 of the Act. [*References. Nicholson, Vol. I, pp. 10, 12, 139. Report of the Committee on Co-operation in India, paragraphs 43-46.*]

(vi) By-law 2 (5) gives effect to a recommendation made by the Committee on Co-operation in India. Paragraph 38 of the Committee's Report runs as follows :—

38. A further question has been raised in this connection regarding the advisability of a provision forbidding members after election to resort to money-lenders for loans. We recognize that, as a general rule, it is best for members to be indebted to the society only and to no outside agency, but unless steps are taken to *finance the members adequately and promptly*, any rule to this effect would certainly be evaded. We think it right therefore for societies to abstain from any prohibition against resort by members to the money-lenders, but it should be laid down that the Committee must be duly informed on every occasion when loans are taken from sources outside the society. We would at the same time recommend that all necessary steps should be taken to meet the needs of members by adequate and proper financing within the society itself, and we may remark that the best solution of the difficulty is, wherever this may be possible, to induce the money-lender to lend through the medium of the society by becoming himself a depositor ; or to convert a previous debt due from a member into a deposit with the society at a reduced rate of interest and with possibly a reduction also in the capital amount of the claim.

(vii) The leaflet issued to members of societies lays down what every member of a primary society *must* know. Until the elementary principles set forth in the leaflet are mastered, education in co-operation has not proceeded very far. Teaching and controlling institutions are not doing their work efficiently unless they teach and control ; and, from the financial point of view, societies ignorant of their duties are a grave danger. Every inspecting officer is expected to teach, not by means of long speeches but by putting simple questions, obtaining answers, and testing and supplying knowledge. Without patience, sympathy, brevity, clarity, and *knowledge* no man can aspire to teach humble folk what Co-operation means.

## LEAFLET.

THE ESSENTIALS TO BE KNOWN BY ALL MEMBERS OF CO-OPERATIVE CREDIT SOCIETIES (BY-LAW 2 (6) OF THE STANDARD BY-LAWS FOR PRIMARY SOCIETIES).

## 1. OBJECT OF CREDIT SOCIETY :—

- (i) Cultivation of habits of thrift and economy.
- (ii) Increase of savings and their profitable use.
- (iii) Extinction of debts.
- (iv) Increase of property.

## 2. ADVANTAGES OF CO-OPERATIVE BORROWING :—

- (i) Small men can get loans at the same rate of interest as big men.
- (ii) Mutual check and supervision.
- (iii) Profitable use of borrowed money.

## 3. ADMISSION, WITHDRAWAL AND EXPULSION OF MEMBERS :—

- (i) *Admission*.—The essential qualifications for admission are good character and intimate mutual knowledge.
- (ii) *Withdrawal*.—A member may withdraw from a society after repaying all his debts to the society, but his liability (as defined in paragraph 4 below) continues for 2 years from the date of withdrawal.
- (iii) *Expulsion*.—The main grounds on which a member is liable to expulsion are :—
  - (a) Concealment of debts before admission into the society, and borrowing from outside without the knowledge of the society after admission.
  - (b) Wilful default in repayment.
  - (c) Misapplication of loans.
  - (d) Conduct injurious to the credit and reputation of the society and any serious breach of the by-laws.

## 4. LIABILITY OF MEMBERS TO THEIR SOCIETY :—

Is unlimited, *i.e.*, a member is personally, as well as with all his estate responsible not only for his own debt to the society but also for the debts of his fellow members to the society.

## 5. LIABILITY OF A CREDIT SOCIETY :—

- (i) In respect of its own borrowings is unlimited.
- (ii) In respect of the guarantee for the borrowings of all other societies affiliated to the Circle Union to which it belongs, is limited to the extent of a sum equal to its own maximum borrowings during the preceding 12 months.

## 6. SAFEGUARDS AGAINST LOSS :—

- (i) Admission of persons of good character intimately known to one another.
- (ii) Thorough knowledge and observance of the by-laws.
- (iii) Proper fixation of maximum credit limits, and their rigid observance in granting loans.
- (iv) Discouragement of loans for purposes which are not productive and profitable.
- (v) Grant of loans for actual requirements only.
- (vi) Taking of two personal sureties for every loan granted to a member. The sureties should, as a general rule, be members of the society, but in exceptional cases and with the approval of the General Meeting non-member sureties may be accepted.
- (vii) Taking of mortgage or sub-lease of any alienable immovable property of the borrower or of his future crops in addition to personal sureties, if the Panchayat considers it necessary.
- (viii) Application of loans to specified and approved purposes.

## 7. SYSTEM OF REPAYMENT :—

- (i) When a loan is made for a non-productive purpose it shall be repaid within two years.
- (ii) Loans for seed, food, cultivation expenses, cattle fodder, or the payment of rent or revenue shall be repaid immediately after the next ensuing harvest.
- (iii) Loans for the purchase of carts or cattle, or for industrial or agricultural implements, or for the liquidation of small debts, or for house building must be repaid within two or at the most three years.
- (iv) Loans for the liquidation of large debts, the purchase or redemption of land, or for expensive improvement of land must be repaid within three or at the most four years. The Panchayat shall scrupulously observe these principles and shall not grant more than one extension of an overdue kist. Should it be necessary in the opinion of the Panchayat to act contrary to the principles above expressed, the Panchayat shall refer the matter for the orders of the Central Bank or Circle Union to which the society is affiliated and shall obtain and obey such orders which must be in writing.
- (v) Loans must be punctually repaid in the manner shown above.
- (vi) More than one renewal for an overdue kist is prohibited by the by-laws.

## 8. WHERE DOES THE MONEY ADVANCED IN LOANS TO MEMBERS COME FROM ?

- (i) A member gets his loan from the society.
- (ii) The society raises funds by borrowing from the Central Bank directly, if it is not affiliated to a Circle Union, or by borrowings

## THE CENTRAL PROVINCES SYSTEM.

guaranteed by the Circle Union, if it is affiliated to a Circle Union, and by accepting deposits from members and (if expressly authorised) from non-members.

- (iii) The Union does not handle cash nor does it accept deposits.
- (iv) When a society sanctions the grant of loans to its members, it issues printed and engraved vouchers to them, and these vouchers can be encashed at the office of the Central Bank just as members may arrange to suit their own convenience. Thus a member may take his own vouchers to the office of the Central Bank, or a duly authorised representative of a society may take his own vouchers and the vouchers of other members to the Central Bank office for encashment, but whenever money is drawn from the Central Bank office by one member *on behalf of other members* he must produce in the Central Bank office a copy of the resolution passed by the society authorising him to draw money on behalf of the other members. Repayments made by societies are made to the Central Banks. The society or any of its members desiring to make any payment shall take the pass book of the society, or the pass book of the individual member, and the cash to the Central Bank which shall receive payment from the society or the members on behalf of the Union if the society is affiliated to a Union, or on behalf of the society if it is not affiliated to a Union. It is the duty of each society to see that its members repay punctually. It is the duty of every Union to see that there are no arrears against any of the societies which are its members.
- (v) The Central Bank raises its funds by shares, deposits, and loans from the public and supplements local capital by loans from the Provincial Bank.
- (vi) The Provincial Bank raises its funds by shares and takes loans and deposits from the public. It must be remembered that the money which a member gets from his society is *not Government money*. Government does not guarantee the stability of co-operative banks.

9. REASONS WHY SOCIETIES SHOULD BIND THEMSELVES TOGETHER IN GUARANTEEING CIRCLE UNIONS :—

*Firstly*, it is much better for Unions of Societies to manage their own affairs than for individual societies to lean too much on the Central Bank for the decision of all their business detail, for this leaning produces delays and trouble.

*Secondly*, the Union secures mutual supervision and assessment of credit based on local knowledge and furnishes a guarantee to the Central Bank for the borrowings of its affiliated societies. This guarantee strengthens the credit of the affiliated societies with the Central Bank and procures a much more

liberal credit from the Central Bank than could otherwise be granted. Old debts, for instance, can be provided for and easy terms for repayment can be fixed where good Unions exist. The Union is a valuable agency for settling all matters of common interest and for advising and assisting affiliated societies in the conduct of their affairs.

10. FORMATION AND USE OF RESERVE FUND :—

- (i) A member pays interest at 12 per cent. per annum to his society on loans. The society pays interest at 9 per cent. to the Central Bank if it deals directly with the Central Bank or to the Union if it is affiliated to a Union and the Union pays the same rate on loans from the Central Bank. The whole of the difference between the interest received and paid by the society goes to its reserve fund. This reserve fund is permanent and indivisible and cannot be drawn upon without the sanction of the Registrar.
- (ii) The functions of the reserve fund are as follows :—
  - (a) It strengthens the society's credit.
  - (b) It protects the creditors of the society against loss.
  - (c) It is a source from which an annual income is derived to cheapen the rate of interest on loans to members of the society.

11. Every member of a society must purchase one share of Rs. 5 in the Co-operative Central Bank to which his society or the Circle Union (of which his society is a member) is affiliated, for every complete fifty rupees or fraction of fifty rupees which he may owe to his society. He can get money for the purchase of a share or shares on loan from his society. He must repay this money to the society in not more than ten annual instalments. As long as any part of the purchase money for any share has not been paid back by the member to the society the dividend on such share shall be taken towards the price of the share. The reason why the members must take shares in the Central Bank is that the credit of the Central Bank is regulated by the amount of its share capital. All the money which the Central Bank borrows is lent out to the members of societies for their benefit. If then the members of societies want credit for themselves they must help their Central Banks to obtain it for them. Therefore, the members of societies have to purchase shares in the Central Bank. But it is no hardship for them to do so, for the money for the purchase of shares can be advanced to them, if necessary, by the societies and can be repaid in very easy annual instalments not exceeding ten in number.

12. Every member of a society pays an annual subscription of Re. 1 to the Central Provinces Federation of Co-operative Banks. The subscription is utilised in payment of the staff employed to do the writing work of the societies and in the payment of the cost of books, forms, and stationery supplied to societies. It must be remembered that the Society Moharrirs are not the masters of the societies but their servants and the societies must get all their writing work done by them properly.

13. No servant of Government, of the Provincial Bank, the Central Bank, or of the societies may ask for or accept any gratification whatsoever from any society or from any member of any society, and every Government servant or other servant employed in the service of co-operative societies is bound, on penalty of instant dismissal, to pay for his *rasad*. It is the duty of all members of societies to see that this rule is strictly observed. Breach of this rule by a member of a society or by a society will entail the stoppage of all credit, the cancellation of the society, and immediate recovery of all loans.

(VIII) The question of old debts is a most difficult one to deal with. Loans for the liquidation of debts contracted prior to membership will, as a general rule, be long term loans; and unless the command of funds for the necessary period is assured to a society, it cannot, obviously, be in a position to advance a long term loan. One great advantage afforded by a large share capital administered by a Central Bank is that it furnishes a fund which can be employed in the grant of long term loans to societies of proved and tested merit; and the centralisation of the share capital will not only facilitate the reasoned and regulated distribution of long term loans, but will give the financial support of the strong societies to the weak ones affiliated to the same Central Bank. Debt concealment, is, however, perhaps the most serious obstacle to the grant of long term loans to newly made members. By concealing part of their indebtedness the members of a new society may be able to obtain, from a Central Bank (or even from a Union of Primary Societies), loans which would never be granted if the Central Bank or Union knew the truth. The truth might be arrived at by the application of the "Purge." This convenient French term expresses the legal mode by which a person acquiring immovable property, ascertains, and, if desired, gets rid of prior encumbrances or privileges subsisting on the properties. Under the Civil Code the Purge has two results; a purchaser or acquirer—for the power is not given to mere mortgagees—can free his property of all charges which burden it, and can also bring to light all unknown charges which might subject him to loss. The former result is obtained, by paying off, after due notice, all registered claims up to the amount of the price to be paid by him for the property which is then freed from all such encumbrances; for the purge of unregistered claims

notice is given to register, failing which within a given date, the property is absolutely freed from all such claims. In the opinion of Sir Frederick Nicholson special legislation with a view to ascertaining the liabilities of members of genuine co-operative credit societies is not advisable (*see* page 309, Volume I of his Report).

Paragraphs 36 and 37 of the Report of the Committee on Co-operation in India express views with which the present writer is in agreement, and these paragraphs are produced below :—

36. In connection with the organization of societies two further questions have been raised, namely; (i) whether special powers should be conferred on societies to enable them to ascertain accurately the debts of their members or of persons desirous to be members, and (ii) whether it is right for the society to pay off the whole of the ascertained debts of an applicant for membership on his entry into the society.

Special powers to ascertain debts.

As regards the former of these questions, a suggestion was made by the Co-operative Conference of 1913 that special powers of the kind suggested should be given, and Local Governments were consulted by the Government of India as to the advisability of legislation to allow a society to call by notice on all creditors of a member or an applicant for membership for a statement of the debts due by him, on penalty of their losing interest thereafter on any claim not preferred. With the exception of the Government of Burma, most of the Local Governments were against taking any action in the direction indicated, and the matter was then referred to our consideration. After a perusal of the opinions received, our view is that no action is required to meet the case of a debtor who purposely conceals his debts, as it is *ex hypothesi* the duty of a society to be sufficiently acquainted with the circumstances of its members to prevent the election of a debtor of this kind, and consequently we do not think that there is any necessity for giving powers to issue a general notice on creditors to present statements of debts due. The case which is to be met is that of a creditor who refuses to supply a statement of the debt due to him, that is to say, who refuses to give the peasant debtor what every man is entitled to get from his banker, namely, a statement of account, and we consider that there is no objection in principle to an arrangement by which a society should be entitled to serve a notice on a named creditor for the submission within one month of a statement of the sum due to him by a member or applicant for membership, subject to the discharge of the debt if he fails to submit a claim and a prosecution under the law if he makes a wilfully false one. In view of the replies given by the Local Governments to the previous suggestion we would recommend that legislation of this kind should be tried experimentally in Burma before being applied elsewhere, and

we would add that in our opinion it should be considered whether the above procedure should not be made applicable to all classes of agricultural debts, whether a co-operative society is concerned with them or not.

37. As regards the further question, whether it is advisable for the society to pay off the debts of a member on his election, we think that no unvarying practice can be followed. The question arises only when the society considers that the debtor is not too far involved to be extricated from his debts, and when it has funds to pay any sums due by him. In such cases the best plan in our opinion is to arrange to clear off at an early date, but not necessarily on admission, the debts of a new member. Unquestionably from the economic point of view the entire extinction of all old debt and the substitution of the society for the money-lender as a member's sole creditor is the most satisfactory course; but in relieving debt without any corresponding effort on the part of the debtor, there is a real danger of weakening his strength of character and thereby making him a less valuable member of a society than he was otherwise capable of becoming. If the creditor is troublesome and threatening, there is no help for it but to clear off the debtor's debts at once. Otherwise we consider that it is best to pay off a part of the debts at a time, as funds can be spared for the purpose, those paying highest interest being chosen first, and the mortgage debts and others bearing less interest being kept over till the debtor has been sufficiently long in the society for his qualities to be appraised and for the receipt of contributions from himself towards his extrication. We think that a procedure of this kind has a better educative effect than the immediate and wholesale clearing off of debts on admission."

#### ADMISSION TO MEMBERSHIP.

3. *The members in General Meeting shall have the power by a majority of the total number of members in the society to elect or reject an applicant for membership. Admission to membership can only be granted by the members assembled in General Meeting and cannot be granted by the members of the Panchayat alone.*

4. *On election as a member an applicant shall sign his name in the register. If he cannot write his thumb impression shall be taken. He shall at the same time pay his entrance fee, and his first annual subscription of Re. 1 mentioned in by-law 2 (2) above.*

For purposes of practical finance and administration it is most important that Central Banks should collect the annual Federation subscriptions regularly in advance. Unless this is done there is a danger that Central Banks will either have to use banking funds for the payment of salaries (which is, of course,



most expensive), or will not be able to pay out salaries regularly every month. The instructions of the Governor of the Federation are that subscriptions are to be collected in advance for the following year. The payment of the Federation subscriptions being an obligation enjoined upon the members of primary societies in a duly registered by-law brings into operation the provisions of section 12 of the Act, and to this fact the attention of Central Banks is specially invited.

#### LIABILITY OF MEMBERS.

5. *The members of this society are jointly and severally liable for all liabilities of the society.*

The unlimited liability prescribed in this by-law will, of course, be equitably enforced. But it must clearly be understood that each member is liable to the extent of his entire property for the liabilities of the credit society to which he belongs.

#### EXPULSION OF MEMBERS.

6. *Should a member fail to pay any instalment of his debt to the society as it falls due, should he conceal his liabilities, or should he use the money advanced to him by the society for any purpose other than that for which the advance was sanctioned, the Panchayat shall have the power to recover at once any amount which he owes to the society and to remove his name from the list of members.*

In western countries it is an absolute rule that every loan must be for some useful and productive purpose ; this is, in fact, one of the chief securities for the repayment of the loan—a security entirely lost sight of by those who demand only material and existing securities ; when a loan is used only for a productive purpose, including in this definition the payment of previously existing debts which enslave the borrower and absorb his property, the lender has the best of guarantees that his loan will be repaid ; the borrower is, in fact, in a better position to repay the loan than he was when he borrowed it. To this end, not only must an applicant state the object of his loan, but the truth of the statement must be enquired into by the Panchayat

or by authorised members of the Panchayat, or better still by all the members of the society. If the loan is approved of it must be used for the purpose stated under penalty of immediate recovery. This is not merely for the protection of the interest of the society but of the member ; it is desired to teach members the due use of credit and to safeguard their true interests ; control of the use of credit is the base of the society's action, and the abuse of this control is checked by the fact that it is the members themselves who control themselves and one another, and that the members are men of similar position and needs. In India the custom of the country makes it necessary to permit the grant of loans for strictly necessary and unavoidable expenditure upon marriages, funerals, etc. It is better from every point of view that the member who has credit should obtain money for unavoidable expenditure from his society rather than that he should be driven into the arms of the usurer and perhaps to his ultimate ruin. Societies, however, must be taught to cut down ceremonial expenditure to the lowest possible figure and to look with disfavour upon the unfortunate fashion which favours extravagance.

7. *The members assembled in general meeting may, by vote of a majority of their total number, expel any member of this society :—*

- (1) *for being in default to the society ;*
- (2) *for conduct injurious to the credit and reputation of the society ;*
- (3) *for any serious breach of the rules or of the by-laws of the society, particularly for the misapplication of money advanced or for borrowing money secretly from outside the society or in contravention of the instructions of the Panchayat.*

It is sometimes asked whether a member who borrows money for a specified productive purpose but applies it to another equally productive purpose ought to be expelled from the society. Every case must be dealt with upon its merits and the wording of this by-law, it will be noted, is permissive. If the members of the society consider that the

borrower has behaved honestly and honourably, obviously they should not apply the punishment of expulsion.

#### WITHDRAWAL OF MEMBERS.

8. *A member who owes no money to the society may withdraw from membership.*

#### LIABILITY OF PAST MEMBER.

9. *Every member of the society whose connection with the society has ceased under these by-laws shall at once be liable to pay the whole of his debt to the society. Any member who has been expelled or who has withdrawn from the society shall continue to be liable for the debts of the society as they existed at the time when he ceased to be a member for a period of two years from the date of his ceasing to be a member.*

Sections 23, 24 and 25 of the Act run as follows :—

23. The liability of a past member for the debts of a registered society  
 Liability of past member. as they existed at the time when he ceased to be a member shall continue for a period of two years from the date of his ceasing to be a member.

24. The estate of a deceased member shall be liable for a period of one  
 Liability of the estates of deceased members. year from the time of his decease for the debts of a registered society as they existed at the time of his decease.

25. Any register or list of members or shares kept by any registered  
 Register of members. society shall be *prima facie* evidence of any of the following particulars entered therein :—

- (a) the date at which the name of any person was entered in such register or list as a member ;
- (b) the date at which any such person ceased to be a member.

#### INTEREST OF PAST MEMBER.

10. *The interest of a member deceased or expelled or of a member who has withdrawn shall be held to be the amount of any deposits or loans made by him with or to the society together with interest thereon to the date of decease, expulsion or withdrawal less any sums due from him to the society together with interest thereon to the date of decease, expulsion or withdrawal.*

Sections 20, 21 and 22 of the Act run as follows :—

20. A registered society shall have a charge upon the share or interest in the capital and on the deposits of a member or past member and upon any dividend, bonus or profits payable to a member or past member in respect of any debt due from such member or past member to the society, and may set off any sum credited or payable to a member or past member in or towards payment of any such debt.

21. Subject to the provisions of section 20, the share or interest of a member in the capital of a registered society shall not be liable to attachment or sale under any decree or order of a Court of Justice in respect of any debt or liability incurred by such member, and neither the Official Assignee under the Presidency-towns Insolvency Act, 1909, nor a Receiver under the Provincial Insolvency Act, 1907,\* shall be entitled to or have any claim on such share or interest.

22. (1) On the death of a member a registered society may transfer the share or interest of the deceased member to the person nominated in accordance with the rules made in this behalf, or, if there is no person so nominated, to such person as may appear to the committee to be the heir or legal representative of the deceased member, or pay to such nominee, heir or legal representative, as the case may be, a sum representing the value of such member's share or interest, as ascertained in accordance with the rules or by-laws :

Provided that—

- (i) in the case of a society with unlimited liability, such nominee, heir or legal representative, as the case may be, may require payment by the society of the value of the share or interest of the deceased member ascertained as aforesaid ;
  - (ii) in the case of a society with limited liability, the society shall transfer the share or interest of the deceased member to such nominee, heir or legal representative, as the case may be, being qualified in accordance with the rules and by-laws for membership of the society, or on his application within one month of the death of the deceased member to any person specified in the application who is so qualified.
- (2) A registered society may pay all other moneys due to the deceased member from the society to such nominee, heir or legal representative, as the case may be.
- (3) All transfers and payments made by a registered society in accordance with the provisions of this section shall be valid and effectual against any demand made upon the society by any other person.

\* Act III of 1909, III of 1907.

FORMATION, DUTIES, AND RESPONSIBILITIES  
OF PANCHAYAT.

11. *Until a Panchayat is elected by the members of the society in a General Meeting, the persons signing the forms of application for registration shall be deemed to be the Panchayat.*

12. *As soon after registration as convenient the members of the society shall hold a General Meeting and shall elect a Panchayat which must consist of at least three members and shall, if possible, consist of not less than five members.*

13. *No one who is not a member of this society shall be eligible to serve on the Panchayat.*

14. *The Panchayat shall be elected annually at the General Meeting of the members. Any member of the Panchayat shall be eligible for re-election.*

15. *The Panchayat shall elect one of its members as Sirpanch and another as Secretary of the society.*

16. *The Panchayat shall meet as often as may be necessary and in any case at intervals of not more than three months.*

17. *In addition to the powers and duties already laid down in these by-laws the Panchayat shall—*

(1) *submit to the Central Bank or to the Union, as the case may be, proposals for the fixation of the maximum credit limit of the society for the ensuing 12 months with a list of the individual credits assigned to the members of the society;*

(2) *consider application for loans by members and grant them if they are within the annual maximum credit fixed for each member by the General Meeting in accordance with by-law 23 (2). Subject to the right of appeal to the General Meeting, the Panchayat shall have the power to reject any application for a loan by a member if in their opinion there is good reason to suppose that the money is not wanted for a necessary purpose, or for any other just or proper cause;*

- (3) *see that every loan granted to a member is duly secured by two sureties. These two sureties shall, as a general rule, be members of the society; but in exceptional cases, and with the approval of the General Meeting, sureties may be furnished by non-members provided such non-members furnish a written undertaking, to abide by the Registrar's decision on any matter which may be the subject of dispute between them and the society. The Panchayat shall have the power in addition to requiring personal sureties to take a mortgage or a sub-lease of any alienable immovable property of the applicant or of his future crops,*
- (4) *subject to the provisions of by-laws 23 (3), 26 and 27 raise loans and disburse them as soon as possible.*
- (5) *collect as they fall due the principal and interest on loans and repay loans and deposits with interest thereon ;*
- (6) *examine all cases of outstanding arrears and make arrangements in such cases as may be necessary to provide against loss ;*
- (7) *maintain the society's accounts and records ;*
- (8) *elect two of their number to represent the society at the General Meeting of the Circle Union, if any, to which the society belongs ;*
- (9) *guard and preserve the good name of the society ;*
- (10) *incur necessary expenses connected with the business of the society.*

In the co-operative systems of other countries security given for loans is almost solely personal, namely, that of the borrower reinforced by that of his sureties. "Schulze-Delitzsch," writes Sir F. Nicholson, "favoured suretyship calling it 'the keystone of the organization'; he considered that it promoted fraternity, provided control and supervision over the borrower, guaranteed the honesty and capacity of the latter, who, if not honest and capable, would fail to find sureties, and ensured punctual payments by the borrower himself, who would on no account leave in the lurch a surety of his own class and calling."

In another place Sir Frederick says: "Raiffeisen like Schulze-Delitzsch believed in the efficacy of personal security; it brings together the members of a society, and, since a member will be very unwilling to cause loss to his immediate neighbours, specially those who have become securities for him, it is one of the most efficacious modes of securing repayment if not punctuality; but he directed his societies to be very careful not to accept, either as principal or surety, an idler, a drunkard, or a spendthrift, and since the societies are purely local it is easy to avoid such persons; hence there is not only great security to the society but a direct inducement to the idle, extravagant, or vicious to reform in order to become members of these useful societies. This is no theoretical fancy but the result of experience."

18. *The members of the Panchayat are personally responsible for seeing that the by-laws of the society are duly acted up to and enforced, and in any enquiry or inspection which the Registrar may hold or make or may order to be held or made into the affairs of the society costs may be exacted according to law from the members of the Panchayat by way of penalty should it be proved that they have been guilty of neglect of the duties imposed upon them by these by-laws.*

Under section 35 of the Act it is always open to the Registrar to hold an enquiry into the affairs of a registered society. Under section 37 the Registrar is empowered to apportion the costs of the enquiry as he thinks fit; and under section 33 these costs can, upon application by the Registrar or any duly authorised person, be recovered by a Magistrate by the distress and sale of movable property.

19. *No member of the Panchayat and no member of the society shall vote on any application for a loan in which he is personally interested as a borrower. When any application for a loan is under discussion the member applying for the loan shall withdraw from the meeting.*

Cases have occurred in which prominent members of societies have by the exercise of undue influence secured loans for themselves which ought never to have been granted them. This danger is one against which Central Banks and inspecting officers should always be on their guard.

## RECORD OF PROCEEDINGS.

20. *The proceedings of meetings of the Panchayat and of the society shall be recorded in the Proceedings Book of the society and signed by the Sirpanch and the Secretary in token of accuracy. Copies of the proceedings shall be forwarded to the Union or to the Central Bank as the case may be. The Sirpanch or the Secretary or such other member as may be duly authorised by the society shall be empowered to sign all documents on behalf of the society and to institute or defend suits or proceedings on behalf of the society.*

## PERIODS OF LOANS.

21. *As regards the period for which the society may grant loans to its members, the Panchayat shall observe the following principles:—*

- (1) *When a loan is made for a non-productive purpose it shall be repaid within two years.*
- (2) *Loans for seed, food, cultivation expenses, cattle fodder, or the payment of rent or revenue shall be repaid immediately after the next ensuing harvest.*
- (3) *Loans for the purchase of carts or cattle or industrial or agricultural implements, for the liquidation of small debts, or for house-building must be repaid within two or at the most three years.*
- (4) *Loans for the liquidation of large debts, the purchase or redemption of land, or for expensive improvement of land must be repaid within three or at the most four years. The Panchayat shall scrupulously observe these principles and shall not grant more than one extension of an overdue kist.*
- (5) *Should it be necessary in the opinion of the Panchayat to grant a loan or to make an extension for a period not in accordance with the principles above expressed, the Panchayat shall refer the matter for the orders of the Circle Union or the Central Bank to which the society is affiliated and shall obtain and obey such orders which must be in writing.*



Paragraph 64 of the Report of the Committee on Co-operation in India is as follows :—

64. The ordinary practice in India is to fix the period of loans at the time when they are sanctioned, and this we think to be correct. In one province it is customary to fix the nominal term at one year and to allow extensions up to 5 years provided that one-fifth is repaid annually, but this system is rightly being abandoned. No special principle can be laid down for determining the period of non-productive loans, but as a rule they should be for short periods not exceeding two years. In the case of loans for productive purposes, the period should be long enough to allow the borrower to make repayment from the proceeds. It is true that the amount of the loan and the circumstances and repaying powers of the debtor are factors that must be taken into account, but excessive dependence on these considerations opens a loop-hole to favouritism, and it is important to arrange for the adoption of a standard by which societies should regulate their loan. We find that in Burma the subject is regulated in the by-laws loans being classified as :—(a) Loans for seed, food, cultivation expenses, or cattle-fodder ; (b) Loans for purchase of carts or cattle, for liquidation of small debts, and for house building ; and (c) Loans for liquidation of large debts, purchase, or redemption of land, or expensive improvements of land. The first class must be repaid immediately after the next ensuing harvest ; the second in 2 or 3 years ; and the third in 3 or 4 years. The committee is left no further discretion to vary these terms at the time of granting the loans, but has authority in exceptional circumstances to sanction an extension up to one year when the time for repayment arrives. We consider that a somewhat similar classification of loans with similar standard maximum periods might be incorporated in the by-laws of each province, the committee being empowered to fix longer terms, at the time of granting the loans, for special reasons only, and it should be held an important part of the duties of supervising officers to see that good reasons exist for every departure that has been made from the standard term. It will also, for the reasons to be given below, be a great convenience if all or nearly all loans are made repayable at harvest.

As the funds available especially at the commencement of a society will ordinarily be insufficient to meet all demands, care should be taken not to lock up too large a proportion of them in long-term loans. The length of the periods of loans to members will depend partly on the length of the terms for which societies can borrow money and partly on local conditions including the relation of the sale value of produce to the capital value of land and the percentage of land-value up to which it is customary to grant mortgage loans, but it will seldom be possible in the present circumstances to grant loans for periods exceeding five years. Long-term loans will usually be larger in amount than those for short-terms, and it will obviously be unfair to devote too large a portion of the funds available to this class of loans. At the beginning of a

society's career its object should be rather to meet the needs of the classes requiring short-term loans, but as the proportion of the society's owned capital increases, and as the amount obtained from long-term deposits and available for advances grows, the proportion of long-term loans may be simultaneously increased. After this a further stage will be reached in which the loans for liquidation of debts will be less frequent and the normal loans will be for the ordinary operations of agriculture and for comparatively short-terms.

In some parts of the country we have found large sums lent out for two or more years and made repayable in a lump sum at the end of the period. This is in our opinion an uneconomical system and inconsistent with the principle that repayments should always be made out of the proceeds of the loans. In all cases where the period of a loan exceeds one year, repayments should be made by compulsory annual instalments. This is the Raiffeisen rule and it would be dangerous to abandon it. In fixing instalments for recovery, we think it best to make the principal repayable by equal instalments, interest being calculated on each occasion up to the date of actual payment, rather than to attempt to work out equated payments of interest and principal taken together. The latter procedure, though simplifying the demand, is apt to cause great confusion of accounts if payments ever fall into arrears.

Successive crop failures upset original calculations and lead, of course, to numerous renewals of loans; the just fixation of instalments is a matter which presents great difficulties, especially when the profits of the original loan have not accrued owing to hail, rust, fire, drought, or some other calamity. But co-operators must remember that they are not dealing with State demands; on the contrary, they are trustees for the money of shareholders and depositors and, sooner or later, debts must be recovered. Under the *regime* of the *sahukar* unpunctuality and continuous indebtedness are fostered, with results that are far from beneficial to the debtor. In re-fixing instalments, therefore, it is better to spread them over too short rather than over too long a term; and in making recoveries it is wise to follow the old banking precept "Recover as much as you can when you can," remembering always (a) that it is the duty of co-operators to work for the benefit of the debtor and not for mere profit, (b) that it pays to be merciful and just, (c) that it is suicidal policy to show any indulgence to slack and dishonest persons, and (d) that it is foolish to place too great a strain on an honest man's capacity for repayment.

The very first lesson that a co-operator has to learn is that his promissory note is not a "scrap of paper;" on the other hand, some Central Banks have yet to learn the lesson that good customers deserve prompt and considerate treatment. It is after bad seasons that the cultivator's need for financial assistance is greatest, and the tendency to refuse loans for seed and bullocks for no better reason than that crops have been poor is one which must not be encouraged. Co-operative credit is nothing but a fraud and a delusion if short-term loans cannot be obtained by perfectly sound societies just when the troubles of their members are most acute.

A feature which differentiates co-operative credit from private money-lending is that, whereas the *sahukar* very often refuses to accept repayment before the date stipulated (unless, indeed, interest for the whole period is forthcoming), the co-operative bank allows the borrower to pay back part or the whole of his loan before the due date, and charges interest, at the agreed annual rate, only for the number of days for which the money has been in his hands. This being a feature of co-operative credit, co-operative banks must not omit to observe and preserve it. With all the care taken to fix the easiest instalments for repayment it is found in every country that the unpunctuality of the peasants is a standing difficulty; they cannot without vast trouble be got to understand the absolute necessity of punctuality, and much tact is required to avoid, on the one hand, a sudden severity which would deter them from becoming members and taking loans, and, on the other, a leniency which would soon ruin the society. An official commission held in Germany commented on this fact, and found that the leniency of the administration on this point encouraged the peasants in their faults. It was found in one society with 284 members, that 81 complaints had to be filed in court within three years; of these, however, only 28 had to be followed up, and in one case only was the surety called upon. In 24 societies within the jurisdiction of a single court, there were 793 suits in three years; of these, 222 resulted in attachments of property; it is said that these were chiefly for small loans in very poor villages. It was found that loans were frequently granted

imprudently by the village credit societies, chiefly from a false idea of benevolence or compassion; but as a general rule bad harvests or unavoidably large fluctuations in the price of agricultural produce were the causes of unpunctuality. Some local societies shrank from pressing their debtors, fearing to drive them into the hands of usurers; they did not insist on punctuality and thereby strengthened the peasants in bad habits. It was found also that the debtors had the means to pay had they been pressed and that they did eventually pay up. It is clear that these faults—undue leniency on the one hand and unpunctuality on the other—may easily wreck the best system. Many writers allude to the idea commonly held by the peasants that a society (or a Government) is enormously rich and can afford to wait for its money, so that unpunctuality with them conveys no sense of fault. Mr. Wolff, while admitting that the peasants are unpunctual, considers that the European societies are training them to habits of punctuality by insisting inexorably on payments at audit. “Here, in India,” comments Sir F. Nicholson, “poverty is too frequently urged as a reason for granting a loan of public money, while the ryot and not merely the ryot habitually thinks that the Government is boundlessly rich and can afford to wait, or even to lose an individual trifle.”

#### GENERAL MEETING.

22. *A general meeting of the society shall be called as often as may be necessary. At least one such meeting shall be called each year in the month of . This meeting shall be known as the Annual General Meeting.*

23. *The members shall in the Annual General Meeting—*

- (1) *elect the Panchayat for the year;*
- (2) *fix the maximum amount of credit to be allowed to each member during the ensuing twelve months;*
- (3) *fix the maximum amount of liability to be incurred by raising loans on behalf of the society during the year. This maximum may, of course, be increased, or decreased, on the addition or removal of members in any general meeting or otherwise as may, from*

*time to time, be necessary in the course of business. The maximum limit fixed by the Registrar may be reduced without reference to the Registrar, but it cannot be exceeded without such reference.*

Note.—*The term loans includes borrowings of every description such as deposits made with the society.*

24. *Except as otherwise provided in these by-laws all questions shall be decided by a majority of votes.*

#### RESTRICTION ON BORROWING.

25. *The society's borrowings from all sources shall not exceed a maximum to be fixed by the Registrar for the Society from time to time.*

It must be explained that the maximum limit to be fixed by the Registrar is intended for disciplinary purposes only and is not intended to have anything to do with the grant of credit. The assessment of credit is as regards individuals the task of the society. As regards the societies which are not affiliated to Unions, it is the task of the Central Banks. As regards the Unions, here, again, Central Banks must assess the credit of the Unions, and the Unions must be left to assess the credit of the societies which are their members. The Registrar fixes a *maximum* limit within which free discretion is granted to the institutions responsible for the grant of loans. Should a society exhibit culpable or criminal negligence in the conduct of its affairs, it is open to the Registrar to reduce the maximum limit and thus exercise the necessary disciplinary pressure. The control of audit by the Registrar is thus rendered real and effective.

26. *Every member shall on election receive a savings deposit book in which shall be entered all deposits and withdrawals made by him on his savings deposit account. Savings are the personal property of the depositor and of his heirs. On such savings the society shall pay interest at a rate not less than that which it pays for money borrowed from the Union or the Central Bank to which it is affiliated. Savings deposits are withdrawable on such terms and conditions as the depositor may make with the Panchayat, but the acceptance of savings deposits is subject to such rules as*

*the Registrar may lay down from time to time for the society's guidance.*

The term savings deposits is intended to include small sums, within strictly marked limits, taken and dealt with on lines similar to those of the Post Office Savings Banks. If a society undertakes to meet demands at call, cash in hand must be maintained unless an arrangement is made with the Central Bank to which the society is affiliated for the provision of covering funds. In this case a few days notice should be required before the withdrawal of any deposit. The acceptance of savings deposits is business which can only be entrusted to societies which have proved their merit. But it is, of course, hoped that, in the end, all primary societies will be in a position to accept savings deposit from non-members as well as from members.

#### ACCEPTANCE OF FIXED DEPOSITS.

*27. The society may accept fixed deposits from members and non-members subject to such special rules as may be prescribed by the Registrar from time to time.*

At audit special attention is directed to the efficiency displayed by the society as an agency for the promotion of thrift. A good co-operative credit society will promote thrift not only amongst its own members but amongst non-members resident within the area of its operations. As regards the administration of "deposits by members," no serious difficulty arises, for any disturbance caused by failure to repay on the due date is internal and confined to the society itself. Subject to the rule that every deposit shall be fixed for not less than one year\* all primary societies may accept fixed deposits from members. But in respect of deposits by non-members the case is altogether different. Failure to repay a non-member on the due date might cause widespread disturbance and weaken confidence in the system as a whole. It is, therefore, necessary to regulate the acceptance by primary societies of deposits from non-members and to bring such deposits under the protection of the

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\* Cf. paragraph 51 of the Report of the Committee on Co-operation.

higher banking organization. In these Provinces all Central Banks and the Provincial Bank are always open to receive deposits from the public. Diaries are maintained showing the dates upon which liabilities to depositors accrue; and these diaries are regularly scrutinized and checked. At the apex of the system, namely, in the Provincial Bank, adequate fluid resources are always maintained to an extent indeed which has, hitherto, proved far in excess of all requirements. Still, *safety* being our first object, it is of paramount importance that co-operative banking should have the same solidity as coined money. Suspension of cash payments by bankers affects not only their depositors, but every one with whom those depositors deal. Every banker is under contracts to deliver money on demand. It matters little whether these contracts are in the form of printed notes or acknowledgments in a deposit book. The banker is a broker in money, with money contracts outstanding for the future delivery of money. As a "corner" on the Stock Exchange means ruin for brokers who are "short" of the "cornered" stock, so a "corner" in currency means ruin, primarily, for the banker if he is short of currency, and secondarily, for the clients to whom he is under contract to make delivery, because they too are under contracts to deliver money to servants, wage-earners, shopkeepers, and others. The banker is the guardian of a mechanism the derangement of which means serious embarrassment and perhaps ruin to every member of the community. It is enjoined upon him, therefore, to so employ the capital of which he is the custodian as to extend the greatest possible aid to those enterprises which promise the greatest sum of economic benefits, while taking extreme precautions, as trustee for the members of the community, that he shall never be unable to fulfil exactly and without grace all the contracts which he has made to deliver money. When primary societies are sufficiently advanced and alive to their responsibilities, and as soon as suitable arrangements can be made to secure the punctual and regular submission of deposit returns from them, *then and not before* will the Registrar be able to frame rules permitting the acceptance by primary societies of deposits tendered by non-members.

### RESTRICTION ON LENDING OR MAKING DEPOSITS.

28. *The society shall not lend money to non-members nor shall it be at liberty to make loans to or to make deposits with any society other than the Central Bank to which it is affiliated.*

All experience shows that the centralised control of banking finance is indispensable to safety. Where primary societies have been allowed to lend their funds (frequently borrowed) to other primary societies liabilities have been linked in a most dangerous manner and awkward complications have been caused. This by-law merely gives effect to modern co-operative practice.

### RATE OF INTEREST ON LOANS.

29. *The rate of interest which members of the society shall pay for the loans which they take as individuals from the society shall be subject to the sanction of the Registrar.*

It is most important that the rate of interest at which members of primary societies can borrow should bear a proper relation to the rates of interest which are attractive to depositors and to the rates which Central Banks and the Provincial Bank have to pay for money. Unless adequate margins are available serious administrative difficulties occur in connection with working expenses ; and it is, of course, very necessary to provide for the accumulation of adequate reserve funds.

### FORMATION, PURPOSE, INVESTMENT, AND DISPOSAL OF RESERVE FUND.

30. *All net profits shall be put aside as the permanent and indivisible reserve fund of the society. The reserve fund of the society shall be invested in such manner as the Registrar of Co-operative Societies may direct from time to time. The purpose of the reserve fund is not only to provide the society and its future members with a permanent pledge on which to obtain credit but is to protect the present creditors of the society against loss, to build up a fund from which an annual income may be derived to cheapen the rate of interest on loans to members of the society, to provide an emergency fund and, in the end, to furnish the society with its own working capital. Members of the society must clearly*



*understand what the purposes of the reserve fund are, and they must also understand that it is only by patient and gradual steps that the society can attain to the ultimate goal of being in possession of its own working capital.*

31. *The reserve fund shall not be drawn upon without the sanction previously obtained of the Registrar of Co-operative Societies, Central Provinces and Berar. The reserve fund is the permanent and indivisible fund of the society and in the event of the society's dissolution it cannot be shared out amongst the members but will be utilised in accordance with the rules framed by the Administration under the Act which are given below :—*

XIX. *The reserve fund of a registered society shall be indivisible and no member shall be entitled to claim any specified share in it.*

XX. *On the dissolution of a registered society, the reserve fund shall be applied to discharging such liabilities of the society as may remain undischarged after the enforcement in full of the liabilities of the individual members of the society.*

XXI. *Any balance of the reserve fund which may remain after making the payments specified in rule XX, shall be applied to such local objects of public utility as may be selected by a majority of the votes of the members of the society (as they existed on the date of dissolution) assembled in general meeting and approved of by the Registrar. If within three months of the dissolution of the society the members fail to make a selection which is approved of by the Registrar, the latter shall credit the above-mentioned balance of the reserve fund to the reserve fund of the co-operative society, if any, to which the society was affiliated or, if the society was not affiliated to any other society, shall place the said balance on deposit in some co-operative or other bank until a new co-operative society with a similar area of operations is registered, in which event it shall be credited to the reserve fund of such society.*

By-laws 30 and 31 embody certain universal and cardinal principles of the co-operative banking system. In these Provinces the reserve funds of all societies within the circle of the credit organization are accumulated at the apex of the system and made available for the support of the movement as a whole. Each society, of course, retains its individual rights in its reserve fund, the accumulation merely representing the mobilization of resources. As already stated, adequate fluid protection for deposits is provided by the Provincial Bank, and for this service to the system the Provincial Bank makes no charge. Without the contributory support of the various units constituting the credit structure the Provincial Bank could not possibly afford to maintain the necessary fluid resource, and the application of the co-operative principle has solved a formidable difficulty.

#### AFFILIATION TO THE CIRCLE UNION.

32. *Immediately after registration the society shall get itself enrolled as a member of the Circle Union, if any, and shall agree to abide by the by-laws of the said Union.*

#### AFFILIATION TO THE CENTRAL BANK.

33. *The society shall purchase at least one share in the \_\_\_\_\_ Central Bank. This share may be paid for out of the society's reserve fund. It shall also, when and as the Registrar may direct, contribute out of its profits towards the purchase of the share or shares held in the Central Bank by the Circle Union, if any, to which it belongs.*

#### AMENDMENT OF BY-LAWS.

34. *The above by-laws can be amended by resolution of the general meeting of the society after sanction of the Registrar of Co-operative Societies, Central Provinces and Berar.*

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## CHAPTER III.

## THE CIRCLE UNION OF PRIMARY CO-OPERATIVE CREDIT SOCIETIES.

THE Circle Union takes its place in the structure of co-operation only when a certain stage of local development has been reached. The safety of co-operative banking on the Raiffeisen system lies, as we have seen, in the strict observance of established principles, the foremost being that which lays down that *without proximity there can be no credit*. Again, the ultimate aim of all genuinely co-operative institutions must be co-operative *control*. All things must have a beginning, and the primitive form of Central Bank composed entirely of zealous individuals, with a knowledge of local virtues and local failings, has its own particular task to perform. That task is, quite simply, the introduction of the co-operative idea; but the life of a Central Bank, in this its chrysalis stage, is limited by the very success with which its founders do the work expected of them.

Co-operative banks are not mere channels for the distribution of money. Their functions are to teach, train, and form character, and to benefit not only the borrower but the State as well. It is true that the worth of a co-operative society is the worth of its members. In a new society there may be little actual worth but much potential worth. The worth of a country is the worth of its inhabitants; and world experience proves that co-operation fosters, as nothing else does, the increase of such worth. But the co-operation must be of the right kind, and not the weakling plant which has to be nursed into existence and can only be kept alive by frequent doses of State aid. Spoon-feeding by a parent institution, no matter whether that institution be the State itself, or a Provincial or a Central Bank, is poison to the co-operative movement. Just as the Registrar has been appointed by Government to teach, and to exercise his powers of control in a manner salutary to the moral and material health and progress of the movement, so Central Banks have been created not to keep the societies for which they are responsible in tutelage, but to inculcate

in them the spirit of self-help and train them in the management of their own affairs.

In the early stages of its career a Central Bank has only a few societies to deal with. Provided the non-official Directors of the Bank have the requisite local knowledge, and can find time for work demanding much care and attention (and not a little personal inconvenience), things will go swimmingly enough as long as the volume of business remains small. But the supply of men able and willing to work without remuneration is exceedingly limited; and very frequently—and quite naturally—landholders, money-lenders, and others view the advance of the co-operative movement with disfavour. Vested interests are threatened, so it is thought, and existing springs of profit will be diverted into new channels. The field for selection is narrowed, too, by the fact that most men are fully occupied with their own private affairs. What the non-official pioneer of the movement must be is an apostle, with the time, the desire, the knowledge, the health, and the means to devote himself to work which is for the benefit of other and not always very grateful people. We, in the Central Provinces and Berar, have been most fortunate in our non-official pioneer workers, and nothing could have been accomplished without them. Under their care the foundations have been laid and early difficulties smoothed over. But it is impossible to organize and to make satisfactory arrangements for Central Banks except at suitable centres; and the problem caused by the natural expansion of the movement cannot be solved by the multiplication of Central Banks. Even if there were large numbers of recruits waiting amongst the ranks of the better educated and well-to-do members of the community, it would be very hard to obtain the necessary complement of Directors; for it is one thing to grow up and gain one's experience with a Central Bank, and it is quite another to join the management of a Central Bank in the later stages of its career. Sound banking lies not so much in rules and theory as in an accurate knowledge and interpretation of the imponderable. As soon as the safety and efficiency of a Central Bank are threatened by the fact that the number of societies is large and local

knowledge insufficient, decentralisation is necessary. For very obvious reasons the assessment and grant of credit cannot be made over to paid servants ; such a step would involve grave dangers. Proximity to its societies having ceased to be a feature of a Central Bank, all work which can only be done in proximity must be made over to some other and more local co-operative agency. Decentralisation is educative, forms character, makes for safety, and secures economy. If, for instance, a Central Bank is responsible for the detailed finance, supervision, and control of 300 societies, a large number of paid servants must be employed, for the work will be too much for the small number of active Directors available. Moreover, the control of a large staff is no easy task, and it is very difficult to recruit and train suitable men. Office work will be very heavy ; delays will occur in the despatch of business and societies will be badly served ; in fact, the machinery of the Bank will, by ominous creakings, show that too great a strain is being placed upon it. There is, in addition, the fear that the paid manager and staff will gather too much power into their own hands.

What is the remedy ? It is to be found in the formation, out of small groups of adjacent primary societies, of *guaranteeing unions*. We may now proceed, without further discussion, to examine the constitution of this form of co-operative organization.

#### BY-LAWS FOR A CIRCLE UNION OF PRIMARY CO-OPERATIVE CREDIT SOCIETIES.

##### NAME, ADDRESS, AND OBJECTS.

1. *This society shall be called the* \_\_\_\_\_  
*Circle Union of Primary Co-operative Credit Societies, Limited.*  
*It is registered under the Co-operative Societies Act II of 1912,*  
*and its registered headquarters are at* \_\_\_\_\_  
*Tashil* \_\_\_\_\_ *District* \_\_\_\_\_.

The areas allotted to each of the twenty-nine Central Banks in the Province have been demarcated into small circles. Every circle is a *potential* Union ; though, of course, in many circles there is not, as yet, even one primary society. In

virgin circles propagandist and educative work should be undertaken before the formation of the first society is attempted. If possible, a trained lecturer, with a magic lantern, should give a lecture or two at a centre convenient for all villages in the circle. Then the people should be invited to go and examine a few existing societies for themselves ; and after this, has been done, time should be given for reflection. *Do not hurry* : show the people where the water is, let them express the desire to be allowed to drink it.

*New societies and weak societies cannot be formed into Unions.* They have not the necessary experience, and must, of course, learn what co-operation within the village means before they are promoted. To the individual society, admission to a Union means the enjoyment of greater facilities for credit. A Central Bank working without complete local knowledge will probably give insufficient or excessive credit ; both are dangerous, but probably the former will be given. Now the Union has more local knowledge than the Central Bank, and there is a much better chance that credit will be *correctly* assessed by the Union. Requests for postponement will, if backed by the Union, be received by the Central Bank with very much less suspicion than at present ; and loans for the liquidation of old debts can most certainly be advanced to a Union more freely than to an individual society, for the security offered is more stable and more permanent. In fact, so safe is the Union organization, from the banker's point of view, that it will not take long before it succeeds in converting, in gradually increasing numbers, rustic hoarders into rustic investors. Then the problems afforded by long-term loans and old debts will be very much nearer to solution than they are at present, provided the supply of local deposit money proves to be constant and abundant.

“ It has been objected especially by Schulze-Delitzsch, that money cannot be lent on long terms by Raiffeisen societies without great risk of bankruptcy, unless they can borrow on similar terms. As a matter of fact, the societies do not generally borrow on long terms ; their funds are chiefly savings or deposits. Schulze-Delitzsch and others proved conclusively that, by

theory, this means bankruptcy, and that the societies could not succeed ; but practice contradicts theory. It is only necessary to point to the German Savings Banks, with 55 per cent. of their enormous deposits on rural and urban mortgages to disprove Schulze-Delitzsch's theory ; the savings banks experience of Austria, Italy, and the United States is equally conclusive. The fact is that the good credit of the societies prevents any lack of lenders ; it is said, indeed, that they have more money than they can lend, probably owing to strictness in lending ; that these creditors are largely members ; that their savings are left for a long time untouched ; that, in fact, the banks find that they can place a very large proportion of their funds in long-term investments ; finally, that long-term loans are all repayable by instalments, so that the money is continually coming in. It is true that the societies have introduced a rule that repayment of loans of any term can be demanded on four weeks' notice, a facility which is also given to the creditors of the society, but this safeguard is not used in practice except in cases of deterioration, or of misapplication of the loan, or of serious diminution of the solvency of the borrower from his own extravagance."\*

These remarks by Sir Frederick Nicholson are applicable if used with reference to a complete system of organized co-operative banking in a country accustomed to co-operative institutions ; they are not, under existing circumstances, applicable to any part of India.

2. *The liability of the Union is limited to the enforcement of the guarantees furnished under these by-laws by the societies which are its members.*

The Union is registered as a co-operative society *with limited liability*. The borrowings of the societies which are its members are under its own control, and, therefore, it cannot be urged that liabilities overlap. Moreover, as we shall see, the liability pledged by each society is quite definite.

3. *The objects of the Union are :—*

(i) *To develop Co-operative Credit Societies to the utmost of its power within the area of its operations.*

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\* Nicholson, Vol. I, p. 151.

- (ii) *To finance Co-operative Credit Societies situated within the area of its operations and affiliated to it, by borrowing from the \_\_\_\_\_ Central Bank.*
- (iii) *To provide a means of guaranteeing the credit of each Co-operative Credit Society affiliated to it. The Union shall purchase at least one share in the \_\_\_\_\_ Central Bank. The share or shares shall be paid for by affiliated societies from their profits in such manner and at such time as the Registrar may direct.*
- (iv) *To control such affiliated societies by careful and regular inspection.*
- (v) *To settle all matters of common interest, to advise and assist its affiliated societies, and to further their interest in every way.*

(i) It must be noted that the Union is expected to be a propagandist agency. This is a most important feature ; but of course, the man who is going to teach must himself learn.

(ii) The Union *does not handle cash* (by-law 25) ; it makes no profits (by-law 24) ; it is, as a financing agency, merely a link between the primary societies and the Central Bank. Primary societies handle cash ; their members fetch their own money from, and make their own repayments into, the Central Bank. Over the doings of the societies the Union keeps a watchful eye, and can, if necessary, seek for and obtain awards against careless or defaulting societies.

(iii) See by-laws 21 (iii) and 25. The Union being a member of the Central Bank must submit all disputes between itself and the Central Bank to the Registrar for decision.

(iv) Decentralisation of detailed control from the Central Bank to the Union is, of course, the object in view.

(v) The disciplinary control to be exercised by the Union is to be just and strict, but paternal and for the benefit of the societies. It is for the Central Bank to see that within its sphere of activity teaching is complete and thorough and frequently given, and that both Unions and societies know their work *and do it*.



## MEMBERSHIP, ADMISSION, WITHDRAWAL, AND EXPULSION.

4. *The following are eligible for membership of the Union :—*

(a) *Co-operative Credit Societies situated in the Union Circle as demarcated by the Registrar, which are solvent and sound in working and which subscribe to the application for registration of the Union.*

(b) *Co-operative Credit Societies registered hereafter on the recommendation of the Union and situated within the jurisdiction of the Union.*

In demarcating circles the main factor to be considered is that of distance and facility of access. It is important that the societies included in a Union should not be distant more than an easy morning's walk from each other. Should some of the societies only within a demarcated circle desire to form a Union the Registrar will naturally enquire why all the societies within the circle cannot be included in membership. Societies which have been denied admission on account of imperfections in their constitution will then be subjected to a thorough scrutiny by the Central Bank and notice will be given to them that unless they improve their working registration will be cancelled.

5. *In addition to the societies subscribing to the Memorandum of Association of the Union and affiliated under by-law 4 (a) all new societies registered on the recommendation of the Union shall be affiliated to the Union. All new Co-operative Credit Societies registered within the jurisdiction of the Union on its recommendation shall, by their Sirpanch and Secretary, sign a declaration in Form A attached to these by-laws accepting all the rights, duties, and liabilities prescribed by these by-laws and by the Co-operative Societies Act II of 1912 and the rules made thereunder.*

Great difficulty is experienced by the majority of Central Banks in subjecting applications for registration to thorough scrutiny. The Union provides a very suitable agency for the investigation of fresh applications for registration. Local knowledge is sure to be forthcoming and as a recommendation for registration carries with it an undertaking to guarantee

credit it is unlikely that weak proposals will meet with acceptance.

6. *No affiliated society shall withdraw from the Union except after paying to the Union all sums due by it. The liability of a society to the Union which has withdrawn or has been expelled from the Union shall, for a period of two years from the date of expulsion or withdrawal, be its liability to the Union on the date of its expulsion or withdrawal.*

7. *If an affiliated society be found guilty by the Union or by the Registrar of careless and bad working or of dishonest and unco-operative conduct, the Union General Meeting or the Registrar may direct that within one month or such other time as may be fixed by the Registrar, it shall repay all or part of its borrowings, and the affiliated society shall thereupon be bound to obey such directions. If the working of such a society be not improved or if the society be guilty of disloyalty to the Union, it shall be liable to expulsion from the Union by resolution of the General Meeting and with the sanction of the Registrar, whose decision shall be final.*

Societies are classed at audit as A, B, C, D, or E. While it is no disgrace for a comparatively new society to be in the C class the members are not deriving the benefits they should from co-operation if the society simply stagnates in that class. Dealing as it does with a Union as a whole, the Central Bank will be able to bring pressure to bear upon the Union if the societies enrolled as its members do not improve in co-operative quality. It is most necessary that the moral aspect of the movement should not be lost sight of.

#### RIGHTS AND LIABILITIES OF AFFILIATED SOCIETIES.

8. *The rights of an affiliated society are :—*

- (a) *Subject to the provision of by-law 21 (iii), to obtain loans from the Union.*
- (b) *To have its borrowings guaranteed by the remaining societies in the Union.*

It is true that the societies obtain loans from the Union ; but as already remarked the Union handles no cash. As long

as a society remains a member of a Circle Union it has a right to have its borrowings guaranteed ; refusal to give any kind of guarantee at all is equivalent to expulsion from the Union. The Union may, of course, refuse to guarantee more than a limited amount, in which case the borrowings of a society from the Central Bank will be restricted accordingly.

9. *The duties of an affiliated society are :—*

- (i) *To administer its work in strict conformity with its by-laws and with the constitution of the Union.*
- (ii) *Carefully to carry out the instructions of the Union.*
- (iii) *To give all possible assistance to all persons duly authorised to inspect its working and accounts.*
- (iv) *To allow its books and cash balance to be inspected after two days' notice by the Sirpanch and Secretary of any other affiliated society.*
- (v) *To belong to no other credit Union.*
- (vi) *To inform the President and Secretary of the Union at once of any reduction in its membership or of any other circumstances lessening its financial stability.*

In this by-law emphasis is placed upon the duty of the members of primary societies with respect to the inspection by duly authorised persons of prescribed records and books and accounts. If a society does not give proper assistance to inspecting or auditing officers the Central Bank will warn the Union to which it belongs and the Union, unless it wishes to suffer as a whole, will deal with the society at fault. Mutual inspection by societies is very essential ; and the President and the Secretary of the Union are expected to keep themselves in touch with the general condition of the societies belonging to the Union.

10. *The liability of an affiliated society is :—*

- (i) *Unlimited as regards its own borrowings as a society, and*
- (ii) *limited as regards the guarantee which devolves on it by virtue of its affiliation to the Union for the borrowings of all other societies affiliated to the Union. Such guarantee consists of an undertaking to make good any deficiency resulting from the default of any*

*other society in the Union after the exhaustion of the unlimited liability of that other society's members, to the extent of a sum equal to the guaranteeing society's own maximum borrowings during the twelve months immediately preceding the enforcement of the guarantee.*

*NOTE.—Suppose a society has borrowed Rs. 1,000, another society Rs. 900, another society Rs. 800, and another society Rs. 700, and yet another society Rs. 500. This last society fails and the enforcement of unlimited liability upon its members exhausts their estates and still leaves a sum of Rs. 100 for which the Union is responsible to the Central Bank. This Rs. 100 will have to be made good by contributions levied from the other societies in the Union. Assuming that the sums above stated represent the maximum borrowings of the societies within the twelve months immediately preceding, the first society will have to pay towards the deficiency Rs. 29, the second Rs. 26, the third Rs. 24, and the fourth Rs. 21.*

It will be noted that the Union organization in no way interferes with the ultimate security afforded by the unlimited liability of the primary society. On the contrary, this unlimited liability is reinforced by the guarantee defined in by-law 10 (ii) above. This guarantee is expressly limited and the fact that it is equal to the guaranteeing society's own maximum borrowings during the 12 months immediately preceding will act as a deterrent on imprudent and reckless conduct. It will be noted that the guarantee creates an additional resource which must be made use of before reserve funds can be touched.

II. *The Union General Meeting shall be responsible for sending two of its members, twice a year, once in the month of \_\_\_\_\_ and once in the month of \_\_\_\_\_ to inspect the accounts and working of all affiliated societies. These members shall, if possible, prepare a note for the Union showing the results of each inspection.*

Even if inspecting members are unable to read and write and cannot prepare a written inspection note, it is important that the visits prescribed in this by-law should be regularly made. In controlling the working of Unions Central Banks

must see that the provisions of this by-law are strictly carried out. Instruction in the art of inspection should be given to selected members of primary societies by all inspecting officers.

12. *The examination shall not be restricted to a mere arithmetical audit of books and balance sheets. The persons inspecting shall see that the administration of each affiliated society is carried on in strict conformity with co-operative principles, with its own by-laws, with the by-laws and orders of the Union, and with the Co-operative Societies Act and rules made thereunder. They shall assure themselves that defects pointed out in previous inspections and audit notes have been remedied. They shall gauge the stability of each affiliated society and form definite conclusions as to whether the members have improved their standing owing to the existence of the society.*

#### ORGANIZATION AND MANAGEMENT.

13. *The Union shall be managed by its General Meeting.*

14. *Each affiliated society shall, at General Meetings, be represented by two members of its Committee; but societies having more than twenty members shall have the right to send one representative for each additional 10 members. Other members of affiliated societies may attend General Meetings but only to listen and advise their representatives.*

15. *The members of the General Meeting shall have one vote each. The opinion of the majority shall prevail and, in case of an equality of votes, the motion shall be held to be lost.*

16. *General Meetings of the Union shall be held at least twice a year in \_\_\_\_\_ and \_\_\_\_\_ and at other times when summoned by the President or Secretary of the Union.*

17. *Notice of the time, date, and place of General Meeting shall be given seven clear days before the meeting by the Secretary of the Union. If it is proposed to modify the by-laws, fifteen clear days' notice shall be given.*

18. *General Meetings shall be held at the headquarters of the Union, or at the headquarters of such affiliated society as the President and Secretary of the Union may consider convenient.*

19. *At least two-thirds of the societies in the Union must be fully represented (vide by-law 14) in order to form a quorum for a General Meeting ; but before a society is recommended for registration the application of the society must be considered and approved by the representatives of at least four-fifths of the societies affiliated to the Union.*

20. *The supreme authority in all matters relating to the Union's internal administration shall be the General Meeting.*

21. *The duties of the General Meeting shall be :—*

- (i) *To recommend to the Central Bank any enactment, amendment, or repeal of any of the by-laws of the Union. The Central Bank shall forward the recommendation to the Registrar together with its own recommendation thereon, if any.*
- (ii) *To deal with complaints of affiliated societies against the Union or the Central Bank.*
- (iii) *To consider proposals submitted by affiliated societies, assess their credits, and pass the lists of individual credits. These lists of credits shall be submitted to the Central Bank with the Union's certificate of guarantee endorsed upon each list, thus : " Passed for Rs.\_\_\_\_\_. The Central Bank may pay this sum to the\_\_\_\_\_ Society, registered No.\_\_\_\_\_." The Secretary of the Union shall sign this certificate.*
- (iv) *To raise funds for financing affiliated societies by borrowing money from the\_\_\_\_\_ Central Bank. Deposits shall not be accepted and loans shall be taken only from the\_\_\_\_\_ Central Bank.*
- (v) *To consider applications for loans and grant them or reject them, when the amount of loan applied for exceeds the maximum limit of credit already fixed by the Union according to rule 21 (iii) above.*
- (vi) *To consider cases of overdue loans and pass orders thereon making such arrangements as may be necessary to provide against loss.*

- (vii) *To admit registered societies to the Union.*
- (viii) *To elect (yearly between \_\_\_\_\_ and \_\_\_\_\_)  
a President and a Secretary of the Union from  
amongst the representatives of the affiliated societies.*
- (ix) *To deal with the Inspection Reports on the affiliated  
societies.*
- (x) *Generally to conduct the business of the Union and to do  
all things necessary to that end.*

By-law 21 (ii) above contemplates the making of complaints by affiliated societies. It is most important that every society should have the opportunity of making the wants of its members known to the controlling authority. Such complaints will, of course, not concern matters which are entirely within the jurisdiction of societies or of Unions, but they will arise should societies find it difficult to secure proper service from the Central Bank, or if the Society Moharrirs do not do their work properly, or if the Central Bank servants display oppressive tendencies.

By-law 21 (iii) above contemplates the grant of cash credits to societies by the Union.

By-law 21 (iv) binds the Union to deal only with the Central Bank.

By-law 21 (vi) emphasizes the responsibility of the Union for the punctual repayment of money to the Central Bank.

By-law 21 (ix) mentions the Inspection Reports, written or verbal, submitted under by-laws 11 and 12 above. The Central Bank must do everything in its power to make control by Unions a reality ; this control must on no account be allowed to degenerate into a formal sham.

22. *The resolutions of the General Meetings shall be recorded in a Minute Book.*

23. *When the amount of credit to be allowed or an application for a loan to be advanced to an affiliated society is under discussion at a General Meeting, the representatives of that society shall, after being heard together with any other members of that society present, withdraw and shall not vote on the question under discussion.*

24. *The rate of interest to be charged by the Union on its loans to affiliated societies shall be the same as that which the Union pays to the Central Bank.*

25. *The Union shall not handle cash. All drawings on the Central Bank shall be made by printed and engraved vouchers signed by the Secretary of the affiliated society concerned and framed as pro-notes in favour of the Central Bank. These vouchers shall be sent to the Union Secretary by the Central Bank. The Union Secretary shall distribute the vouchers to the Sirpanches or Secretaries of the Societies which are the members of the Union and shall, before distributing them, endorse each voucher on the back thus :—“ Pay to the \_\_\_\_\_ Society,” and shall sign the endorsement. The borrowing affiliated society shall itself arrange for the encashment of vouchers at the office of the Central Bank and shall arrange for the distribution of the proceeds amongst the members of the society. Every society is, however, at liberty to distribute the vouchers for loans to its individual members for encashment by them personally at the office of the Central Bank. A duly authorised representative of a Society may take his own vouchers and the vouchers of other members to the Central Bank office for encashment ; but whenever money is drawn from the Central Bank office by one member on behalf of other members he must produce in the Central Bank office a copy of the resolution passed by the society authorising him to draw money on behalf of the other members. Any affiliated society or any of its members desiring to make any payment shall take the money and the pass book of the society or the pass book of the individual member, as the case may be, to the Central Bank which will receive payment from the society or from any individual member of the society on behalf of the Union. Every quarter or oftener, if necessary, the Society Moharrirs shall prepare for themselves from the books of the Central Bank an abstract of entries from the Union ledger accounts, and from these abstracts the accounts of the Union shall be prepared.*

It will be remarked that the formal guarantee given by the Union under by-law 21 (iii) is again repeated by endorsement on the vouchers which are distributed through the Union to the Sirpanches and Secretaries of the Primary Societies for



distribution, in turn, to the individual members. A voucher is equivalent to a cash order upon the Central Bank. Members need not draw their money before they actually require it, nor need they delay making repayment until the due date. If they have cash in hand they can pay it in at once to the Central Bank and thus stop interest running on their loan.

26. *The Union Secretary may be paid from the funds of the Central Provinces Federation such reward for good work as may be fixed by the General Meeting and approved of by the Governor.*

The principle adopted is that of payment by results. It may be found possible to entrust the task of writing up the accounts of the primary societies also to the Union Secretary. But any proposal to move in this direction would require the most careful consideration with reference to the particular facts involved.

27. *Other members of the Union General Meeting shall work gratuitously.*

28. *It shall be the duty of the Secretary :—*

- (i) *To call General Meetings when necessary, and, in any case, twice a year in \_\_\_\_\_ and \_\_\_\_\_*
- (ii) *To obtain from the specially deputed members notes on the accounts and working of each society before the General Meeting in \_\_\_\_\_ and \_\_\_\_\_ and to enquire into the stability and methods of working of such societies.*
- (iii) *To see that loans, interest, and all other dues are punctually paid by the societies and to report cases of default to the General Meeting.*
- (iv) *To report the results of inspection and enquiries to the General Meetings.*
- (v) *To see that orders passed upon inspection notes of affiliated societies are carried out.*
- (vi) *To keep the accounts of the Union and submit them to the General Meetings of \_\_\_\_\_ and \_\_\_\_\_*

- (vii) *To sign all documents, deeds, instruments, etc., and to endorse vouchers from affiliated societies in favour of the Central Bank on behalf of the Union.*
  - (viii) *Actively to propagate co-operation.*
  - (ix) *Generally to carry on the administration of the Union in all its branches.*
  - (x) *To record the resolutions of the General Meetings in a minute book.*
  - (xi) *To furnish the Central Bank, from time to time, with such information as may be required.*
29. *It shall be the duty of the President to see that the work of the Union is carried on efficiently and in strict accordance with these by-laws.*
30. *In respect of all matters duly resolved by the General Meeting, the President and two members of the Union General Meeting shall have power to sign for the General Meeting and their signatures shall bind the Union.*
31. *A copy of all resolutions passed by the General Meetings shall be sent to the Central Bank.*
32. *The Union shall maintain such books, registers and forms as may, from time to time, be prescribed by the Registrar.*
33. *A balance sheet and any other returns required by the Registrar must be made out yearly in July and presented to the July General Meeting and to the Registrar.*
34. *Disputes shall ordinarily be settled by the General Meeting. If the General Meeting cannot settle a dispute, it shall refer it to the Registrar, through the Central Bank, whose decision shall be final and binding on both parties.*
35. *The books of the Union and copies of the Act, the rules made by Local Administration thereunder, and the by-laws of the Union shall be kept open to inspection by its members or by the Central Bank or by any person duly authorised by the Registrar free of charge, at all reasonable hours at the registered address of the society.*
36. *These by-laws are supplementary to the provisions of the Co-operative Societies Act II of 1912 and rules thereunder and the Union will be guided by the Act, rules and by-laws read together.*

## FORM A.

DECLARATION TO BE SIGNED BY A CO-OPERATIVE CREDIT  
SOCIETY UPON AFFILIATION TO THE UNION OF  
CO-OPERATIVE CREDIT SOCIETIES.

We, the undersigned Chairman and two Committee members of the \_\_\_\_\_ Co-operative Credit Society being authorised so to do by resolution of the General Meeting of our society, hereby, on behalf of the said society, agree to accept all the rights, duties, and liabilities prescribed by the by-laws of the \_\_\_\_\_ Union of Co-operative Credit Societies and to abide by its by-laws as a condition of our society being admitted into the said Union as an affiliated society.

Sirpanch.  
Secretary.

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CHAPTER IV.

## THE CO-OPERATIVE CENTRAL BANK.

A Co-operative Central Bank is not merely a link in the financial chain which connects the primary society with the open money market, but it is an institution intended to spread and foster co-operative knowledge and practice. At the outset of its career, as we have already noted, co-operative control is not a feature of the working of a Central Bank. But as the knowledge of co-operation spreads in the particular tract allotted to the Central Bank, societies are gradually admitted to membership and are granted representation at the Bank's General Meetings. Perhaps, at first, representative members of societies are not included amongst the Directors of the Bank. But as co-operative education proceeds, and as it becomes possible to form societies into Unions, such representation must be arranged for. The zealous individual shareholders who were the missionaries of co-operation in the area served by the bank, should make it their object to gradually change

the part assigned to them from that of tutors and mentors to that of leaders in the movement towards true co-operation.

It is most important that the area assigned to the Bank should not be too large ; for this would tend towards looseness of supervision and of control. On the other hand, there must be scope for business adequate enough to provide the Central Bank with the necessary income from which to pay its staff and a reasonable dividend upon its shares. As regards dividend it must be remembered that the co-operative principle is as follows: After paying a reasonable return to capital, for its use, all profits are to be utilised for the benefit of custom, that is to say, in this case, to promote the stability and welfare of the Central Bank itself and of the primary societies the welfare of which is centred in the Bank.

A good Co-operative Bank will place the general education of its societies and the improvement of agriculture in the forefront of its programme. This must be done if there is to be any real vitality in the co-operative movement. The greatest care must be taken, however, to avoid making the societies the subject of experimental measures. Thus, it is for a Central Bank to see that no effort is made to push the sale either of seed or of implements for which there is no real demand on the part of the members of the societies. If, however, the Central Bank is really in a position to help its societies to procure, through its agency, seed and implements for which there is a genuine demand, then it is the clear duty of the Central Bank to give its whole-hearted assistance in the matter. Care must be taken to avoid embarking upon any speculative enterprise, for funds supplied by shareholders and others for banking purposes only cannot, with honesty, be employed in business which is not legitimate banking. It would be wrong, for instance, for a Central Bank to purchase, with money received from depositors a large number of agricultural implements on the chance of being able to sell them to the members of societies. It would be equally wrong for the Central Bank to stock a supply of seed in anticipation of a possible demand. But it is perfectly legitimate that the Central Bank should, acting on behalf of its societies, become a base for the concentration of purchase

and the distribution of supplies. In the Central Provinces a number of banks hold stocks of agricultural implements, These implements do not belong to the banks at all ; they are the property of a private firm and are held by the banks at the risk and at the cost of that firm. The implements are of patterns approved for particular localities by the Department of Agriculture, they are sold at the lowest possible prices and Central Banks secure no profit from sales ; on the other hand, the Central Banks incur no financial risk whatsoever.

As regards the supply of seed, societies give orders to their Central Bank and the latter acting as an agent on behalf of its societies buys with their money the necessary quantity of seed. The society gives the Central Bank an order to buy, and when the purchase is effected it is the society's money which is used and not the Central Bank's, the transaction being based on the unlimited liability of the society and not upon the limited liability of the Central Bank.

The degree of success attained by primary societies and by Central Banks in attracting local deposits is, in many respects, a test of their stability. If a co-operative society is not trusted by those who live close to it (so some argue), there must be some good reason for the fact, and the Central Bank should not grant credit. Under existing conditions, however, this argument does not carry much weight, although a protracted failure to obtain local deposits would, undoubtedly, indicate a lack of genuine vitality. In the first place, what does the vast population of India do with its money ? If we believe everything that is told us, we may reply, " There is no idle money in India." But the amount of metallic money in circulation in India is known with accuracy ; and the imports of the precious metals are also known quantities. A very simple sum in arithmetic will convince the most incredulous that a vast amount of gold and silver has entered India, has never come into circulation, and is still somewhere in the country. In early times, gold and silver were regarded as an end, not a means ; as treasure, not money. They were distributed not by trade, but by war. One of the peculiar circumstances which affected the relations of society to the precious metals in ancient times

was that these relations did not conform to modern economic principles. Metallic money was to be found in commercial centres, but the stock was very scanty and very slightly diffused in agricultural communities and among the masses. Pliny, the historian, who died in the year 79 A.D. complained that India drew from the Roman Empire not less than 5,000,000 sesterces of gold (about £625,000 sterling) every year. The flow of the precious metals towards India was the frequent theme of eighteenth century economists.\* The excess of imports of gold into British India from 1836 to 1904 was £180,000,000, and for the twenty years 1884 to 1904 was in excess by £5,000,000 per year.† More recently India has absorbed (in different years) enormous quantities of gold, the amount in one year being one-fifth of the world's output. The exports of silver to India have been even larger than the exports of gold, and amounted from 1836 to March 31st, 1904, to approximately £500,000,000 sterling.‡ Granted, therefore, that the precious metals are in India, and in great quantities, the student of economic history—and the first chapters of this book are intended to help him to obtain a true perspective and to focus his reasoning—will not be surprised to find that the habit of hoarding, whether in the shape of money, bullion (e.g., gold bars), or ornaments, is one to which the people still cling. In particular, after considering the history of this Province, he might expect to find that some districts contain large supplies of potential deposit money, while others do not.

Now the Central Bank is a balancing centre as well as a financing link. The encouragement of thrift is one of its chief objects, and a country suffering from hoarding is a country economically diseased. If the co-operative banking system is to be really beneficial it must aim, not merely at the supply of borrowed money but at the creation of local capital; the putting, in fact, of idle funds to productive uses in order that local wealth may increase. At first, perhaps, deposits will not come in at all. This was the case in the Central Provinces

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\* "Bimetallism in Europe," p. 140.

† Conant. "The Principles of Money and Banking," pp. 98, 99.

‡ Report of the Director of the Mint, for 1903-04, p. 244.

and Berar ; and as societies could not be started without funds it was necessary to start building from the Central Bank down to the primary society, then up from the Central Bank to the Provincial Bank and Provincial Federation, and, lastly, up from the primary society to the Circle Union. The experience of co-operative workers in Hungary may usefully be compared.\* In that country, in 1886, the County Council of Pest-Pilis-Solt-Kis-Kun decided to form a parent society, on much the same lines followed by our pioneer central banks. The initial capital was subscribed, for the most part, by landowners. Here was money to begin with ; and, as the County Council had taken up the matter, public servants considered it their duty to promote the undertaking with their influence, and bestirred themselves actively in its behalf. "The plan of organization pursued," writes Count Mailath, "was what is called beginning at the top. The County Society at once set to work forming affiliated local societies in the several districts. It managed to overcome obstacles not only of organization but of indifference and doubt, and within a few years the county found itself studded with local societies, and the County Society extended its operations over the whole available area." Such was the beginning of the enormous business now transacted by co-operative institutions in Hungary. At what particular point co-operative organization must commence depends upon the environment to be dealt with. If, from the outset, the primary societies can themselves obtain enough money to work with, it is possible to build from the bottom up to the Central Bank. The method suited to one Province (being, perhaps, the only *possible* method) may be unsuited to another. One thing, however, is certain that genuinely *co-operative* organizers will reach the same objectives even though by different routes, and that, all over the world, we find co-operative systems bearing the closest family resemblance to each other once they have grown up.

It is a mistake to suppose that there is no scope for a thrift society in a rich village, or for a Central Bank in a monied

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\* Proceedings of the Sixth International Co-operative Congress, Budapest, 1904, p. 451. ]

district. The circle of co-operative banking must naturally include lenders as well as borrowers ; but as long as local people will not lend for their own benefit and that of their own Province, outside capital will have to be obtained, *and the loss caused is a loss to the people of the Province.* In the Central Provinces and Berar that is a lesson which has yet to be learned. Borrowers we can find in plenty ; lenders (or depositors) are scarce, though not so scarce as they were only five years ago. In that period our deposits have increased from Rs. 2 lakhs to Rs. 26 lakhs.

The audit of primary societies cannot be conducted by Central Banks for the simple reason that the business of the societies is inseparable from that of the Central Banks. An Auditor, if he is to possess the confidence of the public, must be absolutely impartial and altogether above suspicion ; he must not depend for his emoluments and promotion on the good will of the institutions which he has to audit. All first class commercial banks, business firms and joint stock companies, are forced by public opinion if not in every case by law to subject their accounts to the scrutiny of an independent professional Auditor. Thus, though the audit of a co-operative society includes its thorough inspection there must be in addition regular supervision and inspection by the organization responsible for the executive control. Central Banks, therefore, must look upon the inspection, supervision and guidance of the primary societies under them as duties which are indispensable to efficiency and safety. A public report by Mr. B. A. Collins, Registrar of Co-operative Societies, Bihar and Orissa, contains some illuminating comments on the working of societies which I quote below, because I am sure that they will indicate to non-official workers why the local inspection of primary societies is so essential. Not long ago, many of our Directors professed to be unable to understand why inspection should be one of the duties of Central Banks.

“ After two years of office, it will be useful if I sum up my experience of our village societies and make some suggestions for their improvement. If I seem to dwell more on their defects than their merits, it must not be thought that I am pessimistic,



but rather that I have no space to enthuse over the widow who sells her ornaments and deposits the money in her society or the benevolent *panch* whose first thought is the good of his fellow-villagers. There are many instances of thrift and public spirit, many societies which bring a glow to the heart of the believer, and in far the greater number of grounds for hope and even for confidence. But there are many faults also and it is to the eradication of these that the attention of the Registrar is rather directed. On the whole, the condition of the average society is very much what it might, in the circumstances, be expected to be. Understand that the determining factor is the illiteracy and ignorance of the raiyats. In most societies those who can read and write can be counted on the fingers of one hand and usually it is very difficult to find one man who is really competent to keep the books. In spite of constant explanations the prevailing idea is that the whole business is a kind of *takavi* managed by Government and the *panches* often represent themselves to be the agents of Government. In the beginning, too, I do not think that some of our organizers took much trouble to clear away this misapprehension under the idea that the members would pay up promptly and so learn regular habits. The present situation is that the average member either cannot, because of his illiteracy, or else thinks it none of his business to control the committee, and at any rate dare not offend the prominent men of the community in whose hands the bestowal and recovery of loans appears to lie. The *panches*, as a rule, have not been slow to take advantage of the situation, and a common feature is the accumulation of a large proportion of the working capital in the hands of a few men, even beyond their real assets. Then the *panches* either cannot or will not pay up their large *kists* so either lose authority to collect or else purposely allow the rest to fall into arrears so as to make it appear that owing to bad seasons no one can afford to pay. In this way a number of societies have come and are coming to stagnation and ruin. To this result injudicious management or lack of supervision on the part of Central Banks and organizers only too often contributes. In the old days societies were frequently started

without proper local inquiry, the members were not properly instructed in the principles of co-operation and either too many men were taken in at first or else the membership was allowed to increase so rapidly that, even if the original applicants understood anything, they were swamped by a number of loan-grabbers who never learnt anything about the society at all. The societies have either been left too much alone or inspected by clerks whose one idea was to sign the books and get away, or else to make money. General meetings were either not held or else rushed through in a perfunctory manner with a bare quorum and without the despatch of the business prescribed in the by-laws. The *panches* themselves seldom read their by-laws or even knew of their existence. The financing of societies was also one of the causes of failure. Money was freely given out to the *panches*, who often kept in their own hands loans destined for others and even when societies failed to pay their dues without proper excuse, fresh loans were granted again, and perhaps again, under the idea that the societies were dependent on the Central Bank or that if they did not receive advances they would have recourse to *mahajans*, and this was accounted a disaster. Often, too, the members paid their *kists* by borrowing temporarily at high rates from *mahajans*, sometimes even from the *sahu* treasurer of the Central Bank through whom all payments were made and received. Another common trick was to show all loans due from members as collected, whereas only sufficient money was raised to pay the Central Bank's demand and on a new advance being received, the amount actually given to each member was increased in the books so as to square the accounts. Many of these devices sprang from the uneducated Kayastha inspecting clerks who wished to get credit for good work or from *patwaris* employed to keep the books. I only now paint this futurist picture, in which views of various societies are combined in one elaborate and highly coloured canvas, partly because we are already well on the road to reform, and partly because none of the defects have yet endangered our financial stability. And it is as well to say that many faults have been and are being removed and all of them will give way to time and treatment.

To interest some and instruct others I tabulate below very briefly the measures that have been or are being undertaken:—

(1) *Careful organization.*—No society is now registered until a local inquiry has been made by a responsible person, usually a director or the Central Bank manager, who has to certify that the statement of the assets and liabilities of the members is correct and that all the applicants understand the "Twelve Main Points of Co-operation." Good organization is half the battle and a society properly started and thereafter inspected rarely gives trouble. *provided it is not allowed to expand too fast.\**

(2) *Inspection and instruction.*—The improvement of the inspecting staff has been discussed elsewhere in this and last year's report and the measures taken are already beginning to bear good fruit. The appointment of good managers, who will be more reliable and wield greater authority, is in progress. For the better inculcation of co-operative knowledge the "Twelve Main Points" have been drawn up, translated and circulated. For illiterate persons the best medium of teaching is verse, and I have already seen several good renderings from which I hope much.

(3) *General meetings.*—A circular has already been issued pointing out the great importance of the annual general meeting, and that if it is to have any value in most societies the presence of a director, supervisor or some other responsible person is essential. Without such help, the illiterate members cannot control the *Panchayat* and the meeting may well be a farce. The audit note and the annual accounts should be explained and the limit to the amount which each member may borrow carefully fixed. A general limit for all members such as is commonly laid down is quite useless. The attendance of every member should be insisted on *and those absent without proper cause should get no loans during the ensuing year.*

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\* Fifteen or sixteen is about the right number to start with and in each successive year not more than eight or ten new members should be elected. When a society reaches 50, it should be split up into two if possible. Societies with over 50 members very rarely, if ever, work properly.\*

(4) *Business-like financing.*—Central Banks must remove financing altogether from the sentimental plane and put it on a strictly business footing. Societies which are well managed and whose members pay their *kists* and take proper interest should be given loans, while bad societies should be refused money or have their advances much restricted. If societies whose members do not pay and will not learn their by-laws and the "Twelve Main Points" get advances just like the rest, it has the worst effect on the whole area. It is high time that the Haisiyat Registers of each society were completed and with the assistance of these, the audit reports, the loan registers, and the proceedings of the annual general meetings in which the limit has been fixed for each member, the Central Bank should be able to finance any society with ease and promptitude.

(5) *Liquidation, expulsion, etc.*—Those societies, which on account of their bad ways are refused loans and still do not improve, must be recommended for liquidation. Hitherto the tendency has been to avoid extreme measures as being harsh and likely to give the movement a bad name. Experience shows this to be wrong. The maintenance and financing of bad societies has a bad effect on the rest, wastes the time of the directors and the staff and does more harm in the eyes of the public than closing them. The expulsion of one or two bad members often has the desired result, but it is not always easy.

(6) *Miscellaneous.*—I cannot spare space to discuss other means of reform in detail. The formation of guarantee unions, such as are in existence in Burma, Bengal and Madras, under our Central Banks appears to me likely to have good results, but it is now six or eight months since I issued a circular on the subject and nothing has been done. It is essential, too, that Central Banks should deal properly with audit notes, and I have in contemplation to introduce a system of reminders in connection with societies classed as "D" and "E," to make sure that all proper steps are taken. Something might be done to improve matters too by the establishment of a second *kist* in areas which grow both rice and *rabi*. Lastly,

little or nothing has been done to encourage voluntary deposits and my suggestions on this subject as on so many others repose on the dusty shelves of the offices of Central Banks and have not even been seen by many directors."

## STANDARD BY-LAWS FOR A CENTRAL BANK.

### NAME AND ADDRESS.

1. *This Society shall be called the \_\_\_\_\_ Central Bank, Limited. Its registered office is at \_\_\_\_\_ and its by-laws are subject to the provisions of Act II of 1912 and the rules made by the Local Administration thereunder.*

### SHARE CAPITAL.

2. *The authorised capital of the Bank shall consist of \_\_\_\_\_ shares of Rs. \_\_\_\_\_ each. This capital may be exceeded by the issue of any number of additional shares of Rs. 10 each to registered Co-operative Societies that become members of the Bank and of any number of shares of Rs. 5 each to individual members of such societies, but any other increase of the share capital is forbidden except when it is approved by the members of the Bank at a General Meeting and duly sanctioned by the Registrar.*

Sections 20 and 21 of the Co-operative Societies Act run as follows:—

20. A registered society shall have a charge upon the share or interest in the capital and on the deposits of a member or past member and upon any dividend, bonus or profits payable to a member or past member in respect of any debt due from such member or past member to the society, and may set off any sum credited or payable to a member or past member in or towards payment of any such debt.

21. Subject to the provisions of section 20, the share or interest of a member in the capital of a registered society shall not be liable to attachment or sale under any decree or order of a Court of Justice in respect of any debt or liability incurred by such member, and neither the Official Assignee under the Presidency-towns Insolvency Act, 1909, nor a Receiver under the Provincial Insolvency Act, 1907, shall be entitled to or have any claim on such share or interest.

## RESTRICTION ON INVESTMENT OF CAPITAL.

3. *The capital of the Bank is to be employed solely in the grant of loans to co-operative societies which are registered under Act X of 1904 or Act II of 1912, are situated within the*  
*Tahsil*  
*District* *and undertake to become members of the Bank. The Bank shall not finance any registered co-operative society unless it (a) has purchased at least one share in the Bank, and (b) has either obtained admission to a registered Co-operative Circle Union or undertaken to secure admission to such a Union at the earliest possible opportunity.*

It may be noted that a society is not to be financed until it has purchased at least one share in the Central Bank. This makes the society a member of the Bank and all disputes or differences between members of registered societies must, by law, be referred to the Registrar for his decision.

The Circle Union is indicated as the ultimate objective, as far as the local control of individual societies is concerned. Societies outside Union organization are merely in the preliminary stages of their education.

## RESTRICTIONS ON SHARE INTEREST.

4. *No shareholder other than a registered society shall hold (a) more than one-fifth of the share capital of the Bank, (b) shares in the Bank of the total face value of more than Rs. 5,000.*

The limit imposed by section 5 of the Co-operative Societies Act upon the share holdings of individual members is Rs. 1,000. In exercise of the powers vested in the Local Administration by section 46 of the Act this limit has been raised to Rs. 5,000.

## LIABILITY OF SHAREHOLDERS.

5. *The liability of every shareholder shall be limited to the face value of his shares.*

## TRANSFER OF SHARES.

6. *No shares shall be transferred by sale, gift, mortgage or otherwise except to the Bank or subject to the provisions of by-law 4 to a member of the Bank.*

Admission to membership of a co-operative institution is by election ; and it is necessary to prevent shares falling into the hands of hostile or undesirable persons.

#### VALUE OF A MEMBER'S INTEREST.

7. *The value of a member's interest shall be the face value of the shares held by him together with the amount of any deposit made with or loans advanced to the Bank by him, and any interest due on such deposits or loans minus any sum due from him to the Bank.*

#### PAYMENT OF A DECEASED MEMBER'S INTEREST.

8. *On the death of a member any sum due and payable by the Bank to his estate shall be paid within three months.*

#### CONSTITUTION OF THE BOARD OF DIRECTORS.

9. *The affairs of the Bank shall be managed by a Board of Directors constituted as follows :—*

- (i) *Such individual shareholders as are not members of any affiliated society shall elect from their own number one Director for each complete Rs. 2,000 of paid up share capital held by them. These Directors shall hold office for one year and shall be eligible for re-election. The qualification for such Directors shall be shares in the Bank of the face value of Rs. 250.*
- (ii) *The President and Secretary of every Registered Circle Union of Co-operative Societies which is a member of the Bank shall be ex-officio Directors of the Central Bank, but no Circle Union shall be entitled to more than one vote.*
- (iii) *The Co-operative Societies which are members of the Bank but are not for the time being enrolled in membership of a Circle Union shall have the right to elect one Director from amongst their own members to represent them for every Rs. 2,000 or part of Rs. 2,000 share interest held by them and by their members in the Bank.*

This by-law shows very clearly the successive stages through which the Central Bank, originally composed entirely of individual members, is now passing. It is important to deal equitably with every class of shareholder; the founders of the Bank must not be pushed roughly on one side simply because the societies are gaining in strength, and societies which are not sufficiently advanced for Union membership cannot be left out in the cold. It is obvious, however, that in the distant end the real Directors of the Bank will be the Presidents and Secretaries of the Circle Unions.

10. (i) *In the event of a Director appointed under by-law 9 (i) above, dying or retiring during his term of office, the remaining Directors of the same class shall appoint another duly qualified member to take his place on the Board for the remainder of the term.*

(ii) *In the event of a Director appointed under by-law 9 (ii) above, dying or retiring during his term of office, the person appointed by his Circle Union to be his successor in office shall ipso facto succeed him as a Director of the Central Bank.*

(iii) *In the event of a Director appointed under by-law 9 (iii) above, dying or retiring during his term of office, the societies which he represented shall proceed to elect another Director to succeed him.*

11. *No person who resides outside the area of the Bank's operations can be a Director of the Bank except with the special sanction of the Registrar. The Deputy Commissioner of the \_\_\_\_\_ District and the Sub-Divisional Officer in charge of the \_\_\_\_\_ Tahsil or any officer nominated by the Deputy Commissioner to take the place of the Sub-Divisional Officer, shall be entitled to sit and vote at all meetings of the Board of Directors and shall also be entitled to sit and vote at a General Meeting of the members of the Bank.*

It must be remarked that the Government officers mentioned in this by-law are not *ex-officio* Directors of the Central Banks, and on this point there seems to be a general misunderstanding.

12. *The Board of Directors shall meet as often as may be necessary and, in any case, at intervals of not more than 6 months. A special meeting of the Directors shall be held if one-fifth of their number require it in writing.*



13. *The Chairman of the Board of Directors shall be elected at the Annual General Meeting. When the Chairman so elected is not present at a meeting of the Board, the Directors present shall elect one of their number to preside at the meeting. Two-fifths of the members of the Board of Directors as constituted in by-law 9 shall form a quorum.*

14. *For adjourned meetings no quorum shall be necessary.*

15. *Any motion on which there is equality of votes shall be held to be lost.*

#### POWERS AND DUTIES OF THE BOARD OF DIRECTORS.

16. *The Board of Directors shall have the following powers and duties:—*

- (1) *To appoint a Working Committee of not less than 5 Directors.*
- (2) *To appoint from the members of the Bank local committees where necessary and to issue instructions for their guidance from time to time. Any official may be appointed as a member of a local committee with the sanction of the Registrar.*
- (3) *To appoint, dismiss, suspend or otherwise punish any officer paid by the Bank or to dismiss or, if necessary, to proceed against any officer of the Bank.*
- (4) *To appoint a Secretary and a Treasurer.*
- (5) *To accept deposits; to negotiate loans on behalf of the Bank, to issue shares as provided in by-law 2, and to issue debentures with the previous sanction of the Registrar.*
- (6) *To call in and redeem any share of the Bank with the previous sanction of the Registrar at its paid up value, or on such terms and conditions as may be sanctioned by the Registrar.*
- (7) *To call an annual general meeting in the month of \_\_\_\_\_ and submit to it the annual report and balance sheet up to the previous 30th June. The balance sheet shall clearly distinguish between debts due to the Bank which are considered good and debts which are bad and doubtful.*

- (8) *To publish and submit to the Registrar an annual balance sheet, profit and loss statement, statement of receipts and disbursements of the Bank, the proceedings of the Annual General Meeting, and a short report on the Bank's working.*
- (9) *To institute, conduct, defend, compromise, refer to arbitration or to abandon legal proceedings, and claims by or against the Bank or Board of Directors, or officers concerning the affairs of the Bank.*
- (10) *To assess from time to time the credit to be allowed to Circle Unions or isolated affiliated societies not enrolled for the time being in membership of any Circle Union, within the maximum limit fixed for each Circle Union or each such affiliated society and sanctioned by the Registrar.*
- (11) *Generally to conduct the business of the Bank.*

Under section 32 of the Co-operative Societies Act the appointment of the Treasurer of a Central Bank under by-law 16 (4) above must be approved of by the Registrar.

*By-law 16 (5) above.* The acceptance of deposits is, of course, subject to the provisions of section 30 of the Co-operative Societies Act and to the regulations of the Central Provinces Federation of Co-operative Banks. The business of issuing debentures requires special technical knowledge, and in every case the advice and assistance of the Registrar will be necessary.

*By-law 16 (6) above.* M. Rostand has expounded the "true principle of co-operative banking" in the following words:—

"A bank with fixed dividends on its shares and deposits, all surplus profits going to the reserve: when the reserve is equal to twice the capital, the shares are repaid and all subsequent profits are expended in philanthropic or useful objects."

There is no particular object in redeeming the shares which are held by sympathetic individuals or by registered co-operative societies. For a sympathetic individual is a valuable friend to the co-operative movement, and profits on the shares held by registered societies do not go outside the circle of the business but are distributed within it.

*By-law 16 (7) above.* Particular attention is invited to the mandatory nature of the last sentence of this by-law. The Directors of Central Banks must deal very firmly with the question of bad or doubtful debts and must on no account make any attempt to conceal their existence.

*By-law 16 (8) above.* Each Central Bank should publish a short and concise annual report on its work ; and this report should be circulated to all other Central Banks and to possible depositors within the area of the Bank's operations.

*By-law 16 (10) above.* The assessment of credit is not a part of the Registrar's duties. As already explained it is his business to fix a maximum credit limit for the purposes of disciplinary control, more especially the control of audit. It is not incumbent upon Central Banks to grant credit up to this maximum limit nor indeed to grant any credit at all where it is unsafe to do so.

#### POWERS AND DUTIES OF WORKING COMMITTEE.

17. *The working committee appointed under by-law 16 (1) shall perform the following duties and have the following powers, provided that not less than three members shall form a quorum. The Chairman of the Board of Directors shall have the right to preside at the meetings of the working committee.*

- (1) *To sanction applications for the purchase of shares and to grant admission to membership of the Bank in accordance with these by-laws.*
- (2) *To consider applications for loans and to sanction them within the maximum limits fixed under by-law 16 (10), or to reject such applications for reasons which shall be recorded in the proceedings of the committee. An appeal shall lie against any order, passed by the working committee rejecting a loan, to the Board of Directors whose decision shall be final.*
- (3) *To consider cases of overdue loans and to pass orders thereon making such arrangements as may be necessary to provide against loss.*
- (4) *To regulate the routine of the office.*

- (5) *To suspend any officer of the Bank pending consideration of his case by the Board of Directors.*
- (6) *To supervise the accounts of the Bank.*
- (7) *To perform any other duties which may be entrusted or delegated to the working committee by the Board of Directors.*

*By-law 17 (3) above.* The Directors should make a working rule to the effect that the affairs of every Circle Union and of all individual societies not affiliated to Circle Unions shall be passed and reviewed by them at least once a year. It should not be left to the manager to put up for the consideration of the Directors only such special business as he may choose. The control of the Directors must be real and not formal.

18. *The working committee of the Board shall meet as often as the business of the Bank may require and in any case at intervals of not more than a month.*

#### RECORD OF PROCEEDINGS.

19. *The proceedings of each meeting of the Board of Directors and of the working committee shall be recorded in the Minute Book by the Secretary and signed by him and shall also be signed by the Chairman of the Board or of the working committee, as the case may be, in token of correctness.*

#### DUTIES OF SECRETARY.

20. *The duties of the Secretary shall be:—*

- (1) *To summon and attend all meetings of the Board of Directors and of the working committee and of the shareholders.*
- (2) *To record the proceedings of all such meetings in the Minute Book.*
- (3) *To sign on behalf of the Bank all receipts, deeds and instruments to which the Bank is a party, provided that on share certificates, besides the Secretary's signature, there shall be also the signature of one of the members of the working committee.*
- (4) *To conduct all correspondence on behalf of the Bank.*

- (5) *To perform any duties, including general supervision, which may be entrusted or delegated to him by the Board of Directors or by the working committee.*

The choice of a competent Secretary is a difficult and delicate matter and upon it very much depends. If necessary, the Secretary may be paid.

#### RATE OF INTEREST ON LOANS.

21. *The rate of interest on loans made by the Bank shall be 9 per cent. per annum. But this rate may be changed should the members in their general meeting resolve to do so with the sanction of the Registrar.*

#### RATES OF INTEREST ON DEPOSITS.

22. *The rates of interest on deposits shall be those fixed by the Congress of the Central Provinces Federation of Co-operative Banks, Limited, and the rules governing deposits shall be those adopted by the Federation for the use of all Central Banks.*

#### RESERVE FUND.

23. *Not less than 25 per cent. of the net annual profits of the Bank shall be applied to the formation of a Reserve Fund.*
24. *The Reserve Funds of the Bank and of its affiliated societies shall be invested as directed by the Registrar.*
25. *Except with the sanction of the General Meeting and with the approval of the Registrar no amount shall be transferred from the Reserve Fund to meet any loss or bad debt or to be otherwise disposed of.*

#### RESTRICTION ON DIVIDEND.

26. *The dividend paid to the shareholders shall in no year exceed 12 per cent. of the amount of the paid up capital of the Bank.*

In my Primer of Co-operative Credit, which was published in 1910, I argued that Central Banks should endeavour to pay a dividend of at least 9 per cent. upon their shares. This is a view which I still hold, because I consider that a return of 9 per cent. is, with reference to local conditions and the profits of trade, not excessive.

## GENERAL MEETINGS.

27. *A General Meeting of the shareholders may be called as often as the Board of Directors deem necessary. At least one such meeting known as the Annual General Meeting shall be called in the month of \_\_\_\_\_ each year.*

The date of the Annual General Meeting should be fixed with reference to the conditions of local agriculture. During their busy seasons cultivators cannot attend what is intended to be a popular representative assembly. Every effort should be made to render the occasion attractive. One of the Federation's magic lanterns and one of its lecturers should be present ; if possible, a small agricultural exhibition should be held ; and, in the evening, plays should be performed. Everything calculated to promote the sense of association should be done.

28. *The Directors shall convene a General Meeting of the Bank on receipt of a requisition signed by not less than 20 shareholders.*

29. *At least a fortnight's notice shall be given to all shareholders and to the Deputy Commissioner and Registrar of Co-operative Societies before a General Meeting is held.*

30. *The Sirpanch of a Co-operative Society which is a member of the Bank or any of its members duly appointed by the society shall represent the society in the Annual General Meeting of the Bank.*

31. *In order to constitute a quorum for the General Meeting at least one-fourth of the number of individual co-operative credit societies which are members of the Bank shall be present by their representatives.*

32. *Every shareholder shall be entitled to one vote. Voting by proxy shall not be admissible.*

This by-law merely emphasizes the view that personal interest must be taken by every co-operator in the doings of the institution of which he is a member. A co-operator must not hand his vote to another to use for him, nor must any road be left open for the scheming individual who wishes to gather power into his own hands for his own personal advancement or advantage.

33. *All questions shall be decided by a majority of votes.*

34. *The business of the Annual General Meeting, besides the passing of the annual statements prepared under by-law 16 (7) shall be :—*

- (1) *Election of Directors for the ensuing year, and of the Chairman of the Board.*
- (2) *If profits admit, the declaration of a dividend.*
- (3) *The transaction of any other business that may be laid before it by the Board of Directors or by individual members or by the Registrar.*

#### AFFILIATION TO THE CENTRAL PROVINCES FEDERATION.

35. *The Bank shall be a member of the Central Provinces Federation of Co-operative Banks, Limited, and shall abide by the by-laws of the Federation and the resolutions of the Federation Congress.*

The following is an extract from an address delivered to the Fourth Madras Provincial Co-operative Conference which was held on the 22nd of January, 1916, by Diwan Bahadur M. Adinarayaniah, President of the Madras Provincial Co-operative Union.

In some quarters the opinion is held that a financing agency will have done all that it needs to do if it helps in raising money and that it should not be hampered by restrictions as to its constitution or burdened with other obligations. But it goes without saying that in the ring of co-operation there is no place for an absolutely unrelated body, free to run its course in isolation from the rest of the movement, for a body which claims the privileges but repudiates the obligations of co-operation.

#### WINDING UP.

36. *Save as provided in section 39 of the Co-operative Societies Act II of 1912, the Bank shall be wound up only with the sanction of the shareholders assembled in a special general meeting to consider the question of liquidation and under the orders of the Registrar, Co-operative Societies, Central Provinces and Berar.*

#### AMENDMENT OF BY-LAWS.

37. *These by-laws can be amended only by resolution of a General Meeting of the Bank after sanction of the Registrar, Co-operative Societies, Central Provinces and Berar.*

## CHAPTER V.

## THE PROVINCIAL CO-OPERATIVE BANK, LIMITED.

In Chapter IV of their Report the Committee on Co-operation in India express the view that the co-operative edifice in each Province should ordinarily consist of primary societies federated into Unions when local conditions permit of the introduction of the Union system, and that these primary societies, whether federated into Unions or not, should be financed and supervised by Central Banks covering an area and serving a number of societies which are not too large to permit of efficient supervision, and are yet sufficiently large to enable the Bank to employ a reasonable amount of working capital. "The extent of the supervisory duties of the Central Bank would," the Committee remark, "of course, vary according to the existence or non-existence in the province of a Union system and the efficiency of that system when it existed. Although this edifice affords adequate additional assistance to the Registrar in the matter of supervision and audit of primary societies, it is by no means complete as regards finance. In the absence of an apex controlling institution Central Banks have to make such arrangements as they can, either by circularising each other or through the Registrar, to lend out their surplus funds or to borrow to meet their needs. This system is inefficient and uneconomical when the work is done by the Central Banks themselves and, if it is carried out by the Registrar, entails a substantial addition to his already onerous duties. Moreover, uncontrolled interlending among Central Banks involves an interlocking of liabilities which may well lead to trouble. In some provinces too, the Central Banks are unable unaided to secure locally sufficient funds to meet their needs, and these can best be provided by a bank capable of attracting deposits from the richer urban classes and more suitably equipped to serve as a channel between the co-operative movement and the Presidency or Joint Stock Banks. It is, therefore, in our opinion, necessary to provide in each of the major provinces an apex bank which will co-ordinate and control the working of Central Banks, forecast and arrange for the



provincial requirements as a whole, and be the financial co-operative centre of the province.

An apex bank of this nature should have as its express object the direction of provincial finance by the control and support of Central Banks. Central Banks should be prohibited from dealing with each other or with Presidency or Joint Stock Banks except through its medium, while it should itself be obliged to confine its dealings with co-operative institutions to Central Banks and leave to them the work of dealing with societies."

In the second part of this book I have endeavoured to point out that administrative internal autonomy is by no means incompatible with centralised banking control. On page 179 of the Proceedings of the Sixth International Congress are recorded some views expressed by Mr. H. W. Wolff which show how very necessary it is that, on the financial side of their activities, co-operative institutions should be placed under a central control. As Mr. Wolff points out, without such control credit cannot be easy, liberal, or ready, and what is more, it cannot remain steady for long periods together. In 1911 the Central Banks and primary societies of this Province were placed in a position of great danger owing to their inability to raise sufficient local capital for their requirements. It was in 1911 that the Provincial Co-operative Bank of the Central Provinces and Berar came into existence, and it is no exaggeration to say that by immediately finding the funds necessary for the movement it was able to restore confidence in the minds of the members of primary societies pinched, as they were, by the existing lack of credit.

The difficulty was that, in 1911, the movement was not sufficiently advanced to permit of the creation of a purely Co-operative Provincial Bank, that is to say, a bank owned by the Central Banks and controlled by their representatives. But, as we have already seen, the Central Banks themselves were, in the early stages of their existence, co-operative in intention only and not in form. Some years of actual experience had to be gained before the primary societies could be admitted to membership of the Central Banks; and a further period of

teaching and training must be gone through before the control of the Central Banks by the primary societies is likely to become efficient. Just as pioneer workers were indispensable to the creation of our Central Banks, so it was necessary to form the Provincial Bank upon a basis which would admit of gradual development upon co-operative lines. "It is in our opinion essential," remark the Committee on Co-operation, "that co-operative institutions should be represented in Provincial Banks. It is not, however, necessary that they should from the beginning be vested with full control. Owing to their distance from the Provincial centre, they cannot conveniently send representatives to attend every meeting. On the other hand, the individual men of business, who take shares, usually live at or near headquarters, and are therefore able to be present at meetings regularly. In addition to this they form especially at first, a very important element in the Bank, as they bring to its management the necessary commercial skill and ability without which it would be difficult to raise sufficient capital from the public. At the same time, it is obvious that the relations of the Provincial Bank to its constituency must be carefully defined, for, whatever system is adopted, no device can permanently prevent the ultimate divergence of the interests of the individuals who supply funds and the societies which borrow them. Although, therefore, in starting a Provincial Bank we are not opposed to the concession of a preponderating influence to individual shareholders, representing the business element, we think that its constitution should be so framed as to give to affiliated co-operative institutions an opportunity at no distant date of securing a majority of votes at the General Meeting.

If a Provincial Bank is so constituted, it is, we think, of comparatively small importance whether the co-operative element has a dominating voice on the Directorate or not. The management of a Provincial Bank requires more expert knowledge and experience than that of a Central Bank and it is permissible, and often desirable, that the management should be mainly in the hands of business men. The representatives of societies are seldom capable of taking an effective part in the

management of a Bank of this class. But though the detailed administration need not be constantly controlled by them, the ultimate decision, as exercised at the General Meeting, should under the by-laws rest with them, and when they find that the Directors are mismanaging the Bank or exploiting co-operation for the advantage of the individual shareholders, the representatives of co-operative institutions should be in a position to intervene and to reconstitute the management."

Now co-operation in actual practice must often fall far short of the standards aimed at, and details inconsistent with co-operative ideals have frequently to be accepted in the hope that they may lead to better things. The position of affairs in 1911 did not admit of delay; money was wanted at once, public opinion was then, and is still, strongly in favour of the co-operative movement, and a number of public-spirited people were ready to find the funds necessary for the creation of the Bank. It is, I think, only fair to the founders of the Bank to acknowledge the readiness with which they have accepted all proposals made to them in the interests of the Central Banks and of the primary societies. They have, in fact, never failed to co-operate with the Registrar who has *strictly on their behalf, and not in any sense as an agent of Government*, guided and controlled the management. It has always, from the very first, been understood that it is the aim and purpose of the Provincial Co-operative Bank to admit Central Banks to membership and in the end to hand over to Central Banks the power of control. The attainment of this ideal must, of course, depend upon the financial resources of the Central Banks and upon their ability to produce men with the knowledge, leisure, will, and ability to take an active part in the business. Moreover, it is of the utmost importance that at the head of the Provincial Bank there shall always be an expert co-operator in close touch with the affairs of the movement throughout the province. It is the duty of the Central Banks to inspect the primary societies for which they are responsible; and it is also the duty of the Provincial Bank to inspect the Central Banks. Although it may still be distant, the time must come for the employment, by the co-operative organization of the Province as a whole,

of highly paid and fully trained expert non-official staff. In this direction, gradual progress is being made, as we shall find in the succeeding chapter. But high salaries do not, of themselves, create trained experts ; it is the training and experience which make the expert and give him his value, and the provision of non-official expert service is one of the great problems before us.

THE BY-LAWS FOR THE PROVINCIAL CO-OPERATIVE BANK,  
LIMITED, CENTRAL PROVINCES AND BERAR.

1. *This Bank shall be called the Provincial Co-operative Bank, Limited, Central Provinces and Berar. Its head office shall be at Jubbulpore.*

2. *The initial capital of the Bank shall be Rs. 7,00,000 made up as follows :—*

- (i) *Rs. 3,00,000, paid up, in Founders' shares of Rs. 500 each, carrying a first charge on net profits of 5 per cent. ;*
- (ii) *Rs. 4,00,000, Preference shares, of Rs. 100 each, one-twentieth part paid up and ranking for dividend up to 5 per cent., directly after Founders' shares, and nineteen-twentieths remaining as share capital available on call or, in other words, as a capital of guarantee. For this capital of guarantee the Bank will pay guarantors a consideration of 1\* per cent. per annum.*

*Preference shares shall be taken up as follows :—*

- (a) *By cash payment of one-twentieth part of the face value of each share allotted.*
- (b) *By guarantee to pay up the remainder of the face value of each share allotted as follows :—*
  - (i) *Nine-twentieth of the face value of each share on two months' call.*

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\* A charge on working expenses ; not on profits.

*Note.*—It should be explained that profits are not limited to 5 per cent. After provision of 5 per cent. dividend on both classes of shares, further profits are equally distributed.

- (ii) *The remainder of the face value of each share on three months' call, such call not to be made until three clear months have elapsed from the date of the first call.*

*Founders' shares shall be paid up by equal demands on every share as scope for investment arises. Preference shares shall be allotted and shall be taken up as required.*

*The Directors reserve to themselves the right to refuse any application for shares, wholly or in part, without assigning any reasons.*

As regards the capital of guarantee mentioned in by-law 2 (ii) above it is well understood that these shares will gradually be transferred from the present individual guarantors to co-operative institutions admitted to membership of the Bank. Reserve liability, however, is not a regular feature of the co-operative system of the Province, and when these shares are taken up by co-operative institutions they will be fully paid up. Before this step can be taken reserve funds must become proportionately much stronger than they are at present. At a still later stage of development the shares mentioned in by-law 2 (i) above will also be transferred to co-operative institutions.

3. *The Board of Directors shall have the power to increase the share capital of the Bank from time to time.*

4. *No shareholder may hold shares the face value of which exceeds Rs. 1,00,000 (one lakh of rupees): provided that the power to vote at all general meetings of shareholders shall be regulated by the scale laid down in the by-law next following.*

5. *Every shareholder who has been duly approved and registered shall be entitled to vote (unless he is disqualified to vote under any of these by-laws) and shall have one vote for every share he holds. If there be registered joint holders of a share, the shareholder whose name stands first or who represents the family as head shall be entitled to vote. Votes may be given either personally or by proxy: Provided that when the Directors have decided to take action under by-law 10 (iv) in respect of any shares, the holder thereof shall not be entitled to vote in respect of such shares.*

6. *The business of the Bank is restricted\* as under :—*
- (a) *The Bank may accept deposits on such terms and conditions as may from time to time be approved of by the Registrar, Co-operative Societies, Central Provinces and Berar.*
  - (b) *The Bank may borrow money and may issue its own bonds and debentures to the public, provided that no issue of bonds or debentures shall be made without the sanction of the Registrar, Co-operative Societies, Central Provinces and Berar.*
  - (c) *The Bank may lend money to or make deposits with any Co-operative Bank registered under Act II of 1912, or any Act for the time being in force to regulate the registration of Co-operative Societies.*
  - (d) *The rate of interest to be charged on loans to Central Banks in the Central Provinces and Berar shall be subject to the approval of the Registrar, Co-operative Societies, Central Provinces and Berar.*
  - (e) *The Bank will not deal with any Central Bank in the Central Provinces and Berar which is not a member of the Central Provinces Federation of Co-operative Banks.*

The Provincial Bank, it must be remarked, can only lend to other Co-operative Banks. Such Banks, however, need not necessarily be situated within the Central Provinces and Berar and, as a matter of fact, surplus funds have from time to time been sent to the Provinces of Bombay, Bengal, and Burma. It is not the purpose of the Provincial Bank to supply Central Banks with the *whole* of the funds necessary for their business ; on the contrary, great care is taken to see that owned capital bears a reasonable proportion to borrowed capital. In this matter the rulings of the Central Provinces Federation are binding on the Provincial Bank as well as on all the Central Banks affiliated to it.

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\* With the Registrar's sanction the Bank may make investments authorised by section 32 of Act II of 1912.

7. *The affairs of the Bank shall be managed by a Board of not less than nine Directors elected by the shareholders. Half the number of Directors elected shall retire annually but shall be eligible for re-election. The qualification for a Director shall be shares in the Bank of the face value of not less than Rs. 5,000. Four Directors shall form a quorum. The Registrar, Co-operative Societies, Central Provinces and Berar, shall, for the purpose of this by-law when present at a meeting, count towards the formation of the quorum. No meeting of the Board of Directors shall be held unless at least one week's notice has been given to every member of the Board of Directors.*

8. *In the event of a Director dying or retiring during the term of his office, the other Directors shall appoint a duly qualified shareholder to fill the vacancy until the next General Meeting when the shareholders shall either confirm the appointment or elect another duly qualified member to be a Director instead.*

9. *The Chairman of the Board of Directors shall be elected at the Annual General Meeting of shareholders. When the Chairman so elected is not present at a meeting of the Board, the Directors present shall elect one of their members to preside at their meeting.*

10. *The Board of Directors shall have the following powers and duties :—*

- (1) *To pass orders on applications for loans and cash credits from the Bank and to raise loans on behalf of the Bank.*
- (2) *To accept or place deposits on such terms and conditions as may from time to time be approved by the Registrar, Co-operative Societies, Central Provinces and Berar.*
- (3) *To sign and issue on behalf of the Bank, share certificates or debenture bonds as provided in by-laws 3 and 6 (b).*
- (4) *To call in and redeem shares in the Bank, on behalf of the Bank, at such valuation as may from time to time be declared fair by the Registrar.*
- (5) *To consider cases of overdue loans and pass orders thereon making such arrangements as may be necessary to provide against loss.*

- (6) *To appoint, dismiss, suspend or otherwise punish any officer paid by the Bank or to proceed against any officer of the Bank.*
- (7) *To institute, conduct, defend, compromise, refer to arbitration, or abandon legal proceedings and claims by or against the Bank or Board of Directors or officers paid by the Bank concerning the affairs of the Bank.*
- (8) *Each year in the month of August or September to call an Annual General Meeting of the Bank and submit to it the Annual Report, Profit and Loss account, Statement of Receipts and Disbursements, and Balance Sheet of the Bank up to the previous 30th June.*
- (9) *To transfer by sale, mortgage, lease, hypothecation, or otherwise by registration or endorsement, any property belonging to the Bank.*
- (10) *To allot any one or all of the aforesaid powers and duties to one or more of their own number or to the Registrar, Co-operative Societies, Central Provinces and Berar, or to his nominee.*
- (11) *Generally to conduct the business of the Bank and to do all things necessary to that end.*

Special attention is invited to the provisions of by-laws 10 (4) and 10 (10) above.

11. *The Board of Directors shall meet as often as may be necessary and in any case at intervals of not more than one month. An extraordinary meeting of Directors may be convened at any time by order of the Registrar.*

12. *The proceedings of all General and Board Meetings shall be recorded in the Minute Book specially kept for the purpose and shall be signed by the Directors present in token of correctness.*

13. *The duties of a Manager shall be as follows :—*

- (i) *To summon and attend all meetings of the Board of Directors.*
- (ii) *To record the proceedings of all meetings of the Board of Directors in a Minute Book.*



- (iii) *To sign on behalf of the Bank such receipts, deeds, and instruments as the Board of Directors may empower him to sign.*
- (iv) *To conduct all correspondence on behalf of the Board of Directors in respect of the duties allotted to him.*
- (v) *Generally to supervise and manage such business of the Bank as may be entrusted to him by the Board of Directors.*

14. *Every shareholder shall pay a registration fee of Rs. 2 (two only) to the Bank. This will constitute a small fund out of which to meet the initial expenses for stationery, etc.*

15. *The liability of shareholders shall be limited to the face value of their shares.*

16. *Shares are not withdrawable and shareholders cannot withdraw the money which has purchased their shares. Paid-up shares only are transferable, but no share can be transferred by sale, gift, or otherwise except to persons approved by the Board of Directors. A fee of Re. 1 will be charged for registering approved transfers.*

It must be specially noted that the shares held by guarantors under by-law 2 (ii) are not transferable until they have been fully paid for.

17. *Shares held by a deceased holder will be transferred to heirs or legal representatives without charge on the production of a succession certificate. If there be several heirs they shall nominate from their own number one as their representative in interest to conduct their dealings with the Bank. All dealings by or with such a nominated representative shall bind all the heirs: provided that any shareholder may nominate his successor in interest and such nomination shall render the production of a succession certificate unnecessary.*

*Shares transferred to heirs or legal representatives may be redeemed under by-law 10 (iv) at the discretion of the Board of Directors.*

18. *Such proportion of the annual profits as may be determined by the shareholders in their annual General Meeting shall be carried to the Bank's Reserve Fund.*

19. *The Reserve Fund shall be invested in Government Paper or in such securities as the Registrar may approve of from time to time, or shall be deposited with such Joint Stock or other Banks as the Registrar may approve of. But no portion of the reserve fund shall be employed in the business of the Bank.*

20. *No amount shall be transferred from the Reserve Fund to meet any loss by bad debt or otherwise, except with the sanction of the shareholders assembled in General Meeting and the permission of the Registrar of Co-operative Societies, Central Provinces and Berar.*

21. *A General Meeting of the shareholders of the Bank may be called as often as the Board of Directors shall deem necessary. At least one such meeting shall be called in the month of August or September each year. This shall be known as the Annual General Meeting.*

22. *The Board of Directors shall, upon receipt of a requisition in writing signed by not less than ten shareholders, convene a General Meeting of the Bank.*

23. *At least two weeks' notice shall be given to all shareholders before a General Meeting is held. This notice shall include a statement of the business for discussion and no proposal for the amendment of these by-laws shall be laid before any General Meeting of the shareholders unless notice of it has been given to the shareholders. The Directors shall declare what shall constitute notice for the purpose of these by-laws and shall prescribe the means and form of such notice.*

24. *One-eighth of the shareholders including proxies shall form a quorum of a General Meeting of the Bank. For the purpose of this by-law a shareholder shall count as one individual only irrespective of the number of votes he may be entitled to. —*

25. *Except where these by-laws otherwise direct all questions submitted for decision shall be decided by a majority of votes.*

26. *In the annual General Meeting the Board of Directors shall submit to the shareholders the report, accounts, and balance sheet of the Bank for the year ending on the previous 30th June.*

27. *The shareholders shall in the annual General Meeting—*

*(i) elect the Directors for the year ;*

*(ii) consider the annual report, accounts, and balance sheet ;*

(iii) if profits admit, declare a dividend;

(iv) transact such other business as may be laid before them by the Directors.

28. The following shall be entitled to attend the General Meeting of shareholders and the meetings of the Board of Directors :—

(1) The Financial Commissioner of the Central Provinces and Berar.

(2) The Commissioner of the Nagpur Division.

(3) The Commissioner of the Jubbulpore Division.

(4) The Director of Agriculture and Industries.

(5) The Registrar of Co-operative Societies, Central Provinces and Berar.

29. Save as provided in Section 39 of the Co-operative Societies Act II of 1912, the Bank shall be wound up only with the sanction of the shareholders assembled in special meeting to consider the question of liquidation.

30. The above by-laws can be amended by resolution of two-thirds of the members present (including proxies) in a General Meeting of the Bank with the sanction of the Registrar of Co-operative Societies, Central Provinces and Berar.

On June 30th, 1912, the working capital of the Provincial Bank was Rs. 1,76,000. On 30th April, 1916, it was Rs. 17,71,000.

The Bank maintains fluid resources on behalf of the whole co-operative banking system of the Province. In accordance with the recommendations of the Committee on Co-operation in India these resources must, on any given date, never be less than one-third of the deposits falling due for repayment throughout the Province during the ensuing 12 months.

From the banking point of view it is important that the capital employed in the co-operative movement should not be concentrated in one particular part of the Province. If development is reasonably even, risks will be tolerably distributed and the effects of local crop failures not so burdensome. In dealing with Central Banks, the Provincial Bank must regard it as a most important duty to see that capital is not allowed to stagnate—for stagnation generally means waste or loss of

productive power—and that turnover is as rapid as seasons will allow. Should there be good reason to believe that a Central Bank is not keeping the societies for which it is responsible up to the mark, the Provincial Bank must bring pressure to bear. This can be done by the presentation of the Central Bank's promissory note which, it must be remembered, is payable on demand. The Central Bank will then have to present the promissory notes executed in its favour by the primary societies, and the primary societies will, in turn, be forced to collect from recalcitrant members. Slackness on the part of the Provincial Bank is bound to have the most pernicious effects on the whole system. On the other hand, the Provincial Bank must know when to be indulgent; for failure to pay is, very frequently, due to causes beyond the borrower's control. In the management of the Provincial Bank's affairs a full knowledge of local conditions must be combined with the exercise of a reasoned discretion. There is no exact code of rules for the co-operative banker to save him, when in difficulty, from the trouble of applying principles for himself. A Provincial Co-operative Bank cannot work well unless its relations with Central Banks are those of friendly intimacy, and, for this reason, I hold that the Governor of the Central Provinces Federation of Co-operative Banks should always be the working head of the Provincial Bank.

The information below deals with the various districts of the Central Provinces and Berar, and it will be useful to those who wish to understand the working of the Provincial Co-operative Bank.

- (i) There are 22 districts in the Central Provinces and Berar.
- (ii) The wheat districts are Saugor, Damoh, Jubbulpore, Narsinghpur, and Hoshangabad.\*
- (iii) The cotton districts are Nimar, Wardha, Nagpur, the Sausar Tahsil of Chhindwara, Akola, Amraoti, Buldana, and Yeotmal.†

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\* In 1913-14 the exports of wheat from these five districts exceeded 5,000,000 maunds.

† In 1913-14 the exports of cleaned cotton from these eight districts were just under 5,000,000 maunds.

- (iv) The rice districts are Chanda, Bhandara, Balaghat, Drug, Raipur, and Bilaspur.
- (v) Districts in which none of the three great staples predominate are Mandla, Seoni, Betul, and Chhindwara excluding the Sausar Tahsil. In Seoni, Betul, and Chhindwara the wheat from certain tracts is an important export.

In all the districts named above there are Central Banks. In some districts there are two or three Central Banks.

To recapitulate, the Central Provinces system of co-operative credit banking is based on a foundation of village primary co-operative credit societies with unlimited liability, making loans to their individual members, always provided that, for every loan, two satisfactory sureties are forthcoming. Societies with limited liability may not borrow from Central Banks; limited liability institutions are concerned with a class of business which is not suitable for co-operative central banks of the Raiffeisen type.

The chain of credit is, therefore, as follows :—

- (a) The individual credit of every member of a primary society in receipt of a loan is supported by two sureties.
- (b) The unlimited liability of the village primary society is reinforced by
- (c) its reserve fund which is not invested in its own business and is accumulated by appropriations of more than 3% of its annual loans to members.
- (d) Next, securities (a), (b), and (c) are further strengthened by the Guaranteeing Unions of Primary Societies already described.
- (e) On the strength of the security afforded by (a), (b), (c), and (d) above, Central Banks lend money *through* the Guaranteeing Unions to the primary societies only, *not* to individuals. Central Banks take deposits from the public and loans from the

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\* In 1913-14 the exports of cleaned rice from these six districts were rather more than 800,000 maunds.

Provincial Co-operative Bank and offer, in return, substantial rates of interest and not only securities (a), (b), (c), and (d), but also

- (f) their own share capital which is not permitted to be less than  $12\frac{1}{2}\%$  of their borrowings (*i.e.* loans *plus* deposits), and is largely subscribed by the members of the primary societies, the primary societies, and the Guaranteeing Unions—thus ensuring that the borrowers themselves have a substantial stake in the success or failure of the Central Bank, and
- (g) their reserve funds (never less than 25% of their annual net profits) which are not invested in their own business.
- (h) The Provincial Co-operative Bank, on the strength of the security yielded by (a), (b), (c), (d),\* (e), (f), and (g) above, makes loans to Central Banks *only*, and has 29 such Banks and a wide range of climate and of agricultural conditions to distribute its risks over. The Provincial Bank accepts deposits from the public and borrows from Joint Stock and Presidency Banks offering not only securities (a) to (g), but also
- (i) its own paid-up share capital which is not permitted to be less than  $12\frac{1}{2}\%$  of its own borrowings (*i.e.*, loans *plus* deposits), and, in addition,
- (j) the reserve liability of its selected preference shareholders, and
- (k) its reserve fund which is not invested in its own business and accumulates (as do all the other reserve funds) at compound interest.

The Auditors of the Provincial Co-operative Bank are Messrs. A. F. Ferguson and Co., Chartered Accountants, Bombay.

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\* Security (d) is not brought into play in the case of small Central Banks with few societies to look after. It is when the business of the Central Bank is likely to outgrow its local knowledge of individual societies that the Guaranteeing Unions are formed, for they supply the deficiency.

## CHAPTER VI.

## THE CENTRAL PROVINCES FEDERATION OF CO-OPERATIVE BANKS.

IN the comparative studies contained in the second part of this book, the aims and functions of that guiding and controlling body which is called a Federation have been examined in detail. It will serve no useful purpose to state them again, for in respect of its aims the Federation, as a type, is universal. The functions of the Central Provinces Federation are expressed in its by-laws, and these are given below with the few comments that are necessary.

## BY-LAWS FOR THE CENTRAL PROVINCES FEDERATION OF CO-OPERATIVE BANKS, LIMITED.

## NAME.

1. *The name of this society shall be the Central Provinces Federation of Co-operative Banks, Limited. Its motto shall be 'All for one and one for all.' Its office shall be in the head office of the Provincial Co-operative Bank, Limited, Jubbulpore.*

## MEMBERSHIP.

2. *Every registered co-operative bank in the Central Provinces and Berar is, together with its affiliated societies, eligible for membership of the Federation. Admission to membership is dependent upon election by a majority of votes.*

## OBJECTS.

3. *The objects of the Union are—*
- (i) *to provide a regular and efficient system of supervision, audit, and control for all Banks and societies enrolled in membership ;*
  - (ii) *to secure uniformity of practice and unity in effort and in aim amongst all co-operative bodies in the Central Provinces and Berar ;*
  - (iii) *to work for the common good of all co-operators and especially to see that co-operative business is conducted on sound, safe, and progressive lines ;*

- (iv) *to teach, train, and educate the Federation staff ;*
- (v) *to foster by every means in its power the spread of the co-operative spirit amongst the people of the Province.*

It must be clearly understood that the Federation, although an institute of banks, is not a banking institution. It is the Parliament of the Co-operative organization, and provides for representative government ; the Governor and his Advisory Committee being the Prime Minister and Cabinet.

Special importance must be attached to the duty of the Federation in connection with active propagandist work. Its usefulness in this direction is, of course, restricted by the funds available. But all experience shows that, if a co-operative movement is really to succeed, no stone must be left unturned in the *continuous* effort to spread knowledge. It is not enough to start model societies and to expect them to produce hosts of converts. Nothing can convert a man to faith in co-operation except practical experience of co-operative work, and the first impression which a village credit society creates in its neighbourhood is that a new system of facile borrowing, at low interest, has been invented by the Government. The sacrifices, which are inseparable from the privileges, are overlooked, and there is a rush for cheap money.

#### MANAGEMENT OF FEDERATION AFFAIRS.

4. *The affairs of the Federation shall be under the control and management of a Governor assisted by an Advisory Committee of four members.*

#### ELECTION OF GOVERNOR.

5. *The Governor of the Federation shall be elected by the Federation Congress, which congress shall consist of one delegate from each Central Bank duly elected and empowered by each Central Bank to act and vote on its behalf.*

#### FEDERATION CONGRESS TO MEET.

6. *The Federation Congress shall meet at least once every year to transact such business as the Governor and his Advisory Committee or any member may have to place before it. The date*



*fixed for the Federation Congress shall immediately follow or precede the date or dates fixed for the Provincial Co-operative Conference. Congress Members must give two months' clear notice to the Federation Secretary of any business which they wish the Congress to discuss.*

#### NOTICE OF BUSINESS TO BE GIVEN.

7. *At least six weeks' clear notice shall be given, in writing, to all Congress members informing them of the business to be transacted at the next session. It shall be the duty of Congress members to consult their electorates and to obtain and act on instructions.*

#### NOMINATION OF ADVISORY COMMITTEE.

8. *The Governor of the Federation shall nominate at each annual session as his Advisory Committee four members of the Federation Congress. These members shall form the Governor's Advisory Committee until the next session.*

#### GOVERNOR'S TERM OF OFFICE.

9. *The Governor's term of office shall be terminable only by his own death, resignation, or the vote of a two-third majority of the members of the Federation Congress.*

#### FEDERATION SECRETARY.

10. *The Manager of the Provincial Bank shall be ex-officio Secretary of the Federation Congress, and he shall work under the Governor's instructions.*

#### LIABILITY.

11. *The financial liability of each member of the Federation shall be limited to the discharge of the obligations imposed by by-laws 12, 13, 14, 15, 16, 17, 23, 24, 25, 26, 27, and 28.*

#### ANNUAL BUDGET.

12. *Every Central Bank being a member of the Federation shall, at least two months before the close of the co-operative year,*

submit proposals in such form as the Governor of the Federation may direct, showing

- (i) the names of and the number of Federation servants which the Central Bank proposes to employ during the ensuing co-operative year ;
- (ii) the salaries to be paid to such servants ;
- (iii) the approximate sum to be expended on stationery, printing, etc., for the Bank's societies ;
- (iv) the means by which the Bank proposes to raise funds to meet the above expenses.

#### ANNUAL CONTRIBUTION TO PERMANENT AND INDIVISIBLE FEDERATION FUND.

13. Every Central Bank shall, together with its constituent societies, make an annual contribution to the permanent and indivisible funds of the Federation. Such annual contribution shall be a sum not less than 25 per cent. of the annual expenses incurred under heads (ii) and (iii) as detailed in by-law 12 ; and the disposal of contributions shall be made, under the orders of the Governor of the Federation, in accordance with the provisions of by-law 15.

#### EMPLOYMENT OF FEDERATION FUNDS.

14. Federation funds (other than those which according to these by-laws are permanent and indivisible) shall, firstly, be employed in the payment of Federation expenses. The term "expenses" shall not include any items which the Governor of the Federation and his Advisory Committee may decide to be improperly chargeable to Federation funds. Any surplus funds in hand shall be disposed of for such Federation purposes as the Governor may direct.

#### INVESTMENT OF ANNUAL CONTRIBUTIONS IN THE PERMANENT FEDERATION FUNDS.

15. The annual contributions specified in by-law 13 shall be allotted to the respective Central Banks making them and Central Banks shall employ the whole of the money so allotted in an increase of their share capitals.

By-laws 13, 14, and 15 must be read together. One of Sir Frederick Nicholson's most important recommendations\* (and one that has very generally been neglected or has escaped notice) was that power should be given by law to the Government to enforce the formation of a public Reserve or Insurance Fund to which registered co-operative banks should be compelled to contribute; such reserve to be used solely as a guarantee for the repayment of sums due by banks in liquidation, whether due to Government on account of subventions or guaranteed payments, or to the public in general as depositors or other creditors. This Public Fund, Sir Frederick Nicholson considered, should be entirely independent of any reserves held by individual banks, and should be held in trust by the Accountant-General and invested in Government securities.

In the Central Provinces the accumulated reserve funds are, as already stated, held by the apex Bank, gilt-edged securities being also held by it to a corresponding amount. These securities cannot be touched or disposed of without the sanction of the Registrar. Now as the shares held by the Federation in the various Central Banks accumulate, it is obvious that the security afforded to the depositing and investing public is strengthened. This strength is, moreover, added to the successive securities (a) to (k) enumerated in the chapter on the Provincial Co-operative Bank, and will, if the present policy is steadily adhered to, become immense. The permanent and indivisible Federation Fund is the outcome of co-operative thrift, and the course of years will prove its value to the movement.

#### FEDERATION CAPITAL TO BE A TRUST FUND.

16. *Share capital obtained by Central Banks in accordance with by-law 15 shall be employed by them in their own co-operative business but shall be held by them on behalf of the Federation and the shares shall stand in the name of the Federation.*

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\* Volume I, page 28, of his Report.

## PROFITS ON FEDERATION SHARES.

17. *The dividends earned by Federation shares shall be paid to and invested by the Governor of the Federation in Trustee Securities to form a Famine Insurance Fund to accumulate at compound interest.*

## FAMINE INSURANCE FUND.

18. *In the event of famine or widespread crop failure and consequent tightness in the money markets the financial resources of the movements may seriously contract. To provide for such a monetary crisis the Governor of the Federation shall have the power to make loans out of the Famine Insurance Fund to the Provincial Co-operative Bank in time of need at the average rate of interest at which the Provincial Bank was obtaining loans from the money market during the preceding twelve months. Such loans shall be of the nature of temporary advances only and the Provincial Bank shall bind itself to recoup both principal and interest to the Famine Insurance Fund as soon as the money market becomes normal again.*

A few rupees in a Famine Insurance Fund do not, of course, abolish the necessity for fluid reserves and for reserve funds. The evolution of all co-operative systems has been slow and painful ; all have grown from small beginnings. A large Famine Insurance Fund can only be the outcome of thrift practised by the Federation over a long period of years ; at present, it stands as an object lesson and an example of *co-operative effort on behalf of posterity.*

## FEDERATION STAFF.

19. *No co-operative Bank or society shall employ any salaried servant who is not licensed by the Governor of the Federation and furnished with a Federation Certificate to the effect that he has been trained and is fit for co-operative work. This restriction does not apply to menials on less than Rs. 10 per mensem.*

The Federation staff numbers (1916) 130 men, salaries and expenses amounting to about Rs. 75,000 a year. The staff is steadily increasing to meet the growing requirements

of the movement. The Federation has provided a magic-lantern, with slides specially prepared from real life, as well as a lecturer, for common service. One lecture, telling a story, is illustrated by photographic slides. The dramatic society of a village was rehearsed, and tableaux were arranged for the important situations in the plot of the story. The lecture is very popular. It is a great mistake to imagine that the Indian peasant does not appreciate and cannot understand pictures.

#### FEDERATION AUDITORS.

20. *Federation Auditors shall be under the sole direction, control, and discipline of the Governor of the Federation or of such Federation officer as he may appoint: provided that the Federation shall not employ any Auditor who is not recognized by the Registrar of Co-operative Societies under Section 17 (i) of Act II of 1912.*

#### OTHER FEDERATION SERVANTS.

21. *Other salaried and licensed servants of the Federation shall be under the direct control and discipline of the Central Banks within the jurisdiction of which they are employed.*

#### PROVIDENT FUND FOR FEDERATION SERVANTS.

22. *All salaried Federation servants shall subscribe to the Federation Servants' Provident Fund and shall be bound by the rules of that Fund which are as follows.*

#### RATE OF SUBSCRIPTION TO PROVIDENT FUND.

23. *Every salaried Federation servant shall make a monthly contribution of 10 per cent. of his salary to the Provident Fund. The Bank disbursing the salary shall make the deduction and also the necessary entries in the Servants' Provident Fund Account Book and in the ledger of Provident Fund Accounts.*

#### CUSTODY OF PROVIDENT FUND.

24. *The whole of the money standing to the credit of the Federation servants serving within the jurisdiction of a Central*

*Bank shall be invested as part of the working capital of that Central Bank. If a Federation servant is transferred to another Bank his Provident Fund, made up to date, shall also be transferred to that Bank.*

The Provident Fund is an important result of the Federation's efforts. The savings of a Federation servant are placed in co-operative business, *in the area in which he is working.* The advantages of this policy are obvious.

#### INTEREST ON PROVIDENT FUND.

25. *Subject to the succeeding by-laws interest at 6 per cent. compound, calculated annually shall be allowed on Provident Fund Accounts; and any annual bonus or contribution granted by the Federation to its servants shall also be added to Provident Fund Accounts to accumulate to maturity at the same rate of interest.*

#### CONDITIONS OF WITHDRAWAL OF PROVIDENT FUNDS.

26. *Any Federation servant who has done fifteen years' completed service who is not dismissed for gross neglect of duty or for dishonesty shall receive on the date of his retirement cash payment of the total amount standing to his credit in the Federation Provident Fund.*

27. *Any Federation servant who dies, or retires of his own will before he has completed fifteen years' service shall not be entitled (he or his heirs) to draw from the Provident Fund a sum greater than his own contributions plus compound interest at 3 per cent.*

#### PENALTY FOR DISHONESTY.

28. *Any Federation servant who is dismissed for dishonesty or for gross neglect of duty shall lose all claim to the amount standing to his credit in the Provident Fund on the date of his dismissal: provided that it shall be within the power of the Governor to allow payment of a sum not exceeding actual contributions in cases in which an appeal to the Federation Congress meets with a recommendation for mercy from that body.*

## LONG AND MERITORIOUS SERVICE.

29. Any Federation servant who has completed 30 years' approved service shall receive, from Federation Funds, in addition to the amount from the Provident Fund as secured to him by these by-laws, such sum as the Federation Congress may determine, subject to a maximum of two years' salary (based on the average of his last five years of service).

## AUDIT OF FEDERATION ACCOUNTS.

30. Federation Accounts maintained by a Central Bank shall be audited annually by a Registrar's departmental auditor along with the accounts of the Central Bank.

31. The annual audit of the headquarter Federation Accounts shall be made at the same time and by the same auditor as the accounts of the Provincial Co-operative Bank.

## PERMANENT NATURE OF FEDERATION FUNDS.

32. Federation shares and Federation funds are the permanent and indivisible property of the Federation. Under no circumstances shall they be divided out amongst members of the Federation and members who retire or are expelled from the Federation carry no claim upon such funds or shares with them.

33. After enquiry and report by the Governor and his Advisory Committee any Bank or Society may be expelled from the Federation by vote of a two-third majority of the Federation Congress: provided that no motion for the expulsion of any Bank or Society shall be brought forward unless notice has been given of it as required by by-law 7.

“34. These by-laws shall not be altered or abrogated except by a two-third majority of the Federation Congress assembled in extraordinary session specially convened for the purpose: provided that no alteration or abrogation shall be made at such session unless six months' notice of the intention to make such alteration or abrogation has been given to all members of the Federation.

## CHAPTER VII.

CO-OPERATIVE ORGANIZATION AT PRESENT OUTSIDE THE  
FEDERATION CIRCLE.

It has been stated (in Chapter V of Part II), that co-operative societies for purposes other than credit and supply were not, in any part of the world, of practical importance until twenty years ago. This statement, of course, only applies to agricultural co-operation. The co-operative movement in India is young; the organization of rural credit is by no means complete; and it is, in the writer's opinion, most important that the student should appreciate the fact that universal experience shows that the growth of the co-operative spirit is slow. Credit first, then supply, and, subsequently, when self-help is really strong and active, other forms of co-operation. Further, an examination of those countries in which small holdings predominate, shows that the organization of co-operation in agriculture has invariably required a foundation of credit. Nor is it at all remarkable that this should be so, for every progressive system of agriculture requires constant supplies of fresh capital; and, if this be admitted, then it follows that credit must play an all important part in the co-operative organization of agriculture.

It is once more necessary to keep banking apart from other liability, and to prevent the confusion or overlapping of obligations. Unlimited liability pledged once must not be pledged again; but definite liability confined to money raised upon a recognized credit basis and put up as share capital can very well be pledged both by individual members and by bodies corporate. Hence, it is legitimate to make, for Raiffeisen societies, the Central Bank the pivot of agricultural improvement as well as of rural credit and thrift. It is, however, to be understood that the Central Bank (which cannot employ banking funds except for banking purposes) is, in a distinct and separate capacity, a Central Agricultural Improvement Society. As for the organization below the Central Bank, on the one side there is the machinery for banking, credit, and supply; on the other, there are the same parts of that machinery re-grouped in societies



*with limited liability* for purposes other than credit or supply, with the addition, perhaps, of individual members who find money for their shares without the assistance of Raiffeisen credit.

Now the agriculturists of the Central Provinces and Berar are not all upon the same credit level. (A) Some require no credit ; (B) others have no use for credit of the kind provided by the village society of neighbours. (C) Others again—the great majority, I think—fit naturally into the Raiffeisen system and can be provided for by the organization which leads upwards from the village credit society to the circle union and the Central Bank, and thence (i) for general purposes to the Federation, and (ii) for business purposes to the Provincial Bank. Under this system, as we have seen, the credit unit is also the channel for the supply of pure seed, improved implements, and any other requisite of agriculture which can be handled without incurring heavy financial liability. It would be imprudent, however, for a society with unlimited liability to embark upon enterprises of an expensive nature with the possible chance of failure. For such enterprises separate societies *with limited liability* should always be formed ; and if the members of these societies are also members of credit societies the money necessary for the share and working capital will probably be raised on the strength of the unlimited liability pledged by the credit societies to the Central Bank. If this be the case, then the *non-credit* societies thus formed will also come under the supervision and guidance of the Central Bank, for they form inseparable parts of a complete structure.

The agriculturist classes (A) and (B) are, however, of great economic importance and cannot be neglected. For these classes a co-operative system, based on unlimited liability, is not suitable, and for them the primary or unit society should be organized on a basis of share capital and limited liability, and ought to be not only for production, sale, or supply (or any combination of these) but for credit as well. Unit societies of this kind, the membership of which need not be confined to a single village but may extend to a larger though definite area, can be grouped into compact blocks, and for each block there must be a central

union, also with share capital (subscribed by the primary societies which are its members) and with limited liability. The primary society, under this (the *Haas*) system, ought not to be allowed to raise loans except from the central union of which it is a member and shareholder: the primary society may, however, to a limited extent and under proper regulations, be permitted to accept deposits from its own members. The central union should be free to negotiate loans from the Provincial Bank, but each application for credit ought to be considered strictly upon its own separate merits, the business relationship between the central union and the Provincial Bank being merely that of banker and client. Under this system, credit is regulated by many considerations; for instance, bills or promissory notes\* may be discounted if backed satisfactorily, and any form of banking security not involving a lock-up of capital may be accepted as pledge. But the most important factor will always be the margins of security afforded by the paid-up share capital and the reserve funds of the primary societies and central unions, and credit will generally be measured by multiples of such margins. For credit, as well as for the other purposes for which it has been formed, the primary society is, by means of the organization described above, linked to the central union, which, in turn, can borrow from the Provincial Bank. The Provincial Bank, however, does not inspect or supervise the central unions and primary societies. The credit dispensed is really commercial rather than co-operative credit, although the purposes to which loans are to be applied must always be a matter for the strictest enquiry. For audit, advice, and control, the primary society and the central union alike, go to the Federation.

To appreciate the stage of development in the Central Provinces, we must examine what has been accomplished in other Indian Provinces in connection with co-operation in agriculturer Turning, therefore, to the Report on the Progress of Agriculture in India for 1914-15† we gather the following information.

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\* The full value of a promissory note should never be paid to borrowing institutions of unsupported limited liability.

† Calcutta, Superintendent of Government Printing, India, 1916.

*The United Provinces.*—Most of the Central Banks now act as informal agents for the supply of improved seed grain to members of societies. In this way, Pusa 12 (a new variety produced by the Agricultural Research Institute, Pusa), has been popularised over very wide areas. Groundnut has become a staple crop in certain parts of Unao and other districts. Improved varieties of cotton are sown by societies in all Western districts. Suitable types of sugarcane are also being tried in a number of new localities. In the Western districts, particularly in Bulandshahr, pumping installations with oil engines have been put up, either by societies in their corporate capacity or by members with assistance from their societies. Some banks and societies have set apart small plots for the demonstration of new staples and varieties.

Some interesting schemes for irrigation on co-operative principles are also being tried in the United Provinces. One of these is the Kunwar Co-operative Society for pumping water from the Gumpti. The Manager of the Central Bank, who has interested himself greatly in the scheme, feels convinced that, even if it does not prove directly profitable, it will ultimately strengthen the financial position of the society by obviating the possibilities of crop failures. A second scheme is for a portable plant for working wells in the Bulandshahr District, and the third for a tube well in the Hardoi District.

An agricultural supply society has been registered at Mainpuri. The members are mostly landholders genuinely interested in the improvement of agriculture, and many of them are also active participators in the co-operative credit movement. Sufficient capital has been obtained for growing good seed and also purchasing it in bulk and retailing the same to village societies and other cultivators. It is the first attempt in the United Provinces to separate the business of the supply of seed and other agricultural requisites from the work of a Central Bank.

A few cattle insurance societies have been registered as an experimental measure in the Mainpuri District, and a proposal has been submitted to the Government for special aid.

During 1914-15 the Co-operative Dairy at Benares incurred a loss partly owing to the higher cost of feeding stuffs and

transport during the year and partly owing to a diminution in the supply of milk. The high prices, especially of fodder, in the last two or three years are said to have told severely on the milch cattle owners; the members of the dairy society have consequently been unable to repay previously borrowed loans in full. The result has been that they are unable to get new loans to replace old or inferior cattle.

The Co-operative Dairy at Lucknow worked at a profit, but it has a heavy load of outstanding dues from men who belonged to the original credit society and have not participated in the dairy business.

In Allahabad, there are two co-operative societies for the sale of *ghi* and they are flourishing. The reasons for success are said to be (i) that the members are cultivators, not merely milk-sellers, and amenable to reason; (ii) that there is little risk in the *ghi* business as the product travels well and keeps well.

*The Bombay Presidency.*—The most important of the few manure supply societies in the Bombay Presidency is that at Kelva Mahim in Thana. It has sold considerable quantities of castor cake to its members at prices 20% below ordinary market rates. The manure store at Baramati, which is co-operative not in its management but only in the distribution of its profits, and the Mutha Canal Society at Poona have, also, made large sales of manures. Experience indicates that societies for the sale of manure require garden tracts and irrigated areas as part of their environment.

Two co-operative dairy societies have been organized to supply the Bombay market. One of these, the Jambul Hanuman Dairy, near Kalyan, employs an experienced manager and three assistants who keep the byres very clean and milk the buffaloes by the dry method. The society intends to increase its share capital, and then proposes to open a retail shop of its own in Bombay city.

Large numbers of *gaolies* are moving out of Bombay Island as a result of more strict Municipal regulations. It is proposed to settle them in groups along the railway lines in Salsette, this position giving them unique facilities for milk transport

into the city, and to organize the groups into co-operative societies with, perhaps, a central selling agency or agencies as well as arrangements for the supply of feeding stuffs. This scheme appears to possess great possibilities.

The part which co-operative societies can undertake in developing the dairying business in India is clearly indicated in the following extract from the Report of the Committee appointed to consider measures for the improvement of the milk supply in large cities in the Bombay Presidency :—

“ It is a matter of common knowledge that in other countries striking developments in the dairying business have been effected by the agency of co-operative societies, and we are of opinion that much progress may be made in this country by means of the same agency. In such matters as the financing of the milk producers, the joint purchase of feeding stuffs, and the collection of small lots of milk there is no doubt that a co-operative society can be of much use. There is evidence that a co-operative society can undertake on a small scale the marketing of its own milk in a neighbouring town where the distance is not great ; but doubts have been expressed whether a co-operative society is a suitable agency to undertake the more difficult task of handling milk for long transport or the work of retailing milk on a large scale, which demands a special knowledge and experience, together with a degree of care and activity not often found except where the retailer's personal interests are concerned. Co-operation cannot be regarded as a substitute for efficiency, and if efficiency is to be secured, the enterprise in each case must be large enough to afford the cost of capable management. The question how far co-operative societies should go in this matter, must, therefore, depend on the degree of efficiency which they can command and the question whether there are other agencies available to continue the work at the point at which they might feel disposed to leave it.

It is sometimes assumed in this country that what are needed to improve the city milk supply are individuals or companies who will take up the matter on a large scale with modern appliances. It would be well to make clear the difference between dairy farming concerns which aim at producing their

own supply of milk which they propose to put on the market themselves, and those dairying concerns which merely act as middlemen buying milk in the country and putting it on the town markets by improved methods. The production of milk by dairy farming concerns situated in a town or in its vicinity is not likely to be done so cheaply as it can be by the small cultivator. The most promising source of milk supply for towns lies in the villages, where cultivators keep their animals under natural and economical conditions. It is from such sources that an adequate supply of milk has been secured for the cities of other countries. The transport of milk is no doubt a difficult matter in hot countries, but it has been overcome in the United States of America, and in this country for some time past pasteurised milk has been sent without difficulty from Poona to Bombay, a distance of 119 miles. It should, however, be carefully borne in mind that an increase in the number of people or agencies who handle the milk in its transit from producer to consumer must bring about a corresponding increase in the price, and the secret of cheap milk lies in confining the profit as far as possible to the producer."

*The Bengal Presidency.*—The Dacca Co-operative Dairy is a distributive society. The supply of milk, some 5 maunds daily, is obtained from the neighbouring cultivators who, up till now, obtained advances from *gaolies* and sold their milk through them. The cultivators have now been formed into co-operative societies, and they have obtained loans from the Dacca Central Bank to pay off the *gaolies* and purchase more cattle. The cows are milked by recognized milkers, and the society places the milk before the consumers. This scheme is the reverse of that adopted at Benares.

*The Punjab.*—Three Central Banks stock implements for sale, and it is hoped that other banks will take up the work as their circumstances improve.

*Burma.*—The cattle insurance societies in Burma are still in the experimental stage. Claims have been very few indeed and the total payments of premia received not large. But the conditions of Burma are peculiar, and it would be dangerous to base conclusions on Burma experience without liberal

allowances for the different conditions to be found in India. Rinderpest is not the scourge in Burma which it is in many parts of India. From Burma comes an interesting example of co-operation used to reduce the difficulties of colonization in areas lately brought under cultivation. The latest of these experiments is one in which a forest reserve has been disafforested and thrown open to cultivation. The tract covers about 23,000 acres. The area is leased to co-operative societies formed by groups of cultivators migrating to the area, and is not granted or leased to individuals. The tenure is a co-partnership without share capital, the funds for the initial breaking of the land being taken from the Government in the form of agricultural advances. The money is lent to societies at the ordinary rate of interest and they make advances to their members at higher rates. The difference in the rates of interest and the margin of rent over land revenue forms the reserve fund, which will amount to a substantial sum in the course of a few years. Thirteen settlements have already been formed each with its own society, and loans have been granted sufficient to meet all reasonable needs of the colonists. When a society has broken up its allotment it will be in possession of a valuable security on which it will be able to borrow from the Mandalay Central Bank. The experiment is one of very great interest since it represents an attempt to combine collective farming with co-operative principles. As far as it has gone the experiment promises to be successful.

*Bihar and Orissa.*—In this Province a dairy society has been started on the outskirts of Gaya town. It has run more or less on the lines of the Benares dairy society, but has one advantage over that society in that it has not to spend so much on the carriage of milk, being much nearer to the bazaar. It has been found to work at a profit when properly managed. The difficulty so far has been to get a good manager.

From the accounts given above, it will be gathered that co-operation for purposes other than credit is, in India, still in the experimental stage. In some cases the societies are isolated and independent; in others they are really based on the credit unit. For all, credit will, in the end, prove to be a necessity;

and for every society which has money dealings statutory audit has to be provided. A stage must, in fact, be reached at which co-operation between units will prove to be necessary, and it is difficult to see what forms of organization will be found possible other than those followed by the great Continental systems. The policy of concerted action will, in this, as in many other matters, be the policy of the future.

In the Central Provinces and Berar the movement towards agricultural co-operation for purposes other than credit made its first appearance in 1912. The extremely valuable work done by the Provincial Department of Agriculture had not only succeeded in arousing public interest to a remarkable degree, but had secured certain definite results which, if applied to agriculture on the grand scale, would add enormously to the wealth and productive capacity of the Province. But, in a country of small holdings, the difficulty of bringing agriculture as a whole into touch with the demonstration work and teaching of a few experts is most formidable.

The agricultural expert can, by personal influence and constant activity, advise and supervise large farmers—men of means who can understand and take advantage of the merit of fresh ideas. But the large farmer is not, in the Central Provinces and Berar, the most important feature of the agricultural system; the distances between large farmers are great, and the experts are few. However, tackling the large farmers first, the Department of Agriculture supplies them with pure seed grown on the Government Farms, in order that they, in turn, may sow their own private seed farms. From these private farms seed is sold to the public under a certificate granted to the farmer by the Department of Agriculture; and hence, supervision and inspection by the experts of the Department are necessary. Further, without lower organization from the private seed farm downwards, the chain of purity breaks; and, as the object in view is to eliminate inferior and to substitute superior and uniform varieties over large tracts of country, it is necessary to continue organization from the point reached by the private seed farm. And even if the solution of the problem lies in the multiplication of private seed



farms, it is obvious that, in the matter of supervision and inspection a small expert staff must soon reach the end of its tether. Decentralisation is, therefore, unavoidable. It was not long before it was recognized that co-operative organization alone can provide the agency required for (a) the creation of an auxiliary non-official paid staff, and (b) the widespread diffusion of pure seed in rural tracts. Unfortunately, the development of co-operative credit had not—and could never have—proceeded evenly in the different districts of the Province ; and, as all the evidence shows, it is not until the average cultivator has graduated in the school of the credit society that the spirit of co-operation becomes at all strong in him. In fact, in this matter of co-operation in agriculture for purposes other than credit, the Province has not yet emerged from the region of experiment. Nor would it be reasonable to expect more, considering that the new developments only date from 1912.

The main activities of the Provincial Department of agriculture are at present concerned with :—

- (i) the improvement of cotton,
- (ii) the improvement of wheat,
- (iii) the improvement of rice,
- (iv) the improvement of cattle, and
- (v) the improvement of implements of agriculture.

In every case, we may, for co-operative purposes, understand the term "improvement" to mean and include only tried and proved methods of increasing the profits of cultivation, and we must deliberately exclude from consideration that most valuable and important part of the Department's work which comprises research and experiment. In Germany, the Federations, at their testing stations, do a great deal of purely scientific work ; in India, the co-operative machine is still very imperfect and many of its parts cannot be made and fitted for years to come.

*Cotton.*—In his Annual Report for 1911-12, the Director of Agriculture wrote \* :—

"The work of the demonstration staff in Berar practically centres round the cotton seed farms. There were 40 farms here

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\* Paragraph 33.

during the year under report, a number which has been largely increased this year in response to an urgent popular demand. The Department is running some risk in attempting this with its small supervising staff : but with the strong hopes that exist of an increase of strength in the immediate future, it was thought best to stretch a point in meeting a *bonâ fide* public need. The farms, which do not as a rule exceed 20 or 25 acres in area, produced 343,000 lbs. of seed, of which  $\frac{4}{5}$  was *Rosea*. This sells at three times the bazaar rate for cotton seed. To provide the whole of Berar with seed every year would need nearly 1,000 such farms. Even supposing the farmers changed their seed only once every four years, the number of farms required would be more than the Department could properly supervise. The Department welcomes the establishment of a co-operative seed society at Gaigaon. Co-operative societies are bound to take a very important part in the mechanism for introducing improved seed to the cultivating public."

By 1913 the step indicated in the extract just quoted had been taken. "In the management of Cotton Seed Farms," reported Mr. Clouston, the Deputy Director of Agriculture,\* "instead of depending entirely on scattered seed farms for the distribution of seed, Co-operative Agricultural Unions have been formed, of which each member has a seed farm, all the seed of which he guarantees to keep pure and to distribute for sowing purposes. To one of the members sufficient selected seed to sow from 25 to 100 acres is supplied from the Government Farm, Akola ; other members of the Union get their supply of seed from this the Central Farm. The seed farms belonging to the other members of the Union are designated Branch Farms. Having thus a net-work of seed-producing branch farms fed by a central seed farm formed into a Union, the members of which undertake to co-operate in the ginning, storing, and distribution of the seed, much useful work can be done with a minimum amount of supervision by our staff. The Department holds itself wholly responsible for the purity of the seed of the central

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\* Report on the working of the Co-operative Societies in the Central Provinces and Berar, for 1913-14, paragraph 39.

farm, while the supervision of the branch farms is left to a *kamdar* (an overseer) appointed by the Union, who works under the direct supervision of two of its members designated 'Supervisors,' whose work, in turn, is supervised at times by the Department. As this scheme provides for central farms on which pure and reliable seed can be raised under the supervision of this Department, the demand for seed from Government farms will in future be very considerably reduced. Government seed will be supplied to central farms only, and not necessarily every year to all central farms. The strain of cotton grown by all the Unions and seed farms is No. 1 *Roseum* selected on the Akola Farm. It has given from 38.5 to 41 per cent. of lint, at the different seed distribution centres."

In his Annual Report for 1913-14 the Director of Agriculture recorded the following remarks (paragraph 31):—

"The main feature of demonstration work in Berar was the distribution of *Rosea* seed through private seed farms, organized on a co-operative basis. This form of co-operation has now arrived at a most interesting stage in its development. There are some 400 private cotton seed farms in the Division, which grew nearly 2 million pounds of *Rosea* seed last year. This was sufficient to sow about 200,000 acres, with an additional profit to the growers of from 10 to 12 lakhs of rupees during the coming year. These seed-farms are grouped in Co-operative Unions, of which four have been registered under the Act, while 18 are still unregistered. Departmental supervision is concentrated on the central farms of these Unions, the channel through which the seed from the Akola Farm reaches the private farms and ultimately the general public. The branch farms of each Union are inspected by a *kamdar* trained by the Department, but employed by the Union under the supervision of two of its members. This agency secures the purity of the seed and the adequacy of the cultivation. The staff is paid for by contributions made by individual members, at an acreage rate, from the profits on the sale of their seed. It is also proposed that the Central Bank, which is the general financing agency for all co-operative institutions in the Division, should undertake some control of the work of the Unions, over and

above the expert agricultural supervision afforded by the Department, and an expert staff for the use of the bank is now being arranged for. The general lines are so far fairly well accepted; but there are two serious difficulties. Not many of the best co-operators are expert agriculturists and few of the best agricultural members have much experience in co-operation. This is a source of weakness for the present; and the true remedy seems to lie in an extension of the system of co-operative credit in the Division. Co-operative credit is the simplest form of co-operation, the most readily intelligible and the most directly educative. It will be far more easy to teach the agriculturists co-operation than to give the co-operators, many of whom belong to the urban educated class, a knowledge of agriculture. As the idea of co-operation permeates the areas occupied by the different Unions, it will be possible to put more and more of them on a truly co-operative basis. The staff of the Unions are paid for and other general expenses are met by the profit on the sale of seed; and several Unions are also beginning to earn quite appreciable sums as commission on the sale of implements. The Sonwadhona Union made Rs. 64 from this source last year. These Unions fulfil other useful functions. The Khamgaon Union managed a ploughing competition and nearly all the Unions took an active part in the dissemination of agricultural information."

On the 30th June, 1915, there were 11 registered Cotton Unions and 28 unregistered Unions working on probation under the supervision of the Agricultural Department. During 1914-15 the 11 registered Unions produced 579,500 lbs. of pure *Roseum* seed and made profits amounting to Rs. 29,800 for their 179 individual members. The 28 unregistered Unions were reported to have made a profit of Rs. 25,560.

The Co-operative Cotton Union represents co-operative effort in an extremely simple form. In fact, the form of organization is that of a mutual association rather than that of a co-operative society. There is no share capital and no borrowing power. The sole liability which the members incur is that for their contributions towards the pay of the Union *kamdars*, and this is generally arranged for by means of small acreage rates

of from two to six annas. The Unions act as *agencies only* for the sale of implements, and they stand to lose nothing in their capacity as such. Membership is open to societies, members of societies, and to individual cultivators; and the area of operations is restricted to villages within tolerably easy reach of a good ginning centre where the necessary arrangements can be made for the separate ginning of the cotton (to avoid the admixture of seed) and for a slow speed machine (to avoid damage to the seed). In demarcating limits for Unions of this type, facilities for transport have also to be considered: and it must be recorded that two Unions have already made arrangements to sell their pure *Roseum* lint jointly and in bulk, a move which has procured for them better prices of from Rs. 2 to Rs. 3 per *bojah* of 280 lbs. In connection with neighbouring Unions, a small society at Paras, a convenient railway centre, works a ginning plant, its organization being based on share capital and limited liability. This society has done well, but it is obvious that the Unions would save money if they could find their own share capital and manage their own gins.

The question of granting borrowing powers to societies organized on a basis which is not compatible with the principles of unlimited liability presents serious difficulties which, however, may not prove insuperable. A limiting factor in the possible expansion of Cotton Unions is to be found in the demand for *Roseum* seed; for, as the Director of Agriculture has pointed out, 1,000 farms of 20-25 acres each would supply the whole of Berar. When, therefore, the Unions, in the aggregate, control, say, 25,000 acres there will be no further fields for them to conquer unless their constitution assumes a far more elastic and comprehensive shape. Their final geographical distribution must, of course, be worked out in actual practice; for if Unions are started too close to each other, the influences of supply and demand will come into play, the most efficient Unions will survive, and the inefficient will cease to earn profits. Although almost every form of agricultural co-operation must rest, in the end, upon a credit basis—for success brings with it the need for credit, and, for this reason, the future of the specially devised Unions is by no means certain—it would be foolish to disparage

the very rapid and valuable results which have been obtained. Co-operation for credit has not, in every country, been the beginning of the co-operative movement : and, in the writer's opinion, the Cotton Unions have been and are a suggestive and conspicuous object-lesson.

There are three million acres under cotton in Berar. The substitution of pure *Roseum* for ordinary mixed *Jari* adds Rs. 6 to the grower's net profit per acre, and would add 128 lakhs of rupees to the annual value of the Berar cotton crop.

*Wheat.*—The diffusion of wheat seed of new and improved varieties is effected by methods which are practically the same as those employed for cotton seed. The successive stages are the Government Farm, the certified seed farm, the Union, the member of the Union ; and, of course, there is another route open, namely, the Central Bank, the credit society, the individual member of a credit society. Advances are readily made by Central Banks to credit societies, the members of which desire to purchase pure seed. Thus, when, in 1914, there was a shortage of wheat seed in the Sihora Tahsil of the Jubbulpore District, the Central Bank in that area imported, on behalf of its affiliated societies, 2,660 maunds of selected *pissi* from the departmentally supervised seed farms in the Hoshangabad District. The credit societies in the Sihora Tahsil sent in their indents for seed to the Central Bank, but the wants of 53 societies only could be supplied from the stocks available. In the same year, two registered Seed Unions, in the same Tahsil, sowed 70,000 lbs. of pure wheat seed. These Unions consist exclusively of credit societies (thirteen in all), and though their working has added Rs. 4 per acre to cultivating profits, yet as corporate bodies they make very small profits, the reason being that their object is to secure the greatest benefit for the individual cultivator, the services of the Union being made as cheap as possible. Here, it may be pointed out that the importation of seed and the purchase of the initial supply of seed by the two Unions hinged on the credit organization and on the special arrangements made by the Central Bank. These Unions rest, in fact, upon a credit basis, namely, the credit of the societies which are their members, and their constitution is strictly co-operative.

There are in the Sihora Tahsil 5,200 members of credit societies ; and when loans for seed are required every effort is made to supply seed from one or other of the numerous certified seed farms in the locality. The best testimony to the work which co-operation has done in this area is, perhaps, the fact that whereas a few years ago the maximum standard of purity for Sihora soft white wheat, as fixed by Messrs. Ralli, was seldom as high as 80 it is now 92 per cent., the produce fetching a correspondingly better price with reference to current market rates.

In the Betul District the credit societies are now alive to the value of pure seed, of which they absorbed more than 200,000 lbs. in 1914 ; a Government farm has been opened, and organization is proceeding. Ground has also been broken in the Narsinghpur District, in the Harda Tahsil of the Hoshangabad District, and in the Patan and Jubbulpore Tahsils of the Jubbulpore District. But the future depends, in reality, upon the success met with in teaching the members of credit societies what co-operation really means ; and it is not till our credit organization is far more complete that we can expect co-operators to clamour for such things as joint sale, and to be moved, by the new ideas within them, to reform their ways. Nor, indeed, can the Provincial co-operative movement hope to run ahead of the Provincial environment ; and the sphere of activity will continue to be restricted by such factors as the situation of the markets, the quality and kind of communications available, and the state of general education and popular efficiency.

There are in the Central Provinces and Berar approximately 3,500,000 acres under wheat ; and if the whole of this area could be sown with the prolific and valuable varieties introduced by the Agricultural Department, cultivating profits would be increased by some Rs. 1,40,00,000.

*Rice.*—The most serious problem which the Administration of the Central Provinces has so far had to face has been that of the recurring famines of the last decade but one. The menace of widespread famine, though a series of favourable seasons has helped us to forget it, is always present ; and one or two years of drought might at any time prove calamitous. Against

this danger, the ultimate safeguard can only be a wide extension of irrigation. To obtain this, a very heavy outlay is required—an outlay for which it will be difficult to find the money, unless the works, when constructed, pay an economic rate of interest. To this end, the utmost use must be made of the soil and the water; agricultural science must teach the cultivators what new methods of tillage, improved seed, and the proper use of all available manures, can do. But agricultural science must, in its turn, await the help of an organized and enlightened system of finance, and for this we must look to co-operative credit.

Of late years, Government has been busily engaged in the construction of irrigation canals and tanks, and these cannot fail to have a profound effect upon the economy of the tracts they serve. The backward country of Chhattisgarh will soon be given water from the Tendula and Mahanaddi canals, works which will command a cultivable area of 1,410,441 acres, and will cost over two crores of rupees. Along the routes of these big water-courses the character of local agriculture is certain to alter; and, if the investment which these irrigation works represent is to yield a satisfactory return, sugarcane and transplanted rice will take the place of other and less valuable crops. Now, the results of all experience show that, besides the character and distribution of the rainfall, the most important factors which regulate the demand for canal irrigation are (1) want of capital, and (2) want of manure. As regards manure the difficulty is great. Irrigated crops trench on the temporary fertility of the soil, which must be restored either by manure or rest. Irrigation, therefore, cannot be carried beyond the limits which the supply of available manure fixes. A practical illustration is to be seen in the sugarcane cultivation around Poona, the entire industry being the outcome of the joint supply of water and of manure, whereas neither, by itself, would have been sufficient. It was not until the canal was brought to this tract that the sugarcane cultivation sprang up, and then the growers found that they must have manure as well. Meerut, Amritsar, Hoshiarpur, Mahim, Avenashi and numerous other places furnish similar instances. In all these irrigated areas it



is by no means uncommon for cultivators to pay as much as Rs. 200 to Rs. 380 per acre for manure. As pointed out by Sir Edward Buck, with unlimited manure water will raise the rental of land to Rs. 50 an acre or more ; while with no manure water will merely rob lands of their fertility and render them practically worthless. Water and manure are, in fact, interdependent, and in most cases it may be said that either of them alone is useless.

Chemical and other manures must always be supplemented by organic matter ; and the main source of the cultivator's manure supply must, therefore, continue to be his cattle. It is most necessary, therefore, that the cultivator should be induced to improve the breed of his cattle and to feed them better, in order to increase the supply of manure ; and, in order to do this, he must grow fodder crops.

But the improvement of agriculture in irrigated tracts does not end with the matter of manure. It is very important that the cultivator should not make wasteful use of the water-supply, in order that irrigation may cover as large an area as possible ; and there is no better economic education for the ryot than that furnished by the mutual discipline of a good co-operative society working under proper supervision. The purchase of crushing plant and of other improved implements of agriculture will, of course, become a necessity ; and on the heels of co-operative credit must follow co-operative distribution, production, and sale. Unless, in fact, the supply of water to the Chhattisgarh cultivator is backed by co-operative organization, the efforts of Government to develop the resources of the country by means of irrigation and improved agriculture cannot meet with a full measure of success. Capital in large amounts and at reasonable rates must be forthcoming ; and it is of urgent importance that a network of sound co-operative societies should be formed before the irrigated tracts are exploited by the usurer.

The development of the areas which are commanded by the irrigation works already constructed and under construction is, however, only one aspect of the matter. There are promising schemes for other large irrigation works in the Provinces, but

whether they are undertaken or not must depend on the success of the present ventures. The extension of co-operative credit, and the consequent development of agriculture which will follow in its wake, will thus have a far-reaching effect in hastening the extension of irrigation to other portions of the Provinces.

Rice, of course, is a crop of great economic importance not only in the Chhattisgarh Division, but in the districts of Balaghat, Chanda, and Bhandara as well, and in these tracts irrigation provided by large tanks and the Wainganga canal which commands a cultivable area of 147,849 acres, must be employed to the fullest advantage. As regards rice cultivation most of the area which is to come under irrigation is sown with early rice, sown broadcast, and, in Mr. Clouston's opinion, polluted with a very high percentage of *karga*, or wild and practically worthless rice. Now, if both irrigation and transplantation are made use of, and if medium and late varieties (such, for instance, as *Parewa* and *Gurmatia*) are sown, cultivating profits will (Mr. Clouston thinks) increase by as much as Rs. 25—30 per acre. If the necessary labour is not available and transplantation impossible, still (according to the same authority), by sowing the later and heavier yielding varieties and by irrigating, profits can be increased by about Rs. 14 per acre. Both transplantation and irrigation, however, call for manure; and exactly the same considerations which apply to the growing of sugar apply to that of rice, although capital is not required to the same amount. The efforts of the Agricultural Department to demonstrate the advantages of rice transplantation have met with a remarkable degree of success; but, here again, the limiting factors in the situation can only be removed by the agency of co-operative organization.

The co-operative movement was unknown in the districts of Chhattisgarh until 1912, and it is, therefore, scarcely to be wondered at that, so far, we have only 2 small Rice Unions, both in the Durg District. These were registered in 1916, and they are mutual associations rather than co-operative societies. Borrowing powers have not been granted.

*Cattle.*—The improvement of local breeds is a matter which deeply affects the welfare of an agricultural and pastoral

Province. It is a well-known fact that the cattle of Chhattisgarh are the poorest to be found in the Province and the least cared for by their owners. The breed being very small, the bullocks are considered too weak for draught purposes in other districts; consequently, there is no outside demand for them, and locally they sell at from Rs. 10 to Rs. 20 each. It is the custom to keep a large herd in every village though there is very little grazing worthy of the name. For stall-feeding the cows and young stock get little but rice straw, and only enough of that to ward off dire starvation. Under these circumstances, needless to relate, the cultivators of this tract take very little interest in the breeding of cattle. Assisted by a grant of land from Government on favourable terms, several of the local land-owners have started, at Nawagaon, near Raipur, a breeding society on the Swiss model (*see* Study F. Chapter V, Part II). Another society of the same kind, but with the malguzar and tenants of two villages only as members, has been formed at Khandwa, not far from Raipur. A silver cup offered, in 1915, for the best group of 12 cows and 1 bull, at the Raipur Agricultural Show, was won by the Nawagaon Society. These two societies are not really upon an economic basis; for the most serious difficulty in the way of this kind of co-operative enterprise, namely, the reservation of a large grazing area, has been met by the grant from Government of leases of an exceptional nature,—exceptional because the areas which can be leased in this way are very few in number. They are, in fact, disused “fuel and fodder reserves,” found to be unsuited for use as such.

Still, these pioneer societies have introduced new ideas to local people, and they represent the encouragement of co-operative enterprise on lines which are capable of modification to suit the needs of different localities; and if, in the opinion of qualified experts, stall-feeding and sufficient ground for exercise can be substituted for a large grazing area, there is, in the Central Provinces and Berar, a future for pedigree breeding by co-operative societies with share capital and limited liability. These societies, also, have not been granted borrowing powers.

In Nagpur, two Co-operative Credit Societies of *Gaolis* work in conjunction with the Dairy managed by Mr. Byramji Pestonji which is situated on the Telinkheri Farm. To these societies, the Department of Agriculture is able to sell concentrated feeding stuffs at wholesale cost price, or about 25 per cent. lower than that in the bazaar. Bulky fodders are supplied cheaply from the Telinkheri Seed Farm; and grazing is found at specially favourable rates. Sheds for the cattle are provided free of cost. In this way, I think, these societies fully make up the money which they lose by the interposition of the Dairy (with Mr. Pestonji's intermediary profit) between them and the purchasing public. At any rate, after the first society had been working for some time, the application for the registration of the second society was submitted quite spontaneously. These societies are financed by the Nagpur Central Bank, and they are, strictly speaking, within the Federation circle. They work, however, under close Government supervision, and their circumstances are wholly exceptional.

The total quantity of milk, butter, and cream distributed by the Dairy during 1914-15 was 220,750 lbs., 2,240 lbs., and 817 lbs., respectively, the corresponding figures for the previous year being 149,900 lbs., 110 lbs., and 140 lbs. "The direct result of the scheme is the inestimable benefit of a really good milk supply at Nagpur."\*

It is the writer's opinion that, in practically every town in the Central Provinces and Berar, the stricter control of the milk supply by Municipalities would, if combined with co-operative organization either of producers or consumers, be of immense public benefit. The main obstacles to improvement in this direction are custom, prejudice, and lack of initiative, as well as the fact that dirty and polluted milk finds a ready sale at very remunerative prices.

*Agricultural Implements.*—Five Central Banks stock and sell to the public, as well as to members of societies, improved implements tested and recommended by the Department of Agriculture. The Central Banks are agencies only, and are

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\* Paragraph 6. Resolution on the Registrar's Annual Report for 1914-15.

paid a small commission on sales. The experiment has met with most encouraging results, and the members of the primary societies are beginning to understand that an improved implement may, after all, put money into their pockets. Where, a year or two ago, the sales of improved implements ran into hundreds of rupees they now run into thousands, although of course the business is altogether new. It is possible that, after years of further experience, the Federation may, as a distinct and separate branch of its work, organize a central depôt for the manufacture and repair of agricultural implements.

There are, in the Province, a few societies of separate and special types such as those in the Government Press, in the Comptroller's Office, in the Central Post Office Circle, and in the Gun Carriage Factory at Jubbulpore. There is also a Co-operative Motor Union, which is affiliated to the Motorist's Mutual Co-operative Society in England, and is certain to become a powerful and influential body, if only it receives the loyalty and support of its own members. These last societies are not, and probably never will be, within the circle of the Federation.

## APPENDIX I.

### CO-OPERATIVE CREDIT AND THE CENTRAL BANK.

(*The Agricultural Journal of India, January, 1907.*)

So many people have already written on the subject of Co-operative Credit that I hesitate to swell the number. My only excuse is that I do so by invitation. Some two years ago, when the first attempts to instil the principles of co-operative credit amongst the people of the Central Provinces were made, it was supposed that any effort to establish societies would probably fail unless the money-lending classes were first conciliated. "In order to love mankind," said Helvetius, "one must not expect too much from them;" an endeavour to induce the leopard to change his spots was no plank in the platform of co-operative credit. It was recognized that in dealing with men of business instinct and tradition, no "dusty answer" would be sufficient to convince those whose "souls are hot for certainties" in the shape of principal and interest. It was of primary importance to convince these classes that the co-operative credit movement would benefit them as well as others. The tactics adopted were cautious and may be described in the words of Francis Bacon—"not to undertake things beyond the strength of Government, not to row against the stream, not to wait for occasions always, but sometimes to challenge and induce them." It was amongst the money-lending classes that the gospel of co-operative credit was first preached.

It was necessary to explain to the capitalist the meaning of co-operative credit and to show that rural societies afford scope for safe investment with a prospect of a reasonable return. In order to do this satisfactorily, it was not forgotten that there is but one general rule of evidence—the best must be produced that the nature of the case will admit of. Recourse was had to practical demonstration. A few societies were started with capital raised partly by shares sold to members, and partly lent by Government or the Court of Wards. The rate of interest on loans to members was low—9 per cent.; members alone could borrow; after the provision of a reserve fund, profits were to be distributed *pro rata* to the shareholders.

The main objections taken to these societies were that they were not such societies as the Government of India contemplated when legislation was first undertaken, that they were mere profit-making machines run for the benefit of some of the non-borrowing members, and that neither Wolff nor Raiffeisen would be able to trace in them any resemblance to the societies of which they were the founders. These criticisms were sound and fair; but the initial

societies were formed as a stepping stone towards better things. As has already been pointed out, it was considered essential to enlist the sympathy of the non-borrowing classes. Accordingly in these first societies, borrowing and non-borrowing members were deliberately amalgamated in one body. "All confidence is dangerous unless it is complete," said La Bruyère; "there are few circumstances in which it is not best either to hide all or to tell all." It was clearly of great importance that the non-borrowing classes should have an opportunity of becoming acquainted *at first hand* with the working of societies having machinery bearing some resemblance at least to that of the rural societies which the later development of the Central Bank would finance.

These first societies are now flourishing in the Central Provinces and are fulfilling at least one function of Raiffeisen Societies. They are succeeding in providing any man, whose character stands high enough with his fellows to procure him election as a member, with money to carry on his cultivation at a reasonable rate of interest. The management of the affairs of a society is vested in a committee elected by the members themselves. The greatest objection to which these societies stand open at present is that they are more or less dependent on a certain amount of official supervision, but it would be wholly erroneous to say that the societies were started "by Government Order." The fact is that when the cause of co-operative credit was first pleaded with the people as they sat round the writer's camp fire they themselves stipulated for a certain amount of aid and supervision at the outset. Accordingly when the societies formed in the Hoshangabad District first started practical work, being still but infants, their steps were very carefully guided. The various committees received no orders; they were not peremptorily told that they must do this or must not do that; the *chaprassis* at the door had strict injunctions to usher at once the "Secretary Sahibs" and the "President Sahibs" into the presence, and many were the occasions on which they came to seek advice and assistance. It must be confessed that at first many of the people received the idea of co-operative credit *nec amore et sine odio*. But dawning perception has awakened a spirit of real interest, and these societies stand as successful object lessons, if not of the ideal form of co-operative credit, at least of the fact that joint responsibility and admission to membership by election produce a body of honest borrowers.

It is a common cry that there is no public spirit amongst the people of India. If one were to ask amongst which class there is the least desire for the welfare of others, the answer would probably be "amongst the money-lenders." But it is a fact that the Banias of the Central Provinces, just as the Jews of other countries, are the class whose application to business is greatest, and whose success is most proverbial. We know how in the history of the world the Jew has for centuries been cast for the rôle of the oppressed; we know the present position of the Jew in Russia and Germany. It would be too much to say that the Bania is the object of universal animosity, but it cannot be disputed that he is often regarded with the eye of suspicion, and generally of jealousy. Like Shylock, he wants his pound of flesh. In common with the

physician his services are only sought by those whose necessities demand them, and in common with the physician the price charged for the benefit bestowed is frequently condemned as extortionate. While, however, the services of the doctor frequently inspire feelings of gratitude, the usurer has in all countries and in all ages been unpopular. It was Tocqueville who said that "he who despises mankind will never get the best out of either others or himself." The saying is one which is worth the consideration of the worker in the cause of co-operative credit. "If by the term public spirit," wrote Major-General Sir W. H. Sleeman, "be meant a disposition on the part of individuals to sacrifice their own enjoyments or their own means of enjoyment for the common good, there is perhaps no people in the world among whom it abounds so much as among the people of India. To live in the grateful recollections of their countrymen for benefits conferred upon them in great works of ornament or utility is the study of every Hindu of rank and property. Such works tend in his opinion not only to spread and perpetuate his name in this world, but through the good wishes and prayers of those who are benefited by them to secure the favour of the Deity in the next."

Next, then, to pointing out to the money-lending classes that to invest money in Co-operative Credit Societies was worth their while, it was expedient to lay stress on the fact that the movement was a philanthropic one, designed to ameliorate the condition of the tillers of the soil. To aid in such a movement is to acquire merit. The inducement is one that tempts civilised men of nearly every race and creed. The argument gathered strength when the results of the money-lending transactions of some of the leading Baniyas were revealed. It fell to the lot of the writer to assess the income-tax and to hear the usual pleas for a decrease in the burden of taxation on the score of decrease in income. The task presented many opportunities to one desirous of ascertaining what proportion of interest (at the usual "sawai" or 24 per cent. per annum rate) was actually realized. If anything definite could be arrived at, then the guide to the rate of interest that would attract capital would be invaluable. Once satisfy the money-lender that new ways of employing his money would bring him in as much interest as the old, and a great deal would be accomplished. No one will dispute that the methods which entail the employment of lawyers and pleaders, attendance at court and legal costs, must necessarily be very expensive. The law too is uncertain, and just claims are sometimes defeated. When, then, several money-lenders proved that the income derived by them from the capital sunk in small loans yielded a return of only 8 to 10 per cent. co-operative credit scored another notch. The contest became one between knowledge and tradition. It was pointed out to the money-lenders that rural societies were small affairs for small people only; that the scheme of operations did not include such folk as large landholders anxious to borrow a few thousand rupees for fireworks; that the old game of a man burdening his resources with the interest on large sums borrowed for ceremonial expenditure and then being unable to pay the interest in poor seasons, must continue to be played; that, in fact, no encroachments



on the profitable portions of the money-lender's happy hunting ground were to be made. The writer recollects the keen interest with which the Banias heard of the enormous fortune left by the most notorious money-lender of recent years, the late Mr. Sam. Lewis, and of his methods; how Mr. Lewis never made small loans but confined his dealings entirely to advancing many thousands at a time on the security of very valuable property. In the end, many of the Banias were convinced that the creation of rural societies would afford them a safe means of investment without any of the expenses of collection attendant on traditional methods, that the net return would be as great, if not greater.

Had the writer stayed in the Hoshangabad District, his next step would have been to form Tahsil Central Banks to which rural societies would have applied for money. The last section of the Co-operative Credit Societies Act confers a very wide discretion as to registration. Nobody pretends that a Central Bank with capital subscribed by the leading men of the tahsil, managed on purely business principles, and existing solely for the purpose of lending money to rural societies, is itself a Co-operative Credit Society in any sense of the term. Yet it exists for the purpose of associating the best business talent available with the co-operative credit movement, and is intimately connected with the scheme for financing and testing the merits of the class of rural societies roughly sketched in this article. The Central Bank should then be registered under the Act. Shareholders in the Central Bank can, of course, reside anywhere, but the committee should be chosen from shareholders resident within the tahsil. What is wanted is a committee with good local knowledge of all parts of the tahsil. It will not only control the internal affairs of the Central Bank, but will consider the applications of rural societies for loans and decide to what extent individual societies are *bankable*. The Central Bank is not only to be the source whence rural societies are to derive their capital, but a means of gauging the worth of newly-formed rural societies. It may be argued that too much power will be left in the hands of the Central Bank, that as "interest speaks all sorts of tongues and plays all sorts of parts, even the part of the disinterested," the Central Committee will be able to starve the rural societies, and thus kill the movement. To this no present answer can be given. The question is one of confidence, and time alone can prove whether that confidence has been misplaced or not. It is idle to apply closet logic to schemes of co-operative credit. The personal equation must always count for much. Let us be content to go to school with experience. "English men," wrote Sir Henry Maine, "are wont to be content with the rough rule of success or failure as the test of right or wrong in national undertakings." Though rough, the rule is not a bad one when judging schemes of co-operative credit.

It may be suggested that the most convenient method of raising capital for the Central Bank is by guarantee and subsequent call for payment. This prevents the accumulation of idle money. It is from the Central Bank, then, that the rural societies are to obtain money. The district officer must form

the rural societies as he finds opportunities when in camp. He must explain the advantages of co-operative credit to the villagers ; he must aid in drawing up simple rules, the articles of association, and the application for registration ; and he must superintend matters until the rural society is launched as a body corporate. Once that is accomplished, the rural committee must look to the Central Bank for their funds. The Central Committee will enquire as to whether the new society is bankable or not, and, should their enquiries be satisfactory, will grant the rural society a credit, a cheque book, and a pass book. The cheques of the rural society will be cashed when presented, and interest will run from the date of disbursement only. A date must be fixed for the repayment of each sum disbursed, and default will mean suspension of further credit. Probably it will be found most convenient to settle accounts two months after each harvest. Government should not be asked for a rupee. The writer has not yet met a single man who urged that Government should aid with money in order to show that its purpose was earnest, without finding that the idea had been put into his head by an officer of Government. Directly the maker of such a request was invited to think for himself, he could discover no reason why Government should *not* be earnest.

These rural societies will be able to borrow at nine per cent. and lend to their members at twelve per cent. The small margin of three per cent. will provide all necessary working expenses and will in course of time furnish reserve and working capital. But no elaboration of the subject is required here. In attempting to solve the problems which confront us, let us steadfastly bear in mind that it is the first purpose of co-operative credit to provide the cultivator with capital at a reasonable rate of interest. The Government of India have laid down that the establishment of rural societies is to be our first care. Let us not then be too ready, as Mrs. Browning says,

" to talk by aggregates

And think by systems, and, being used to face

Our evils in statistics, be inclined

To cap them with unreal remedies

Drawn out in haste."

In matters co-operative we must not advocate too strenuously the rigid application of the methods of another hemisphere. It should be possible to clothe the spirit of co-operative credit in an Indian garb without the usual official trimmings. Very possibly her attire will not be the latest confection from Utopia, but it can be, none the less, a practical working garb.

## APPENDIX II.

### WILHELM HAAS.

WILHELM HAAS, the legal representative (*Generalanwalt*) of the National Federation of Agricultural Co-operative Societies, died at Darmstadt on the 8th of February, 1913. The German agricultural world has lost in him one of its most valuable members. For forty years he took a leading part in the agricultural co-operative movement of Germany, first of all in the somewhat limited sphere of his native country, the Grand Duchy of Hesse, but later, after 1883, as head of the National Federation of German Agricultural Co-operative Societies. This Federation, the proportions of which were at first but modest, developed under his direction until it became a powerful organization for almost the whole of German agricultural co-operation. But not only for the German farmers is his death a great loss. The sincere condolences sent to the National Federation from a large number of foreign countries show the high consideration in which Haas was held even beyond the frontiers of the German Empire. And, indeed, his action was not limited to the field of German agricultural co-operation, for the more the latter has developed, the more it has served as the model for foreign countries.

Haas always assisted the co-operative movement abroad both actively and with advice and, in the same way, he always did his utmost to profit by the experience of other countries and the results obtained in them for the benefit of German agriculture. He was in friendly relations with most of the men working for the same ends as himself in other countries, and his great services to the co-operative institutions received their fitting reward in 1906, when, on the foundation of the International Federation of Agricultural Co-operative Societies, he was appointed its President.

Haas was born at Darmstadt on October 26th, 1839. In 1862, he entered the service of the Government of the Grand Duchy of Hesse. In 1869 he was appointed district assessor of the Grand Duchy in the office of the Friedberg District in Upper Hesse. Ten years later, in 1879, he was Councillor of Police at Darmstadt, and, in 1886, he was District Councillor for the Offenbach District. He held this important office until 1900. Then he left Government service to devote himself entirely to co-operative work.

In 1872 he began his work in the field of co-operative organization. He founded that year the Agricultural Distributive Union of Friedberg. Already in his position as member of the Provincial Agricultural Union of Starkenberg, of which he was later on President, he had studied the needs and aspirations

of the agricultural world. With the loan and savings banks, the agricultural distributive unions were the earliest agricultural associations in Germany. It was in the Grand Duchy of Hesse they first extended themselves and in greater number than elsewhere. But, as long as they acted independently of each other they could only partly succeed. Haas conceived the plan of uniting the societies in a single Federation. Fifteen societies, with altogether 1,070 members, immediately adhered to the Federation.

Haas was elected President of the Federation. In that office he soon gave proof of extraordinary talent as an organizer and administrator. In a short time the agricultural distributive unions increased very remarkably in the Grand Duchy of Hesse, so that, at the end of 1875, the number of societies belonging to the Federation were already 40. The efforts of the Federation were crowned with complete success. It did not confine itself to doing its utmost to obtain better terms for the farmers by means of collective purchase. It also interested itself in arranging that the articles supplied should be of good quality.

The Federation continued working up to 1890 to the great advantage of agriculture in the Grand Duchy. It was then transformed into a Federation of all the different sorts of agricultural co-operative societies. Its action was now limited to the representation of the general interests of the co-operative societies and particularly to the inspection of the affiliated societies, as prescribed in the law on co-operative societies. Its work as intermediary for the collective purchase of goods was entrusted to a Central Co-operative Society, the foundation of which had been made possible by the new law.

The methods adopted by the Federation of the Grand Duchy of Hesse and the systems employed by it were soon taken as examples in the foundation of co-operative purchase societies and federations in other parts of the German Empire. Some associations founded in the States adjoining the Grand Duchy of Hesse, in the districts near the frontier, even requested to be affiliated to the Federation. Their applications could not be accepted. Haas, in fact, as he declared in 1876, thought it preferable that these associations should endeavour to promote the foundation of new societies in their own districts and afterwards unite with them in Provincial or National Federations.

But, at the same time, Haas showed the possibility of uniting the District Federations into a general federation. The idea became realisable in 1883, when it was decided to promote a federation of agricultural co-operative purchase societies and dairies, and this led to the formation of the Federation of German Agricultural Co-operative Societies. At first, it was composed of nine Federations, which had 239 societies as members. Again, Haas was elected president and manager. From this moment his name became closely associated with the most important events of German agricultural co-operative life. The development of this Federation, which in 1890 assumed the name of the General Federation, and in 1903 that of the National Federation of German Agricultural Co-operative Societies, cannot be considered apart from that of German agricultural co-operation generally.

After the death of Raiffeisen in 1889, it was decided to receive Credit Societies as members of the Federation. There had been two Federations, the one headed by Raiffeisen, the other by Haas, and they were long enemies. Raiffeisen and Haas had not the same conception of the manner in which agricultural co-operation must work nor of the aims to be assigned to it.

In the struggle for the leadership of the German Agricultural Co-operative movement between Raiffeisen's General Federation and the National Federation, the latter incontestably had the advantage. To understand this we must remember the contrasting principles of the two Federations.

The very basis from which Raiffeisen started in founding his loan and Savings Banks was the Christian idea of brotherly love. He did not place the economic advantages the societies offered their members in the first line. His principal object was the spiritual and moral elevation of the agricultural population by means of the educative influence of association, and, in addition, the support and encouragement granted, above all, to the needy and to persons in bad circumstances. He did not allow the profits obtained in the business to be distributed among the members at the end of the year or at the dissolution of the society. Raiffeisen made the recognition and the practice of these fundamental principles a condition for the admission of societies into his federation. Besides, his system was dominated by the idea of the strictest centralisation, not only as regards the representation of the general interests, the management and supervision of the Co-operative Societies on the part of the Federation, but also in everything relating to its business. The provincial branches of the Federation were only to be administrative branches. The Raiffeisen system was, in fact, really founded on a single type of Co-operative Society, that of the Co-operative Credit Societies also engaged in collective purchase, to which other types were regarded as subordinate in importance.

The fundamental and guiding principle of the National Federation was the autonomy and independence of the societies. From the start, Haas endeavoured to avoid subjecting co-operation to rigid theoretical rules. In founding the National Federation, he let himself be guided, in the first place, by purely economic considerations, and declared that there was no intention to place the Co-operative Societies under tutelage. The proposed Federation wished simply and solely to effect the union of scattered forces and at the same time to advise, instruct, and encourage. All the adherent societies would be free to profit as they judged best by the advice given and proposals made to them. This was in strong contrast to the centralising tendency of the Raiffeisen Federation. The dominating principle in the National Federation is decentralisation, rendering it possible for each member institution to develop according to its needs and its special conditions. Moreover, in the National Federation, it was not attempted to attain various ends, by means of a single type of society, but a particular form of society was founded for each special end.

These differences explain, to a large extent, why the two Federations developed differently. It is the foundation of autonomous territorial and

provincial organizations that have contributed to the wonderful development of the National Federation, for not only is autonomy a more effectual medium for the expansion of co-operation than a large managing federation would be, but it is better able to take account of economic, intellectual, and political differences.

In 1905 the General Federation was amalgamated with the National Federation and, as a result of negotiations often interrupted, an understanding was arrived at. The provincial organizations of the Raiffeisen Federation were transformed into territorial and provincial autonomous federations, with their special rules and the right to audit and inspect. In this respect the Raiffeisen party made a considerable concession to one of the most important principles of the National Federation, namely, that of decentralisation. For that matter, already in 1909, there had been a first modification in this direction in the organization of the Raiffeisen Federation. The union with the National Federation has not, however, lasted long. It soon became evident that it was impossible to arrive at an understanding with regard to certain differences of view, and the bond between the two Federations was again broken in 1913.

The National Federation, in addition to occupying itself with the development of the external relations of the societies for agricultural co-operation, has also concerned itself with promoting the improvement of their internal business. It is here that Haas rendered signal service. He was never tired of proposing new objects to the Federation and he succeeded in their realisation.

The work done by the National Federation, in the thirty years that Haas was at its head, has been of immense value to his country.

It was very natural that in view of his high position as head of the National Federation and his great personal prestige Haas should be entrusted with various other offices.

He was, for instance, member of the German Agricultural Council, in his capacity as representative of the agriculture of the Grand Duchy of Hesse, and a member of the Imperial Parliament.

In recognition of his beneficent and self-sacrificing work, he was the recipient of many distinctions. On June 8th, 1908, on the occasion of the celebration of the twenty-fifth year of the National Federation, the German Co-operative Societies offered him a gift of Rs. 46,667, collected for the foundation of a Wilhelm Haas Institute for the development of German agricultural co-operation.

In the history of agricultural co-operation in Germany, as a far-seeing, energetic, and persistent organizer, Haas will occupy a place of honour by the side of Raiffeisen and Schulze-Delitzsch.

## PART IV.

### CHAPTER I.

#### ON BOOK-KEEPING.

ANNUAL returns dealing with the work of the Province are submitted to the Government of India for the twelve months ending the 30th June. Quarterly returns dealing with the financial and banking position of the whole organization are submitted to the Local Administration. A regular system of accounts is, of course, indispensable. Central Banks and Societies in the Central Provinces and Berar maintain their accounts in the forms prescribed by the Registrar. This makes for accuracy, efficient control, sound business, and up-to-date statistical information. There is, at present, a great dearth of accountants trained in the methods which must be followed if the necessary returns just mentioned are to be tolerably accurate and easily compiled. It has, therefore, been found necessary to prescribe columnar books, so that inexperienced accountants may find it easy to write and post them without any scientific knowledge of accounts. Given the usual blank ledger, the average local accountant would not know whether to post a receipt on account of share capital on the debit or credit side. If, however, a column is marked off for "share payments received," matters are made easy for him. In brief, the columnar system enables an inexperienced accountant to keep his books correctly. One of our aims is to develop local talent and to spread a knowledge of modern business methods. There is much difference between mechanical work and intelligent work. Intelligent accountants may prove to be good candidates for higher posts. Unintelligent accountants will always remain in positions carrying low pay. This chapter is intended

specially for those workers, paid or unpaid, who wish to understand something about accounts.

### I.—BOOK-KEEPING.

*Book-keeping is the science of correctly recording in a set of account books in such a way as to present an easily intelligible statement of affairs at any moment, all those business transactions that involve the transfer of money or money's worth.*

Every business man must ask himself the following questions :—

- “ How much do I owe to others ? ”
- “ How much do others owe to me ? ”
- “ What am I actually worth after payment of my debts ? ”
- “ Are my dealings profitable or otherwise ? ”

It is impossible to rely upon memory to answer these questions faithfully and correctly. A business man, ignorant or careless of the advantages of the reliable and systematic registration and arrangement of the transactions in which he is interested, will never accomplish much. Account books must furnish :—

1. A reliable statement of the balance of indebtedness to or by the persons with whom business is transacted.
2. Easy access to the details of the transactions on account of which indebtedness has arisen.
3. An unerring check upon the values passing in and out of the business and of all liabilities incurred, and the prevention of speculation.
4. A true statement of profits made and losses incurred.
5. A suitable division of expenditure under various heads, so that extravagance may be prevented and necessary economies effected.
6. A comparison between different given periods to show the forward or backward movements of
  - (a) the volume or profit of the business as a whole, or in any one of its departments ; and
  - (b) the fluctuations of the various charges and other circumstances affecting net profit or loss.



7. The ready provision, at any time, of a true and full statement of assets and liabilities.

There are two systems of book-keeping: (i) single entry, and (ii) double entry.

*Single entry* merely gives a record of personal accounts. Transactions are posted *only once* in the ledger. There is no debit for a corresponding credit entry. Under this incomplete system, the accounts of capital, property, or profit and loss, cannot be efficiently kept. Information is meagre and results are unreliable, and the accuracy of the final statements cannot be proved.

In the system of *double entry*, every debit has its corresponding credit. Separate accounts of capital, property, values, gain and loss, as well as personal accounts are maintained in detail. The chances of error are diminished and the location thereof made easy, while the final statements can be proved.

*Every debit must have a corresponding credit.* This is the main principle on which the system of book-keeping by double entry is based. The secret of success in accountancy lies in the correct determination of the right heads under which to debit and credit each transaction.

## II. — WHAT IS AN ACCOUNT ?

An account is the collection of all the business transactions that refer to a particular head.

• Accounts are divided into two main classes: *personal* and *impersonal*. Personal accounts are the accounts of persons; all other accounts are impersonal.

Impersonal accounts are further subdivided into two classes: *real* and *nominal*. Real accounts are the accounts of things or of the property belonging to the business. Nominal accounts are the accounts showing gain or loss. We have, therefore, three classes of accounts to deal with: (i) personal, (ii) real, and (iii) nominal.

*The heading of an account determines its class.* If the name of an account is the name of a person, the account is a personal account; if the name of a thing or of property, it is a real account; and if it shows gain or loss, it is a nominal account.

Cash is the name of a thing ; furniture is the name of a thing ; house property is a kind of property ; all these would fall in the class of real accounts. The Central Banks and registered societies of all kinds, depositors, shareholders, are all persons ; their accounts are, therefore, personal accounts. Establishment, contingencies, stationery, rent, discount, interest, depreciation, bad debts, are all accounts showing either gain or loss and are, therefore, nominal accounts.

Each page of an account is divided into two equal parts by a double line drawn from the top of the page to the bottom ; the left hand division is called the debit side or debtor side and the right hand division is called the credit side. " Dr." stands for debit or debtor and " Cr." stands for credit.

*It is very necessary to remember that the terms Dr. and Cr. as used in double entry book-keeping should not be confused with the vernacular jamá and namé as they do not correspond.*

For instance, in a personal account in vernacular books, the debit side is the right hand side, and the credit side is the left hand side. Here are the headings of a properly ruled page for an account book :—

## NAME OF THE ACCOUNT.

Dr. \_\_\_\_\_ Cr.

| Year and Month. | Date. | Particulars. | Folio. | Rs. A. P. | Year and Month. | Date. | Particulars. | Folio. | Rs. A. P. |
|-----------------|-------|--------------|--------|-----------|-----------------|-------|--------------|--------|-----------|
|                 |       |              |        |           |                 |       |              |        |           |

Every entry in the " Particulars " or descriptive column on the dr. side of an account must begin with the word " To "

and that on the cr. side, with the word "By." To understand the reason for this, insert the word "is" after the heading of each account. For instance, cash  $a/c$ ; inserting the word "is," we read "cash  $a/c$  is dr. to such and such account and cash  $a/c$  is cr. by such and such account."

Some concerns enter two money columns in their accounts on both sides. This is to facilitate the totalling of the amounts under minor heads and the showing of the total under one major head. These two columns are called the "inner column" and the "outer column."

Columns are provided on each side of an account for the *folio* or *page number* to facilitate reference to the original source from which the entry has come.

On page 388 is a complete specimen of an ordinary form of account.

### III.—REAL ACCOUNTS.

Before he proceeds further, the student must understand clearly why *every debit must have its corresponding credit*. It is obvious that no transaction can take place unless there are two parties to it. It is impossible for a man to receive money unless there is some one to give it to him. Similarly, he cannot pay unless there is somebody to receive. There is no gain without a corresponding loss somewhere.

*Every book-keeper must remember that he himself, on behalf of his master, represents one of the parties to each transaction. He must view each transaction from his master's point of view and not from that of the other party; otherwise, his books will be topsy-turvy.*

In writing all real accounts, *debit the account when a thing comes in; and credit the account when the thing goes out*. All receipts of money or property are entered on the dr. side of *their respective accounts*. In all transactions involving a real account, it may be asked, "does the thing come in?" If the answer is yes, then an entry must be made on the dr. side of the account of that thing. But does the thing go out? If the answer is yes, then make an entry on the cr. side of the account of that thing.

NAME OF THE ACCOUNT.

*Dr.*

*Cr.*

| Year and Month. | Date. | Particulars. | Folio. | Rs. A. P. | Rs. A. P. | Year and Month. | Date. | Particulars. | Folio. | Rs. A. P. | Rs. A. P. |
|-----------------|-------|--------------|--------|-----------|-----------|-----------------|-------|--------------|--------|-----------|-----------|
|                 |       |              |        |           |           |                 |       |              |        |           |           |

Here are some *real accounts* in Co-operative Banks :—

Cash  $\frac{a}{c}$ ; building or house property  $\frac{a}{c}$ ; investments  $\frac{a}{c}$ , e.g., of reserve funds of Central Banks or of societies; furniture  $\frac{a}{c}$ ; stock  $\frac{a}{c}$  (if stock is treated as an asset and not written off as loss in the profit and loss account).

The cr. side of the cash  $\frac{a}{c}$  can never exceed the dr. side. It is impossible to pay more money than you have. The cr. side of a cash  $\frac{a}{c}$  must, therefore, necessarily be either less or equal to but can never be more than the dr. side.

There may, on the other hand, be loss or gain on the property accounts, such as building, investments, furniture, or stock. When the property is disposed of *in full*, the value realised may be (i) equal to, (ii) more, or (iii) less than the cost price to the debit of that account. (i) If equal, there is no gain or loss; (ii) if more, it is a gain; and (iii) if less, it is a loss. In the latter two cases the amount showing gain or loss is transferred to the profit and loss account at the time of closing. When the property is disposed of *in part*, the *value on hand* should be put on the cr. side first. If then the debit side is heavier than the credit side, the balance is net loss on the sale, and is carried to the loss side of the profit and loss account. If the cr. side is heavier than the dr. side, the difference is net gain, and is carried to the profit side of the profit and loss account. This is called the *double balance of property accounts*. It will be observed that the double balance of property accounts exists only when the property is disposed of in part. The *value on hand is an asset* and should be put on the asset side of the balance sheet at the time of closing. There is one more item in all property accounts which finds its way to the profit and loss account, whether the property is disposed of in full or part, or not. This is called *depreciation*. Depreciation is a periodical deduction in respect of the diminished value of any form of property caused by wear and tear and age. The essential point is that revenue should be charged with a proper sum to cover the deterioration in the value of wasting assets, and that the apportionment of this sum as between one year and another should be on equitable lines. This, of course, involves a debit to a nominal account, and a corresponding credit to some other

account. The credit may be either to the account relating to the asset in question, or to a reserve (or suspense) account. If the former, the value of the asset is gradually written down in the books to correspond with the deterioration in intrinsic value ; if the latter, the asset account remains unaltered, except in so far as it may be increased from time to time by further additions that may properly be capitalised.

There are four methods by which the charge against revenue to cover depreciation may be apportioned over the various years constituting the life of the asset, *viz.* :—

(1) An equal proportion of the cost may be written off each year.

(2) The asset may be written down from year to year by deducting depreciation at a fixed rate per cent. upon the balance standing to the debit of the account at the commencement of the year. Under this method the charges against revenue become gradually less as time goes on ; hence the method is often called the Reducing Instalment (or Fixed Percentage) Method.

(3) By writing off to revenue each year an equal sum, sufficient at the expiration of the life of the asset to reduce the asset to zero (or its residual value), after debiting the asset and crediting revenue each year with interest, at an agreed rate, upon the amount for the time being sunk in the asset in question. This method is called the Annuity System, and as the gross charge in respect of depreciation is constant, whereas the credits to revenue in respect of interest diminish as the asset is written down, the net effect of this method is to charge an increasing sum to revenue as years go on. The justification for so charging an increasing sum to revenue is that the depreciation instalments, remaining in the business, increase the working capital of the undertaking. The yearly increase in the instalments represents the amount of interest that might have been earned on the previous instalments during the period under review, if those instalments had been taken out of the business and invested at the contemplated rate per cent.

(4) By revaluing the assets from time to time and treating any diminution in value (after allowing for additions) as the

realised depreciation for the year. Under this method, for obvious reasons, the charges against revenue in successive years will be very unequal, as the gradual reduction in the market value of most articles has but little correspondence with the true depreciation, as measured by the amount of use that has been had out of the asset during the period in question.

Any of the above-named methods of providing for depreciation may be employed, either with or without accumulating a corresponding sum of money outside the business, available at short notice to repair the ravages caused by depreciation. Such accumulations outside the business are known as *Sinking Funds*.

The term "Sinking Fund" is used in various connections, with the result that considerable misapprehension has arisen as to its exact nature and significance. The term was first applied to the revenue monies employed by the British Government, from time to time, to reduce the British National Debt by the cancellation of Government Stock. At the present time it is very widely used to cover any systematic accumulation of monies for the repayment of liabilities becoming due at definite future dates. That the annual provision may be sufficient to provide the necessary monies at the end of the term it is necessary to enquire, in the first place, what rate of interest it will be possible to earn upon the annual instalments set aside, and then to calculate what sum per annum will, at this rate, amount to the required sum at the end of the prescribed term. From time to time, of course, the annual instalments may require to be adjusted, as the rate of interest actually earned on the investments may, perhaps, sometimes be below, and sometimes above, the anticipated rate. In order that there may be funds available to redeem the loan, debenture, or other liability on the date on which it matures, it is necessary that, each time an instalment is credited to the Sinking Fund Account, a corresponding sum of money be taken out of the general assets of the concern and invested in authorised securities. The entry in respect of this transaction would be to the debit of the Instalment Account and to the credit of Cash; so that the effect upon the balance sheet, each time an instalment is set

on one side, is to reduce the credit balance on Revenue Account, and increase the credit balance on Sinking Fund Account, simultaneously reducing the debit balance on Cash Account and increasing the debit balance on Investments Account. Whatever income may be derived from these investments is debited to Cash and credited to Sinking Fund Account ; and upon the income being reinvested, Cash is credited and Investments Account debited, so that at all times the credit balance of the Sinking Fund Account should agree with the debit balance on Investments Account. When the loans or debentures mature, the investments may be realised (when Investments Account will be credited and Cash debited), and the money be applied towards the redemption of the loans or debentures, Loans or Debenture Account being debited and Cash Account credited. As far as co-operative banks are concerned the great advantages of raising a Sinking Fund Account are (1) that at no subsequent date is the Sinking Fund Account encroached upon to equalise dividends, or for any purpose other than the discharge of specified liabilities ; and (2) that particular attention is called to the fact that certain investments are earmarked as being intended solely for such discharge. It is, however, essential that the Sinking Fund monies should be invested in the names of trustees for the benefit of the debenture holders ; for otherwise they remain the property of the Bank, and in the event of liquidation would have to be dealt with as part of the general assets.

*Reserves. Secret Reserves. Reserve Funds.* A reserve may be defined as a provision charged against profits with a view to covering an expected loss. The term, therefore, covers a range far wider than mere Depreciation, inasmuch as Reserves may be made *inter alia* to cover loss arising from bad and doubtful debts, disputed claims, contingent liabilities, etc. From the point of view of accounts, a Reserve may be said to be provided whenever a sum is charged against Revenue without the corresponding credit operating to reduce the debit balance upon an account representing an asset. Thus if a book debt be written off as " bad," the ordinary book-keeping entry is to the credit of the insolvent customer and to the debit of Bad



Debts Account, and no Reserve is thus created ; but if a debt (or series of debts) is not bad, but merely doubtful, it is not expedient to extinguish the debit in the customers' ledger accounts, while at the same time it is still necessary to debit Revenue with any loss which it is thought may be likely to occur under this heading. Under these circumstances, the course ordinarily pursued is to debit Bad Debts Account (and, therefore, in due course, Revenue Account) with the estimated loss, and to credit a corresponding sum to an account headed " Reserve for Bad and Doubtful Debts."

A Reserve created to cover loss through the deterioration in the value of any specific class of asset should, as a rule, be shown in the Balance Sheet, *not* as a liability but as a deduction from the particular asset in respect of which it has been created. When, however, a Reserve has been created to cover a *general* loss in respect of all assets, this procedure is no longer practicable, and under these circumstances the Reserve must appear as a liability in the Balance Sheet. If, however, it be so stated, it is important that it should be earmarked as a Reserve to cover *loss* in respect of Depreciation (or whatever the estimated source of loss may be), as otherwise there is a serious danger of such a Reserve being confused with the Reserve *Fund*, which is an entirely different matter.

When a Reserve is deliberately accumulated in excess of the estimated loss that is likely to occur under that particular heading, the excess constitutes a *Secret Reserve* made to cover future but unmaturing losses, because experience shows that, as a rule, these exceed expectation. Within reasonable limits, the practice is a prudent one and, moreover, one that is very generally countenanced by most thoroughly sound business men. It is especially in connection with Banks that Secret Reserves are most prevalent. They usually take the form of an excessive provision for loss by way of Bad and Doubtful Debts, the " secret " being maintained by deducting the amount of the Reserve from the amount of the debts in the Balance Sheet without showing the figures in detail. Arguments against the formation of Secret Reserves are (1) that the omission of valuable assets opens the door to the verification of these

assets being altogether overlooked by the auditors; (2) that it is practically impossible to have recourse to such Reserves in bad times without drawing such prominent attention to the fact as effectually to do away with all possible arguments that could be raised in justification of the employment of Secret Reserves at all.

A *Reserve Fund* is a sum set aside out of divisible profits and retained in hand for the purpose of strengthening the financial position of the undertaking. It differs from a Reserve in that it is impossible to create a Reserve Fund save out of divisible profits; whereas a Reserve may be provided even during periods when a loss has been sustained. A Reserve Fund is but a portion of the credit balance of the Profit and Loss Account, which has been separately "earmarked" as being "reserved." If, therefore, at any subsequent date, losses be sustained which cause the Profit and Loss Account to show a debit balance, any credit balance that there may be upon the Reserve Fund must be at once applied (so far as it goes) towards extinguishing this debit balance. It would be a contradiction in terms to state, upon the same Balance Sheet, an item representing a deficiency on Profit and Loss Account, and another item representing a surplus on Reserved Profits. The continued existence of a Reserve Fund is dependent upon the continued existence in the undertaking of the profits out of which that Fund was originally created. If those profits have been absorbed in subsequent losses, the Reserve Fund automatically ceases to exist. In co-operative banking the absorption of profits is a remote contingency, because there are so many safeguards interposed between the Reserve Fund and its liability for losses.

Technically speaking, the popular notion that a Reserve Fund is only "real" when represented by specific investments outside the business, of a corresponding value, is entirely misconceived. From the practical point of view, however, there is much to be said in favour of it. A rifle, for instance, is a rifle, whether a man takes it into the jungle with him or leaves it at home. But if he leaves his rifle behind him, goes into the jungle and meets a man-killing tiger, then the fact that

he owns a rifle will not save his life. And so, exactly, is the banker placed who, looking to his Reserve Fund for fluid resource, has it invested in securities that he cannot realise just when he wants cash. It is, in fact, impossible to say exactly how a Reserve Fund ought to be invested until it is clear *what the purpose of the particular Reserve Fund is to be*; and the purpose, of course, depends upon many considerations of a very variable nature. The Teuton would treat the investment of Reserve Funds as an "ism," and (as I have pointed out in the Introduction to this book) he would apply that "ism" without regard to the fact that circumstances alter cases. Our friend, in the illustration above, might, perhaps, have two rifles and take one with him. If, then, a banker maintains ample cash Reserves, the investment of the Reserve Fund need not be considered from the point of view which is most certainly necessary if the Reserve Fund be intended to furnish the necessary fluid resources. And as it is impossible to identify the Reserve Fund with any particular portion of the assets, it might be argued that as long as the fluid resources are there, the Reserve Fund is invested in them.

A Reserve Fund represents nothing more than the fact that certain profits (1) have been made, (2) have been set upon one side, or reserved, and (3) are still in existence. All that is necessary, therefore, to constitute a "real" Reserve Fund is the continued existence of a corresponding sum of undivided profits—that is to say, the maintenance of a corresponding surplus of assets over liabilities. The exact *form* that these assets take has nothing whatever to do with the reality, or otherwise, of the Reserve Fund, but, of course, has the most important bearing upon its practical utility. It must not, in fact, be supposed that the practice of effecting investments outside the business to a corresponding extent is not one to be encouraged. The advantage of such investments is in all cases analogous to the advantage of a Sinking Fund to provide for any other kind of contingency, in that it enables the undertaking readily to place its hands upon a definite sum of money whenever the need for an immediate supply of cash may arise. It thus follows that, in the absence of any special reason to the

contrary, it is desirable that, as the Reserve Fund is accumulated, corresponding investments should be accumulated outside the business ; but there is no more intimate connection between the Reserve Fund and these investments than there is between any other item upon the liabilities' side of the Balance Sheet and any other item upon the assets' side. The continued existence of the Reserve Fund will depend solely upon the continued existence of a corresponding surplus of assets as a whole over liabilities as a whole. It does not follow that a Reserve Fund is simply the whole amount by which assets exceed liabilities ; for, in a co-operative bank or society in the Central Provinces, the Reserve Fund is created out of divisible profits funded and made indivisible.

#### IV.—PERSONAL ACCOUNTS.

In dealing with personal accounts, the following question may be asked :—

“ Does the person *whose account it is* receive or give ? ”

If the answer is “ receives,” debit the account ; and if the answer is “ gives,” credit the account.

*Receipts by a person are debited to his account and payments by him credited to his account.*

When the Provincial Bank receives an amount from or for a customer, the Bank is debited ; when that Bank pays an amount to or for a customer, the Bank is credited. The accounts of rural societies are debited when money is advanced to them by Central Banks, or when they incur any other liability ; and they are credited when they in any way discharge or pay off their liabilities. When depositors or creditors pay in, their accounts are credited and when they receive payments out from the Bank, their accounts are debited. The persons to whom the Bank pays *receive*, and when the Bank receives, they *pay*. In order to determine whether to enter a debit or a credit in *their* accounts, in the Bank's books, the question to be answered is whether *they receive or pay*, not *whether the Bank receives or pays*.

The balances to debit of personal accounts are called *book debts*. The book debts may be either (i) good, (ii) doubtful,

or (iii) bad. Book debts are good when there is no probability of any loss on their realisation ; they are doubtful, when it is not certain if they can be realised in full ; and they are bad, when it is certain that a portion of, or the whole of, the amount due cannot be recovered.

It is prudent to estimate the character of book debts and to make provision for bad and doubtful debts out of profits. The amount thus provided out of profits to meet any doubtful or bad debt is called the *bad debts reserve*. This is a charge to the profit and loss account, or, in other words, appears on the loss side of that account.

#### V.—NOMINAL ACCOUNTS.

In dealing with nominal accounts, the guiding rule is *debit the account with losses and credit it with gains*.

If after asking whether a transaction pertaining to a nominal account is a loss or gain, the answer is loss, debit that account ; and if the answer is gain, credit that account. The loss or gain to be determined should be *from the Bank's point of view*. Establishment expenses, contingent charges incurred and paid, rent paid or due, taxes paid or due, interest paid and due on loans and deposits, bad debts, depreciation on furniture, loss on realisation or sale of property, printing and stationery, commission, etc., are all losses and are debits to their respective accounts. Interest received on loans or deposits, interest on investments, commission earned, gains on realisation or sale of property, etc., are all gains and are, therefore, credits to their respective accounts.

#### VI.—THE JOURNAL.

When any transaction is to be recorded, the book-keeper has, we have seen, to ask himself what two accounts are involved, to determine the classes of those two accounts, and to debit or credit them in accordance with the principles already explained. Take this transaction, for instance, "Advanced Rs. 1,000 to the Kareli Society." A is a book-keeper in the Narsinghpur Central Bank, who has made the advance. From

his Bank's point of view, cash goes out to the Kareli Society which incurs the liability. The two accounts involved are (i) the cash account, and (ii) the Kareli Society's account. The cash account is a real account. A asks, therefore, "does the cash come in or go out?" The answer is "goes out." Consequently he credits the Bank's cash account. Secondly, the Kareli Society's account is a personal account. The question A puts is "does the Kareli Society receive or give?" The answer is "it receives." A, therefore, debits the account of that society. A credit, it will be understood, automatically gets a debit. The technical dressing of the above transaction is as follows:—

|                    |           |
|--------------------|-----------|
| Kareli Society Dr. | Rs. 1,000 |
| To Cash            | Rs. 1,000 |

After the words "To" or "By" in the "Particulars" column of the accounts, A enters the name of the account in which the corresponding entry is made. For instance, in the Kareli Society's account, in the "Particulars" column, the word after "To" on the dr. side would be "Cash"; because the corresponding credit entry is in the cash account. Similarly, in the cash account, after the word "By," the wording would be "the Kareli Society's account"; because the corresponding debit entry is in that account.

The above process of determining the correct debit and credit for every transaction and dressing the entries for the respective ledger accounts is called "*journalising*" and the book in which such dressing is recorded is called the "*Journal*." The Journal is a subsidiary book. *Subsidiary books* are those which dress entries for the ledger and are, therefore, original books of entries which are, subsequently, posted to the ledger. The *Cash Book* is also a subsidiary book to the ledger. The *Ledger* is a book which contains the different kinds of accounts in detail in their debit and credit form. It is the principal book of account, and to it the Cash Book, Journal, and other books of original entries are subsidiary. A most important rule in book-keeping is that *no entry can be made in the Ledger unless it has been dressed in a subsidiary book*. The Ledger, as it were, is too august a personage to visit without the formality

of giving intimation. A visiting card must be submitted through the orderly books which wait on the ledger. The process of dressing lessens the chance of making wrong entries on the wrong sides of the wrong accounts ; and gives the book-keeper breathing space.

The *Cash Book* is a record of all transactions in debit and credit form. The two sides are called dr. and cr. sides, or receipts and disbursements sides, or cash and contra sides, respectively. All entries on the dr. side, receipts side, or cash side of the *Cash Book* must be posted to the credit side of the linked accounts. Similarly, all entries on the cr. side, or disbursements side, or contra side of the *Cash Book* must be posted to the debit side of the linked accounts.

Where a Journal is maintained, only cash transactions are recorded in the *Cash Book*. Where a Journal is not maintained, all adjustments are also passed through the *Cash Book* and in this case, the *Cash Book* serves the purpose of the Journal. The latter method is cumbrous and it is better to keep both *Cash Book* and Journal.

When an entry is passed *through* the *Cash Book*, it is not necessary to say, in the case, for instance, of the transaction mentioned above, "Kareli Society dr. to Cash." It suffices to make an entry on the cr. side of the *Cash Book* and, in the column for "Particulars," to enter the name of the Kareli Society together with any necessary descriptive matter ; such a credit entry in the *Cash Book* when posted to the ledger necessarily entails a debit in the Kareli Society's account. But when passing the entry through the Journal, both the debit and credit heads must be mentioned as illustrated above.

Specimen forms with entries of the *Cash Book* and the Journal are given on the next page.

CASH BOOK.

Dr.

Cr.

|               |   | Folio.                             | Rs. A. P.         | Rs. A. P. |           |               | Folio. | Rs. A. P.                                  | Rs. A. P.           |           |           |
|---------------|---|------------------------------------|-------------------|-----------|-----------|---------------|--------|--|---------------------|-----------|-----------|
| 1916<br>March | 1 | To balance (opening)               | ..                | ..        | 3,000 0 0 | 1916<br>March | 1      | By Kareli Society Loan<br>a/c              | <u>152</u><br>S.L.  | ..        | 2,000 0 0 |
|               |   |                                    |                   |           |           |               |        | „ Balance (closing)                        |                     |           | 1,000 0 0 |
|               |   |                                    |                   |           | 3,000 0 0 |               |        |  |                     |           | 3,000 0 0 |
| 1916<br>March | 2 | To balance (opening)               | ..                | ..        | 1,000 0 0 | 1916<br>March | 2      | By balance (opening)                       | ..                  | ..        | 4,000 0 0 |
|               |   | „ Provincial Bank<br>7 % Loan a/c. | <u>10</u><br>L.L. | ..        | 3,000 0 0 |               |        |  |                     |           | 4,000 0 0 |
|               |   |                                    |                   |           | 4,000 0 0 |               |        |  |                     |           | 4,000 0 0 |
| 1916<br>March | 3 | To balance (opening)               | ..                | ..        | 4,000 0 0 | 1916<br>March | 3      | By Kauria Estate 6 %<br>Fixed deposit a/c. | <u>45</u><br>F.D.L. | 5,000 0 0 |           |
|               |   | „ Provincial Bank<br>7 % Loan a/c. | <u>10</u><br>L.L. | ..        | 5,600 0 0 |               |        | „ Interest on deposits<br>a/c.             | <u>160</u><br>L.L.  | 600 0 0   | 5,600 0 0 |
|               |   |                                    |                   |           |           |               |        | „ Balance (opening)                        | ..                  |           | 4,000 0 0 |
|               |   |                                    |                   |           | 9,600 0 0 |               |        |  |                     |           | 9,600 0 0 |
| 1916<br>March | 4 | To balance (opening)               | ..                | ..        | 4,000 0 0 |               |        |  |                     |           |           |



THE NARSINGHPUR CENTRAL BANK, LIMITED.

Journal.

Dr. \_\_\_\_\_ Cr.

| Year and Month. | Date. | Particulars.   | Folio    | Rs.   | A. | P. | Rs.   | A. | P. |
|-----------------|-------|--|----------|-------|----|----|-------|----|----|
| 1916<br>March   | 1     | Kareli Society. Dr.  | 152      | 1,000 |    |    |       |    |    |
|                 |       | To Cash  | 40       |       |    |    | 1,000 |    |    |
|                 |       | For loan advanced to Kareli Society this day ; repayable as follows :—             | G. L.    |       |    |    |       |    |    |
|                 |       | Rs. •  |          |       |    |    |       |    |    |
|                 |       | 1-3-17 300   |          |       |    |    |       |    |    |
|                 |       | 1-3-18 350   |          |       |    |    |       |    |    |
|                 |       | 1-3-19 350   |          |       |    |    |       |    |    |
| March           | 2     | Cash Dr.   | 40       | 3,000 |    |    |       |    |    |
|                 |       | To Provincial Bank 7% Loan a/c   | G. L.    |       |    |    | 3,000 |    |    |
|                 |       | Repayable as follows :—  | 10       |       |    |    |       |    |    |
|                 |       | Rs.  | L. L.    |       |    |    |       |    |    |
|                 |       | 1-4-17 1,000   |          |       |    |    |       |    |    |
|                 |       | 1-4-18 1,000   |          |       |    |    |       |    |    |
|                 |       | 1-4-19 1,000   |          |       |    |    |       |    |    |
| March           | 3     | Kauria Estate 6% Fixed deposit a/c. Dr.  | 45       | 5,000 |    |    |       |    |    |
|                 |       | Interest on Fixed deposit a/c.   | F. D. L. |       |    |    |       |    |    |
|                 |       | To Provincial Bank 7% Loan a/c.  | 160      | 600   |    |    |       |    |    |
|                 |       | (For amount of Fixed deposit and Interest thereon repaid through Provincial Bank.) | G. L.    |       |    |    |       |    |    |
|                 |       | Note :— S. L. means Societies Ledger.  | 10       |       |    |    |       |    |    |
|                 |       | G. L. „ General Ledger.  | L. L.    |       |    |    |       |    |    |
|                 |       | L. L. „ Loan Ledger.   | F. D. L. |       |    |    |       |    |    |
|                 |       | F. D. L. „ Fixed Deposit Ledger.   |          |       |    |    |       |    |    |

## VII.—THE TRIAL BALANCE.

The authenticated papers that support the entries made in the subsidiary books are called the *vouchers*. The items supported by these vouchers are posted in the subsidiary books, and the subsidiary books are posted in the ledger. *To post* means to write an entry in an account book on the support of a voucher or of an entry in a subsidiary book. When the subsidiary books and the ledgers are thus posted, and when every debit in the ledger accounts has its corresponding credit, it follows that *all debits put together must be equal to all credits put together*. The statement which verifies the postings and their correctness in this way is called a "*trial balance*." This trial balance is prepared in two ways; on the *gross postings system* or on the *balance system*. A trial balance on the gross postings system is prepared by totalling the debit side and credit side of each individual ledger account and putting these totals against the head of that account. A trial balance on the balance system is prepared by totalling the debit side and the credit side, and then deducting the smaller from the greater side and entering the difference on that side which is heavier. In both cases, the dr. and cr. sides of the trial balance must agree; if they do not, there is a mistake in posting, and before the books are closed, the mistake must be located.

*The balance of an account* is the difference between its two sides. If the dr. side is heavier than the cr. side, the balance is called a *dr. balance*. If the cr. side is heavier than the dr. side, the balance is called the *cr. balance*. Dr. and cr. balances of accounts are put in the dr. and cr. columns of the trial balance.

*To close an account* means to balance it, put the balance on the lighter side, thus make the totals of the two sides agree and *bring down* or show the balance. When the balance at the time of closing the account is to be placed on the lighter side to make it equal to the heavier side, the dr. balance is put on the cr. side and brought down on the dr. side after closing the account; and the cr. balance is put on the dr. side at the time of closing and brought down on the cr. side after closing the account. In order, therefore, to determine whether the balance

is a dr. balance or a cr. balance, it follows that *a dr. balance must appear on the cr. side at the time of closing and be brought down on the dr. side; conversely, the cr. balance must appear on the dr. side at the time of closing and be brought down on the cr. side.*

The diagrams below will be useful.

## DR. BALANCE.

|  |   |
|--|---|
| <i>Dr.</i> _____ <i>Cr.</i><br>This side must be heavier,<br>Here the Dr. balance must be<br>brought down. | This side must be lighter,<br>Here the Dr. balance must appear<br>at the time of closing. |
|--|---|

## CR. BALANCE.

|  |   |
|--|---|
| <i>Dr.</i> _____ <i>Cr.</i><br>This side must be lighter.<br>Here the Cr. balance must appear<br>at the time of closing. | This side must be heavier.<br>Here the Cr. balance must be<br>brought down. |
|--|---|

### VIII.—THE PROFIT AND LOSS ACCOUNT AND BALANCE SHEET.

When the trial balance agrees, the book-keeper may proceed to make the necessary closing adjustments, such as depreciation of furniture, charges incurred but not paid, profits due and earned but not received, calculation of any bad or doubtful debts; creation, or increase or decrease of any special reserve funds (such as that for bad and doubtful debts) *which should always exist.* He then makes the necessary debit and credit entries in the respective accounts, clears the suspense account as far as possible and prepares the final statements. The adjustment accounts will be dealt with later on. When the adjustments have been duly made, the book-keeper closes all the nominal accounts and carries the dr. balances of such accounts to the dr. or loss side of the Profit and Loss account. He also carries the cr. balances of all nominal accounts to the cr. or profit side of the Profit and Loss account. *The Profit and Loss account is, therefore, a statement of the debit and credit balances of all the nominal accounts in the Ledgers.*

The following diagram shows what the Profit and Loss account contains:—

**PROFIT AND LOSS ACCOUNT.**

| Dr.   | Cr.  |
|---|--|
| <p>Dr. Balances of all Nominal Accounts.</p> <p>If the balance is net profit, it is carried to the liabilities side of the Balance Sheet.</p> | <p>Cr. Balances of all Nominal Accounts.</p> <p>If the balance is net loss, it is carried to the assets side of the Balance Sheet.</p> |

The dr. balance of the Profit and Loss account, which in its abbreviated form is known as P. & L. account, is a *net loss*. The cr. balance of the P. & L. account is a *net profit*. Net profit is carried to the liabilities side and net loss to the assets side of the Balance Sheet.

**IX.—THE BALANCE SHEET.**

The Balance Sheet is a statement which collects all the dr. and cr. balances of all the real, personal and nominal accounts from the Ledger. The dr. balances of all real, personal and nominal accounts are *assets*; and the cr. balances of all real, personal and nominal accounts are *liabilities*.

*The assets and liabilities must agree; when they agree, the books are said to have been proved.*

When the assets fall short of the liabilities, and net loss appears on the assets side, the concern is said to be *insolvent*. When the assets are more than the liabilities, and the net profit appears on the liabilities side, the concern is said to be *solvent*. A discharged insolvent is called a *bankrupt*. All insolvents are not bankrupts. It is the legal discharge which makes an insolvent a bankrupt.

The following diagram shows how a balance sheet is made up:—

**BALANCE SHEET.**

|  |   |
|--|---|
| <p style="text-align: center;"><i>Liabilities.</i></p> <p>Dr. Balances of all Real a/cs<br/>Personal a/cs; and<br/>Profit and Loss a/c</p> | <p style="text-align: center;"><i>Assets.</i></p> <p>Cr. Balances of all Real a/cs<br/>Personal a/cs; and<br/>Profit and Loss a/c</p> |
|--|---|

Instead of closing and bringing the individual nominal accounts into the Balance Sheet, they are closed and brought in the Profit and Loss account (which is also a nominal account), and the Profit and Loss account is closed and brought into the Balance Sheet. This simply means that all nominal accounts are closed and brought into the Balance Sheet. The Balance Sheet is the final statement and it is the test of the worth of a concern. The principle that every debit must have a corresponding credit makes the trial balance agree ; it also applies to the agreement of the two sides of the Balance Sheet.

## CHAPTER II.

### PRIMARY CO-OPERATIVE CREDIT SOCIETIES.

1. When a society has been organized, it is necessary to prepare an application for registration, or Memorandum of Association. The following is the form in use :—

“(1) We, the undersigned (10 or more) persons, residents of \_\_\_\_\_, and all being above 18 years of age, request registration as a Co-operative Society with unlimited liability to be called the \_\_\_\_\_ Primary Co-operative Society, Unlimited, Tahsil \_\_\_\_\_ District \_\_\_\_\_. The Society will carry on its operations within the limits of \_\_\_\_\_ only. Its registered office shall be at \_\_\_\_\_ Post Office \_\_\_\_\_ Tahsil \_\_\_\_\_ District \_\_\_\_\_

(2) The object of the Society is to obtain money for its members at a cheap rate of interest and to encourage them to practise thrift, self-help and co-operation.

(3) We understand that our liability is joint and several and is unlimited save by the extent of the Society's liability.

(4) We undertake to repay all our existing debts as soon after registration as possible and to observe the by-laws which enjoin the avoidance of borrowing from any source other than our Society.

(5) Further, we have agreed to, and clearly understand, the by-laws forwarded with this application, which have been explained to us by \_\_\_\_\_, and we undertake to admit to election as future members only such persons as may agree to the by-laws after we have explained the by-laws to them. The qualification for membership shall be that laid down in the by-laws now submitted.

(6) We hereby declare that the information given in the form attached to this application is true and accurate, and we sign this application for registration in writing or by thumb mark after satisfying ourselves that it is true.

(7) We propose to raise the capital of the Society as follows :—

(a) By borrowing from the

\_\_\_\_\_ through the \_\_\_\_\_ Central Bank,  
Circle Union.

(b) By receiving deposits.

(8) We agree to get our society affiliated to the \_\_\_\_\_ Circle Union and to abide by its by-laws which have been explained to us.

OR

(8) We agree to get our Society affiliated to a Circle Union as soon as one is formed for the locality in which our Society is situated.

(9) We undertake to purchase on behalf of our Society one share of Rs. 10 of the \_\_\_\_\_ Central Bank.

Dated the \_\_\_\_\_ 191 .

| Name. | Residence. | Occupation. | Signature or thumb impression. |
|-------|------------|-------------|--------------------------------|
|       |            |             |                                |

2. With the Memorandum of Association must be submitted the Statement of Assets and Liabilities, the purpose of which is to give the Central Bank and the Registrar a tolerably correct idea of the society's position. It is the duty of the Central Bank, after full consideration of the information before it and after local enquiry, to fix a *maximum* credit limit for the society as a whole. The credit limit for each individual member must on no account be fixed by the Central Bank: *that must from first to last be done by the society itself.* The maximum credit limit fixed for the society by the Central Bank is subject to the Registrar's approval. It is *not* the Registrar's business to assess credit and his approval will generally be given as a matter of course. But should a society neglect the orders passed upon audit notes the Registrar can, if he wishes to do so, exercise his power of revision and reduce the *maximum* credit limit as a disciplinary measure: Provided Central Banks do their duty and keep the societies under them up to the mark, the Registrar will never have to use his special powers.

In filling up this statement, the Registrar's Circular No. IV of 1912, which is given below should be kept in mind.

*The Registrar notes that when forwarding applications for registration the total assets given in column XI of the Statement of Assets and Liabilities sometimes include the value of land. The value of land should be omitted from this column. All that is required is the total of columns 8, 9 and 10; and as regards land, details of right, area and rent or revenue are to be entered up in column 7.*

In column 13 only such debts as are secured to the creditor by mortgage of land, house or immoveable property are to be given; whereas in column 15, unsecured debts on personal credit should be given.

The most difficult column to fill in is column 12. To arrive at a correct figure for this column, it must be remembered that out of the average gross income from land or other sources must be deducted the rent of land, necessary household, and other expenses (such as those in connection with debts already

incurred), etc., etc. Only the net amount which the member can save in a fair average year out of the margin of income left to him should be shown. The column should, in fact, furnish a reliable estimate of the sum which the member can repay to the society annually from income *without borrowing elsewhere to do so*. If a member cannot repay *out of income* but has to incur debts elsewhere in order to repay his loans to the society, he cannot benefit himself and will injure others by joining a co-operative credit society. The object of the society is to extricate its members from debt; not to prop up hopelessly insolvent persons.

3. With the Memorandum of Association and the Statement of Assets and Liabilities, the organizer must submit the Articles of Association, or By-laws as they are called, which the society proposes to adopt. It is of vital importance that the members should really understand the by-laws and some organizers give very scanty and insufficient teaching.

4. With (a) the Memorandum of Association, (b) the Statement of Assets and Liabilities and (c) the By-laws, the organizer submits a short report in the following form:—

#### REPORT OF THE ORGANIZER.

##### A. *If the proposed society is agricultural:—*

1. Name of the Mālguzar
2. Name of the Patwari
3. What is the most important crop and are there any sources of irrigation?
4. Post Office

##### B. *If the society is industrial:—*

1. Whether raw material used by the members for their industry is purchased generally for cash or on credit; if on credit, then, whether the prices paid are moderate or high?
2. The nearest market where the finished product is sold? Has the finished product a good demand outside the locality? If so, where?
3. Do these people hand over finished products to their creditors? If so, do they get a reasonable price for them?

#### *General Remarks.*



Name of Society.

## STATEMENT OF ASSETS AND LIABILITIES.

| Serial No. | PARTICULARS CONCERNING MEMBERS. |        |      |            |             | ASSETS.              |       |       |                  |                     |                               | LIABILITIES.  |   |                                   |                  |                  | PARTICULARS OF LOAN REQUIRED. |                  | REMARKS. |                     |  |                          |   |
|------------|---------------------------------|--------|------|------------|-------------|----------------------|-------|-------|------------------|---------------------|-------------------------------|---------------|---|-----------------------------------|------------------|------------------|-------------------------------|------------------|----------|---------------------|--|--------------------------|---|
|            | Name and father's name.         | Caste. | Age. | Residence. | Occupation. | Particulars of land. |       |       | Value of houses. | No. of live-stock.* | No. of carts and their value. | Total assets. | Annual amount available for liquidation of Society's loans. | Encumbrances on land in column 7. |                  | Arrears of rent. | Other debts.                  |                  |          | Total encumbrances. | Has any decree been passed against the applicant, if so, give particulars. | Amount of loan required. | The purpose for which loan is required. |
|            |                                 |        |      |            |             | Right.               | Area. | Rent. |                  |                     |                               |               |   | Name of creditor.                 | Amount of debts. |                  | Name of creditor.             | Amount of debts. |          |                     |  |                          |   |
| 1          | 2                               | 3      | 4    | 5          | 6           | 7                    | 8     | 9     | 10               | 11                  | 12                            | 13            | 14  | 15                                | 16               | 17               | 18                            | 19               | 20       | 21                  |  |                          |   |
|            |                                 |        |      |            |             |                      |       |       |                  |                     |                               |               |   |                                   |                  |                  |                               |                  |          |                     |  |                          |   |

**NOTE.**—The information in this statement is required only by the Registrar and the Central Bank merely to ascertain the financial position of the Society before loans are made.

\* In the column for the different kinds of cattle details should be separately given, e.g., plough cattle, cows, she-buffaloes, ponies, calves, etc.

PRIMARY CREDIT SOCIETIES.

PANCHAYAT PROVISIONALLY ELECTED.

1. Sirpanch
2. Secretary
- 3.
- 4.
- 5.

} Panches.

\_\_\_\_\_  
*Organizer.*

Dated \_\_\_\_\_

RECOMMENDATION OF THE CIRCLE UNION TO WHICH THE  
SOCIETY IS TO BE AFFILIATED.

\_\_\_\_\_  
*Secretary of the Circle Union.*

Dated \_\_\_\_\_

ENDORSEMENT OF THE CENTRAL BANK.

\_\_\_\_\_  
*Hony. Secy., Central Bank, Ltd.*

Dated \_\_\_\_\_

ENDORSEMENT OF THE DEPUTY COMMISSIONER.

\_\_\_\_\_  
*Deputy Commissioner.*

Dated \_\_\_\_\_

5. The documents enumerated above are prepared in triplicate; two sets are submitted to the Registrar, through (i) the Secretary of the Circle Union, (ii) the Honorary Secretary of the Central Bank, and (iii) the Deputy Commissioner of the district; the third set is for record in the Central Bank. Every society has its complete file, and individual files are maintained for each registered society (a) in the Registrar's office, and (b) (for credit societies) in the Central Bank. Special record cards are kept for each Central Bank and for each credit society in the office of the Provincial Bank.

6. On receipt of the application, the Registrar, if he accepts it, grants a Certificate of Registration.

With the Certificate of Registration, the Registrar returns one copy of the by-laws duly certified under his signature.

7. After registration, the Central Bank, on behalf of the Central Provinces Federation of Co-operative Banks, supplies the society with the following books and registers :—

- (1) Proceedings Book or Minute Book.
- (2) Cash Book.
- (3) Ledger of Loans.
- (4) Ledger of Deposits.
- (5) Register of Members.
- (6) Inspection Note Book.
- (7) Receipt Book.
- (8) Pass Books ; one for the society in account with the Central Bank, and one each for the individual members in account with the society.
- (9) File No. I.
- (10) File No. II.
- (11) Voucher Books.

On each book, a label with the title of the book and the name of the society must be affixed. The pages of all books are to be numbered consecutively before being brought into use.

8. The first book which the society has to write up after registration is the Register of Members in the form given below :—

MEMBERS' REGISTER.

| Name and father's name. | Caste. | Age. | Residence. | Occupation. | Date of admission. | Signature or thumb mark of member. | Date of cessation of membership. |
|-------------------------|--------|------|------------|-------------|--------------------|------------------------------------|----------------------------------|
| 1                       | 2      | 3    | 4          | 5           | 6                  | 7                                  | 8                                |

9. Under by-law 2 (2) of the society an entrance fee of annas eight and the Federation subscription of Re. 1 per member must be collected immediately after registration. Under section 12 of Act II of 1912, no member can exercise his rights as

such (e.g., he cannot be given a loan) until he has paid these dues. Central Banks do not give nearly enough attention to the requirements of the law in this matter which is important throughout the life of a society.

10. When the entrance fees or Federation subscriptions are collected, entries are, of course, to be made in the Cash Book. The Cash Book maintained by primary societies is on the *mahajani* system. No columns are prescribed. Each page should be cleanly folded exactly in the middle; the left hand half is for receipts, the right hand for disbursements. A fresh page must be started for each date on which transactions occur.

11. Entrance fees represent *gain* and are carried to the profit and loss account at the time of closing. The Federation subscriptions represent neither gain nor loss, for the society merely acts as a collecting agency on behalf of the Central Provinces Federation of Co-operative Banks and pays in amounts received on this account to the Central Bank which again is the treasurer and agent of the Central Provinces Federation.

In respect of the collection of both entrance fees and Federation subscriptions, the personal accounts of the individual members making payment should not be credited unless they have already been formally debited. *Personal accounts should not be touched unless a transaction creates or extinguishes a liability in full or in part.* These collections are, therefore, to be credited to the "Entrance fees a/c" and "Federation subscription a/c" respectively.

12. In approaching its Central Bank with a request for a loan, the credit society observes the following procedure. The members of the society, in general meeting, fix the borrowing limit for every individual member. This limit must be revised at least once a year and may be revised as often as is necessary in a general meeting of members. In fixing a credit limit, members are guided partly by the *haisiyat*\* or the "worth" of the individual, and partly by his personal credit, which is

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\* Primary Societies have the necessary local knowledge and are aware of the value or worthlessness of the entries in the *Haisiyat* Register. Central Banks have not the necessary knowledge.

based not so much on real assets as upon considerations of character, honesty, and ability to earn and pay. The purpose of co-operative credit, it must be remembered, is the pledge of honesty. Societies must be carefully taught to consider particularly (1) their probable requirements for the year ahead, (2) the purposes for which loans are wanted, (3) the productive or unproductive, necessary or unnecessary nature of the expenditure contemplated, (4) the behaviour and reputation of each member, (5) the period for which the loan will be required, and (6) the state of the society's account with the Central Bank. Credit limits having been fixed for individual members, the total of such credits represents the borrowing limits fixed by the society for itself. In this way, unlimited liability can be converted by a society into a liability restricted by its own control. A prudent society will, as a rule, add to the total of the individual credits a small margin for unforeseen expenditure ; but every society must, of course, keep within the maximum limit fixed by the Registrar or the lesser limit fixed by the Central Bank (*see paragraph 2 above*). A copy of the society's proceedings fixing credit limits for its individual members and for itself must be forwarded without delay to the Central Bank. It is then the duty of the Central Bank to consider the society's proceedings and to determine upon the merits whether to pass the entire credit asked for or not. It is not the duty of the Central Bank, however, to deal with the individual members of the society but only with each society as a whole. The Central Bank, therefore, will not attempt to cut down or augment credits fixed by the society for its individual members. If revision of detail is necessary, the work must be done by the society itself, the Central Bank merely pointing out any item to which it takes objection and giving full reasons in support, with a view to the better instruction of the societies for the training and teaching of which it is responsible. It is important to note that the individual credits sanctioned by a society must be placed on record in the office of the Central Bank where they are required for future reference. When the business of credit fixation has been finally settled, the Central Bank must inform the society of the amount up to which its drawings will be met.

13. Societies are not all on the same level of co-operative efficiency. In the early stages of a society's career, it may be absolutely necessary for the Central Bank to protect the weaker members against the influence of one or two of the stronger members. It is always the duty of the Central Bank to guard against the abuse of credit and, at first, interference in detail may be unavoidable. Remembering, however, that self-help is the goal which Co-operation aims at, a good Central Bank will always be at pains to develop by every means in its power the capacity of the societies under it for their own self-government and self-management. It is only when primary societies have been thoroughly well instructed and have gained practical experience that they are fit for the next step in development, *viz.*, their grouping into Circle Unions. Where a Union already exists, it should be made the medium for propagandist work within the area of its operations and all new societies should be affiliated to it, it being the duty of the Union to give the necessary supervision and training to new societies within its sphere of influence. Unless, however, societies are included in Circle Unions, it is not safe to allow them to make use of the voucher system. Arrangements to pay money into and to take money from the Central Bank will, therefore, have to remain a matter for mutual agreement in the case of societies which are not affiliated to a Circle Union. Thus, the Central Bank will after sanctioning the credit limit, leave the society itself to carry out the actual distribution and collection of its loans.

14. Where a Union of primary societies exists, the Central Bank will, so far as possible, deal with the Union as a whole and not with the individual primary societies which are the members of the Union. The procedure to be followed after the Central Bank has sanctioned the credit limit for a Circle Union is laid down in by-law 25 of the by-laws for the Circle Union of Primary Co-operative Credit Societies. It is most important that individual members of the primary societies should be told that vouchers presented by them will not be cashed at the office of the Central Bank except when accompanied by the pass book belonging to the individual member presenting his

voucher for encashment. It is the business of the clerk or the accountant in the Central Bank office to refer to the papers which deal in detail with the credits granted by the primary society to its individual members, by the Circle Union to the primary society, and by the Central Bank to the Circle Union, and to see that the demand made is within the limits sanctioned to the individual member, the primary society, and the Circle Union. These "credit lists" are submitted by the primary societies to the Union, and are passed on by the Union to the Central Bank in support of its own demand for credit. It is, of course, the duty of the Central Bank to work within the maximum limits fixed by the Registrar for Unions and for individual societies. It must be explained here that although vouchers can be sent to Unions for distribution to primary societies to the full extent of the credit sanctioned for the Union as a whole, this does not do away with the obligation which the individual societies are under to grant loans to their members for approved purposes only, each request for a specific loan being considered by the society and granted or rejected irrespective of the credit limits sanctioned in favour of the individual member. Neither the Central Bank nor the Union will, however, interfere in detail with applications made by individual members to their societies for (a) credit, and (b) loans within this credit. Once the Union has passed and guaranteed the credits asked for by its constituent societies, it stands on one side and merely transmits to each society the vouchers received from the Central Bank. The Panchayats of the societies distribute the vouchers, as occasion may arise, in response to the needs of the individual members.

## FRONT OF VOUCHER.

No. \_\_\_\_\_ Dated \_\_\_\_\_ 19 \_\_\_\_\_  
 We, the \_\_\_\_\_ Co-operative Society  
 Registered No. \_\_\_\_\_ District \_\_\_\_\_  
 promise to pay to the Central Bank, Limited, at \_\_\_\_\_  
 the sum of Rs. \_\_\_\_\_ with interest at \_\_\_\_\_  
 per cent. per annum, with yearly rests value received \_\_\_\_\_

\_\_\_\_\_  
 Secretary.

## REVERSE OF VOUCHER.

\_\_\_\_\_ Circle Union Registered  
 No. \_\_\_\_\_ District \_\_\_\_\_  
 guarantees this loan.

The amount of this voucher may be paid to \_\_\_\_\_  
 \_\_\_\_\_ Co-operative Society Registered  
 No. \_\_\_\_\_ District \_\_\_\_\_, I sign for  
 and on behalf of the said Union.

\_\_\_\_\_  
*Union Secretary.*

15. The grant of blank cheques to societies has been attempted by some Central Banks but without much success. In the first place, the cheque is a document which is dangerous in the hands of a dishonest man. In the second place, very few societies are advanced enough to make use of blank cheques which have to be filled in. In the third place, the control of credit afforded by the use of cheques is incomplete and unsatisfactory. The grant of a cheque book pre-supposes that the officers of the primary society are not likely to abuse their powers. In the fourth place, it is possible to teach even illiterate people the exact value of specially designed and coloured vouchers, whereas it is extremely difficult to teach them the proper use of cheques. Fifthly, it will be seen that the procedure laid down in respect of the voucher system simply amounts to the issue of vouchers instead of actual cash. The advantages to be gained by the voucher system are (a) that the grant of credit is kept under complete control, and (b) that the disbursement of cash can be made to suit the time and convenience of the individual members of the primary societies.

16. The adoption of the voucher system necessitates the keeping of cash in hand by Central Banks with which to honour vouchers on presentation. A systematic Central Bank will guard against any failure to cash vouchers on presentation by fixing definite dates within which members of particular societies are expected to draw their money from the Central Bank. It is not necessary to lay down a hard-and-fast rule that no voucher shall be cashed unless it is presented within the period specified. Societies should, however, be brought on to a roster,



and members should be informed that unless they present vouchers within the time allotted to their society, they may be kept waiting for payment. Central Banks by taking a little thought and care can easily work the voucher system without any dislocation of business.

17. It is customary to authenticate payments made to individual members by their signatures or thumb impressions entered in the society's Cash Book opposite the entry regarding the loan advanced. The instalments fixed for repayment are also entered in the Cash Book opposite the entry of disbursement.

Pass books are issued to societies and to individual members of societies.

It is most important that the societies and members should be taught to produce their pass books *whenever business is to be transacted*, and that every effort should be made to keep the pass books up-to-date in respect of the information which they contain. The pass book is intended to furnish an authenticated copy of its owner's account as that account stands in the ledger of the Bank or of the society as the case may be. Inspecting officers should always question members closely in order to ascertain whether they know how their accounts stand. Every Secretary of a society is expected to be master of the contents of the society's pass book, and every member of a society is expected to understand how his account actually stands. Members are also expected to display an intimate acquaintance with the state of each other's accounts, thus showing whether the mutual control of credit is real or not.

18. As regards payments to Central Banks by societies affiliated to Unions, a reference is invited to by-law 25 of the by-laws for Circle Unions. It is important that Central Banks should give facilities to the members of societies to make repayments whenever they happen to have money in hand. It is equitable that a man should be called on to discharge his debt as soon as he is in a position to do so. The procedure laid down for repayment in the by-law just referred to, is equally applicable to societies which are not enrolled in membership of Circle Unions. When repayments are made, they are as a

rule tendered in the office of the Central Bank, and a careful system of check is employed in order to make sure that credit is given in full for all payments. As soon as a member comes to the Central Bank office with his money and his pass book, the accountant in the Central Bank prepares a *challan* in triplicate and sends the member with the *challan* to the Bank's Treasurer. The Treasurer receives the money from the member for credit of the Bank, keeps one copy of the *challan*, and returns the other two duly signed. The second copy of the *challan* is the hand receipt. The third *challan* is brought back to the Central Bank office by the member where, in return, he gets his own pass book, *and that of his society* written up.

The following are the book entries in respect of the transactions completed in the course of the procedure explained above:—

(1) When loans are taken by a society, they are entered on the receipt side of the Cash Book and the loan account of the Central Bank, or if the society is affiliated to a Circle Union, the loan account of the Circle Union is credited with the amount.

(2) When loans are distributed to individual members, entries are made on the disbursement side of the Cash Book and the individual borrowing members' personal accounts are debited.

(3) When loans are repaid by individual members, they are entered on the receipt side of the Cash Book and the individual members' personal accounts are credited.

(4) When repayments are made to the Central Bank, they are entered on the disbursements side of the Cash Book and the loan account of the Central Bank or of the Circle Union as the case may be is debited.

19. Interest is charged by Central Banks at the rate of 9% per annum to the primary societies; the Circle Unions merely act as guaranteeing and assessing or, perhaps, as distributing agencies; and the societies lend at 12% to their individual members. Interest on all loans runs from the date on which the money

leaves the creditor's hands to the date on which he receives it back, irrespective of the dates on which the debtor actually receives or repays it; the interest for periods of transit is paid by the debtor. Thus, interest on loans from Central Banks runs from the date on which the Banks disburse the money. If a society does not distribute money to its members promptly, it has to bear the loss. Members only pay interest on their loans from the date on which the money is actually received by them. The payment and appropriation of interest have been the subjects of much discussion. Some co-operative bankers advocate the *katmiti* or daily balance system; others favour the rule that whenever payments are made, appropriation is first to be made towards interest *due*, the balance going to principal; some maintain that interest up to date, *whether due or not due* should be deducted from each repayment; others urge that interest should be collected on the date of the promised instalments only; a few go still further and plead that interest should be collected only on the promised instalments, on the date on which the instalments fall due, and not on the whole amount of the loan; and yet others urge its capitalisation every year on the 30th June whether due or not.

The main points are that annual interest should be charged, that what is intended to be simple should not be turned into compound interest, and that the system should work equitably for borrower and lender alike.

The introduction of the system of Circle Unions of Primary Societies necessitates the adoption of one uniform procedure, and the *katmiti* or daily balance system is alone suitable. It is, therefore, necessary to lay down that all payments (*a*) by members to a society, (*b*) by a society to a Circle Union or Central Bank, (*c*) by a Circle Union to a Central Bank, and (*d*) by a Central Bank to the Provincial Bank are to be credited to principal throughout the year, interest calculated on the daily balances being debited to the loan account once a year on the 30th June.

The following is an example of interest calculation on the *katmiti*, or daily balance system:—

CENTRAL BANK LOAN ACCOUNT.

| Month. | Date. | Particulars.             | Dr.   |    |    | Cr.   |    |    | Balance. |    |    | Days. | Product. |
|--------|-------|--------------------------|-------|----|----|-------|----|----|----------|----|----|-------|----------|
|        |       |                          | Rs.   | A. | P. | Rs.   | A. | P. | Rs.      | A. | P. |       |          |
| 1916.  |       |                          |       |    |    |       |    |    |          |    |    |       |          |
| March  | 1     | By cash                  | ..    |    |    | 1,000 | 0  | 0  | 1,000    | 0  | 0  | 61    | 61,000   |
| April  | 30    | By cash                  | ..    |    |    | 3,000 | 0  | 0  | 4,000    | 0  | 0  | 31    | 124,000  |
| May    | 31    | To cash                  | 500   | 0  | 0  | ..    |    |    | 3,500    | 0  | 0  | 15    | 52,500   |
| June   | 15    | To cash                  | 1,000 | 0  | 0  | ..    |    |    | 2,500    | 0  | 0  | 15    | 37,500   |
| June   | 30    | By interest              | ..    |    |    | 67    | 12 | 11 | 2,567    | 12 | 11 | ..    | 275,000  |
| June   | 30    | By balance brought down. | ..    |    |    | ..    |    |    | 2,567    | 12 | 11 | ..    | ..       |

On the 30th June, the total of the products is taken, and interest is then very easily calculated by reference to the book of Interest Tables supplied by the Central Provinces Federation, in vernacular, to all Central Banks for use by their Accountants and Society Moharrirs. The rule is:—

$$\text{Interest} = \frac{\text{Products} \times \text{rate of interest}}{36,500}$$

In the above instance, interest on the 30th June at 9% amounts to  $\frac{275,000 \times 9}{36,500} = \text{Rs. } 67-12-11$ . By crediting this to the loan account on the 30th June, the credit balance is increased by that amount. A very important question, then, is "has this amount been paid in cash?" Looking at the payments made, viz., Rs. 1,500 during the year, we find that they are far in excess of the amount of interest. The adjusted position, therefore, is as under:—

|                |    |    |       |       |     |    |    |
|----------------|----|----|-------|-------|-----|----|----|
|                |    |    |       |       | Rs. | A. | P. |
| Interest paid  | .. | .. | 67    | 12    | 11  |    |    |
| Principal paid | .. | .. | 1,432 | 3     | 1   |    |    |
| <b>TOTAL</b>   |    |    | ..    | 1,500 | 0   | 0  |    |

It will be seen that by this method, the borrower gets interest on all payments made by him during the year up to 30th June; whereas, if interest had been appropriated during

the year, out of payments made during the year, he would have lost interest on those payments.

20. Societies accept deposits from their own members and will, when sufficiently advanced, accept them from non-members also. Primary societies pay 9% per annum on deposits. When a deposit is received, it is shown as a receipt in the Cash Book and the depositor's personal account is credited. Members' personal deposit accounts must be maintained in a separate ledger which is called the Ledger of Deposits, and deposit entries should, on no account, be made in the members' loan account maintained in the Ledger of Loans. At the same time the Society Moharrir, if the deposit is made in the village, or the Bank Clerk, if it is made in the Bank for the credit of the society's account, must write up the deposit account on the left hand side of the member's pass book. When a deposit is withdrawn, it is shown as a payment in the Cash Book, and the depositor's personal account in the Ledger of Deposits and in the pass book is debited. When interest is compounded on a deposit account, it is shown as a payment in the Cash Book on account of interest and as a loss in the interest account; again, it is treated as a receipt and shown as a fresh deposit received in the member's account in the Ledger of Deposits and the pass book. When interest is paid in cash, it is shown as a payment in the Cash Book and debited to interest account, no entries being made in the member's deposit account. Deposits carry interest and they must not lie idle as cash in hand with the society. The money should either be lent out immediately to members or be paid to the Central Bank thus reducing the debt to the Central Bank by a corresponding amount.

21. Every society has to purchase a share in the Central Bank to which it is affiliated. This share is, as a general rule, paid for out of profits. But the society has no profits on the day on which it is registered. The value of the share can, therefore, be shown as a loan from the Central Bank by crediting the Central Bank's loan account and by opening and debiting a separate account for the share. This share represents an investment and is therefore a real account, showing an asset. When at the close of the year, the Profit and Loss account is

calculated the full value of the share is entered as paid up, debiting the Central Bank's loan account and crediting Cash. The Profit and Loss account is not charged with the value of the share and the net profit is not reduced, because by investing the profit in the purchase of a share, no loss is sustained. One kind of asset has become another kind of asset; cash (which is an asset) being reduced, and a new asset (in the shape of a share) being created.

By-law 2 (4) for primary societies lays down that every borrowing member must purchase a share of Rs. 5 in the Central Bank for every Rs. 50 or part of Rs. 50 which he may owe to his society. The value of this class of shares, if not paid in cash at the time of purchase, is debited by the Central Bank to the society's loan account, and by the society, in its turn, to the individual member's loan accounts, entries being made in the Cash Book both on the receipts and disbursements side, in the pass books of the members, and in the pass book of the society. The value thus becomes part of the ordinary loan, and as repayments are made the loan account of the member is credited, and that of the Central Bank debited.

22. The admission of new members can only be made in accordance with the by-laws. A formal resolution must be recorded in the Society's Proceedings Book, the member must sign his name (or affix his thumb-mark) in the Register of Members, and he must pay his entrance fee and Federation subscription. Until all this has been done, membership is not complete, and *no loans can be legally made* except to a fully fledged member.\* A statement of the new member's assets and liabilities must then be sent to the Central Bank together with a copy of the society's resolution granting him admission. The society must then fix the new member's credit limit and inform the Circle Union and the Central Bank. Should an increase in the society's credit limit be necessitated by new admissions, the society must apply, in the usual way, to the Central Bank through the Circle Union (if there is one), or directly if there is no Circle Union.

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\* *Vide* Section 12 of the Act.

23. Members may withdraw from the society if they have paid up all their dues to the society ; not otherwise. A member wishing to withdraw should first settle his loan account with interest thereon up to date, pay up the full value of the share or shares he may hold in the Central Bank, and settle his other liabilities, *e.g.*, that for the Federation subscription. His deposits will then be paid by the society with interest up to date or be deducted from the net amount payable by him to the society. Under Section 20 of the Act the society has a charge upon the shares and deposits of members and past members. A resolution should then be recorded in the Proceedings Book approving of the withdrawal, and a copy sent to the Circle Union and Central Bank. Columns 9 and 10 of the Register of Members should also be filled in, making reference to the resolution approving of withdrawal in column No. 10. The member should be given clearly to understand (if he does not know it already), that he will continue to be liable for a period of two years for the debts of the society as they stood on the day of his withdrawal.

24. On the death of members, immediate steps should be taken to get the successors to their estates enrolled in membership provided they are eligible, and to transfer to them the accounts of the deceased. Minor sons of a deceased member can be admitted if represented by a guardian. A resolution should be recorded in the Proceedings Book admitting the successor or successors of the deceased. Columns 9 and 10 of the Register of Members must be filled in, and the fact of death recorded against the deceased member's name. The name of the successor or successors must be entered and signatures or thumb impressions taken. No entrance fee will be charged to successors in interest. If, however, the successors of the deceased member are unwilling to join the society or if the society does not want to admit them, steps must be taken to recover the amount due by the deceased member. A deceased member's property is liable for his debts to the society for a period of one year after death (see Section 24 of the Act). But if this property has passed into the hands of a non-member recovery will have to be by means of regular suit.

25. If a member is expelled for bad conduct or for any other reason in accordance with the by-laws, he must forthwith discharge all his liabilities to the society. A resolution must be recorded in the Proceedings Book of the Society giving the reasons for the member's expulsion and entries should be made in columns 9 and 10 of the Register of Members. In this case the Registrar can be asked to grant an award against the member if he is not willing to pay. Even after expulsion, a past member is liable for the debts of the society, as they stood on the date of his expulsion, for a period of two years.

26. Serious disputes between members and the society, or between the society and the Circle Union or the Central Bank, or between the Circle Union and the Central Bank, may, if they cannot be amicably settled, be referred to the Registrar for decision. The Registrar will, however, not treat such references as a matter of course; he may, in fact, refuse his assistance in cases in which a needless reference has been made. The Registrar's decision is final and binding on all parties. When a request for an award is to be made, an application stating the facts of the case, together with a copy of the account of the party against whom the award is sought, should be sent to the Registrar through the Central Bank. The Registrar fixes a date for hearing and issues notices to the parties concerned to appear before him. Should they fail to appear, the Registrar proceeds to decide the dispute.

Awards must be filed in the nearest civil court having jurisdiction by the Sirpanch or Secretary of the society or by some other member duly authorised by formal resolution of the society (see By-law 20 of the by-laws for primary societies). The civil court is asked to issue a decree in terms of the award, and the necessary process fees, etc., must be paid. What is avoided is the expense and delay of a contested suit, and, perhaps, the further expense and delay of an appeal. The award procedure is, however, *not* intended as a means by which bad and reckless societies may avoid the inevitable consequences of lending money to members unworthy of credit.



It must be understood that the Registrar does not entertain applications made by a society for awards against its individual defaulting members, unless the society has been punctual in its payments to the Central Bank. Joint responsibility must be enforced; and if, when money is due to the Central Bank, some members fail to pay their dues to the society it is for the other members to see that the society, as a whole, keeps its promises and preserves its good name. Mutual discipline is what is wanted.

27. Every society must maintain a Haisiyat Register in the standard form prescribed by the Registrar. It should be filled in by the Annual General Meeting of members. The entries concerning each member are to be discussed and passed by the General Meeting, and every member has to sign or affix his thumb mark against the entries concerning him in token of correctness.

The Haisiyat Register is a private and confidential record, and it cannot be produced in a civil court or be inspected by any officer of Government without the express permission of the Registrar. This is because *under an implied pledge of secrecy* correct information is furnished by members to their bankers (*i.e.*, their societies); and it is against the public interest that any use should be made of such information for any purpose not directly connected with the business of the society.

The Haisiyat Register is at best a rough and inaccurate statement of the society's assets and liabilities, and its true purpose is to furnish an *index of progress* for the society as a whole and for the individual members. The Registrar has on many occasions pointed out the extreme danger involved in the use of the Haisiyat Register as a guide to credit. *There is no safe substitute for that intimate local and personal knowledge which is indispensable to the accurate assessment of personal credit.* The society alone can assess the credit of its individual members; any other agency must err and be too liberal or too parsimonious. But the Haisiyat Register is, for administrative and educative reasons, a record of great value, and particular attention should be given to its regular and accurate upkeep.

Haisiyat Register of the

Co-operative Society (Unltd.) Tahsil

District

Name of member

Son of

Caste

| YEAR. | ASSETS.  |                                |                                  |                         |                        |                   |                  |                       |                 |           |            |       |               |               | LIABILITIES.   |                 |                 |              |                     |              | Signature or thumb mark of Member. | REMARK. |                    |
|-------|--|--------------------------------|----------------------------------|-------------------------|------------------------|-------------------|------------------|-----------------------|-----------------|-----------|------------|-------|---------------|---------------|----------------|-----------------|-----------------|--------------|---------------------|--------------|------------------------------------|---------|--------------------|
|       | Revenue of Villages or Shares of Villages held | Revenue of Malik-makbuza land. | Rent of absolute occupancy land. | Rent of occupancy land. | Rent of ordinary land. | Savings deposits. | Value of houses. | Value of grain stock. | Value of carts. | CATTLE.   |            |       |               | Total assets. | Annual income. | Rental arrears. | DEBTS.          |              |                     |              |                                    |         |                    |
|       |  |                                |                                  |                         |                        |                   |                  |                       |                 | Bullocks. | Buffaloes. | Cows. | Other cattle. |               |                |                 | Due to Society. |              | To other creditors. |              |                                    |         | Total Liabilities. |
|       |  |                                |                                  |                         |                        |                   |                  |                       |                 |           |            |       |               |               |                |                 | On Mortgage.    | Other Debts. | On Mortgage.        | Other Debts. |                                    |         |                    |
| 1     | 2  | 3                              | 4                                | 5                       | 6                      | 7                 | 8                | 9                     | 10              | 11        | 12         | 13    | 14            | 15            | 16             | 17              | 18              | 19           | 20                  | 21           | 22                                 | 23      | 24                 |
|       |  |                                |                                  |                         |                        |                   |                  |                       |                 |           |            |       |               |               |                |                 |                 |              |                     |              |                                    |         |                    |

NOTE.—This form is to be filled up by the Secretary of the Society or by a Federation servant, or Director of the Central Bank on the 30th June each year. Every member is to sign entries concerning him in token that they are correct and the entries are to be discussed and passed by the members of the Society in general meeting.

28. The following form of mortgage deed is prescribed by the Central Provinces Federation and approved by the Registrar for general use:—

*Mortgage Deed.*

The mortgagee Sirpanch of the village co-operative credit society, unlimited, No. \_\_\_\_\_ of 191. \_\_\_\_\_ mouza \_\_\_\_\_ Circle No. \_\_\_\_\_ Pargana \_\_\_\_\_, Tahsil \_\_\_\_\_ District \_\_\_\_\_

The Mortgagor \_\_\_\_\_, son of \_\_\_\_\_, caste \_\_\_\_\_, age \_\_\_\_\_, occupation \_\_\_\_\_

Whereas I have this day borrowed from the aforesaid society the sum of Rs. \_\_\_\_\_ (Rupees \_\_\_\_\_). I agree to repay the same as follows:—

DETAILS OF REPAYMENT.

| Date, Month, and Year. | Principal. | Interest. | Total. |
|------------------------|------------|-----------|--------|
|                        |            |           |        |
|                        |            |           |        |
|                        |            |           |        |
|                        |            |           |        |
|                        |            |           |        |

Interest at rupee one per cent. per mensem, *i.e.*, 12 per cent. per annum will be paid on the amount borrowed. The society will have the right to appropriate the repayment first to interest due. All repayments made by me shall be entered in my pass book and I shall not be entitled to credit for any payment not entered in my pass book. As a security for the aforesaid loan, I hereby mortgage my property described below to the said society, and agree that the said property will not be mortgaged, gifted, sold or otherwise transferred till the liquidation of the aforesaid debt in full. I hereby guarantee that the mortgaged property is not mortgaged, gifted, leased or sold to anybody.

If it be found that the mortgaged property is transferred to anybody else I may be held guilty under the law. In the event of my failure to repay the amount borrowed with interest at the stipulated time, or in the event of my being found guilty of breach of any rules or by-laws of the society, or in the event of my leaving the society or being expelled therefrom, the society will have the right to recover the whole amount with interest at once. It is stipulated that the rules and regulations of the society that are in force at present, or that may hereafter come into force, will govern this mortgage deed. The society shall have the right to recover the amount due by me with interest by auctioning the mortgaged property and should there be a deficit, I hereby agree to make good such deficit with interest thereon, personally or from my other property.

We (sureties) \_\_\_\_\_

of \_\_\_\_\_ Tahsil \_\_\_\_\_

District \_\_\_\_\_ do stand surety and stipulate that in the event of the debtor's failing to repay the aforesaid loan we undertake to repay the same personally and out of our property. It is further agreed that in the event of there being a default in the payment of instalments as detailed above and if there arises any dispute between us and the society, we agree to and hereby appoint the Registrar, Co-operative Societies, Central Provinces and Berar, an arbitrator and agree to abide by his decision in the matter, and his decision will be treated as an award and the society will have the right to get a decree from the Civil Court in the terms of the award and recover the decretal amount.

Executed this \_\_\_\_\_ day of \_\_\_\_\_  
in the year \_\_\_\_\_ with full knowledge  
and understanding.

*Details of mortgaged property.*

I. \_\_\_\_\_ Witness. 2. \_\_\_\_\_

Mortgages of transferable rights in land are extremely useful provided they are in favour of the society and *not* of the Central Bank. A Bank saddled with the possession of land is, almost invariably, a Bank saddled with loss. Paragraphs 66, 67, 68 and 69 of the Report of the Committee on Co-operation in India are given below :—

66. It will be convenient for us here to explain briefly the attitude of co-operative institutions towards real security. It is a central principle of co-operation that security should be personal ; that is, that it should depend primarily on the man and his sureties and not on his property. The idea of personal security, however, implies the power of a member to repay, and this in its turn depends on his capacity as a worker, his honesty of character, and the amount of his property. A Co-operative Society differs from an ordinary money-lender in that it takes cognizance of all three factors, while the latter looks at the last only. There is nothing unco-operative in the hypothecation of immovable property, so long as it is recognized that personal security must be given and that the borrower's property is only a secondary or collateral protection. It follows from this that, when tangible property is accepted as security for a loan, it should be taken in addition to the instruments executed by the borrower and his sureties and not in place of them ; and we think that the existence of a pledge or mortgage should not absolve societies from taking sureties also or from proceeding, in case of default, against the sureties *before* taking action against the property.

67. Movable property, such as cattle or carts, is sometimes taken as security, and it may incidentally be noted that as the system of cattle insurance extends, the value of cattle as security will be enhanced. There are cases where other kinds of movable property are accepted, but the practice of hypothecating this class of property is uncommon. With regard to the hypothecation of shares we would wish to remark that we consider it undesirable that any society should permit its members to hypothecate their shares in the society as security for loans, because in such cases the society can only enforce the security by diminishing its " owned " capital and thereby reducing its general credit and the security of creditors.

68. As noted above, the mortgage of land should only be regarded as a form of collateral security in addition to sureties. In some provinces more general use has been made of mortgages than in others and in our opinion they have been more freely employed than is necessary. Though the practice, as we have said, is not in essence unco-operative and is in fact growing more common in Germany, it should be resorted to sparingly. It is justified in cases where land has been redeemed with the money advanced, as the new mortgage simply

takes the place of the old one, and also in cases of large or long-term loans where there is some risk in relying only on the personal element. In view of the unlimited liability of the members, a borrower's landed property is indeed always liable to sale in order to make good any default, and the main object of taking a formal mortgage is to prevent the alienation of the property to outside parties. We have found cases in which mortgages of the whole of their land have been made by the members of societies to societies and by whole societies to unions—especially in tracts newly colonized or irrigated—in order to protect the society from alienation to outsiders. The object of the societies in such cases is ordinarily to bind all the members together in a single self-contained body of borrowers and the motive is a high sense of co-operative unity. So long as the practice remains entirely voluntary we see no objection to its adoption from the point of view of co-operative organization. Mortgages as a rule should be without possession, as this forms a sufficiently unimpeachable security, and societies are by their nature unfitted to manage land corporately. In some places societies take a mortgage with possession, and relet the land to the mortgagor for an annual sum covering the instalment of the loan and the Government land revenue demand ; but this method seems to us to be cumbrous and to be unnecessary, unless it is done as part of a scheme for the co-operative management of land.

69. Owing to the laws prevalent in certain tracts for the protection of the peasantry, it is not always possible for a Co-operative Society to obtain a valid mortgage on which it can sue for sale. The society has ordinarily in Bombay, Berar, Madras, Coorg, Burma, Assam, Ajmer, and the Punjab to deal with the small occupant or landholder : while in Bengal, Bihar and Orissa, the Central Provinces and United Provinces its main constituents are tenants with a more or less secure right of occupancy. In the first five of the Provinces above-named there is usually (putting aside special cases and special tracts) no difficulty in obtaining a valid mortgage and suing for sale in default of payment : and in certain cases in Coorg and Burma a Co-operative Society is by a special order enabled to obtain a mortgage on land. In Ajmer a mortgage without possession can be obtained but, as sale in execution is forbidden, the only remedy in default is for the society to be placed in possession for a term of years ; and the same would appear to hold good as regards the land of a member of an agricultural tribe in the Punjab. It is, however, with regard to occupancy tenants that the difficulties regarding this form of security are most keenly felt. In the Agra Province an occupancy tenant can mortgage to co-sharers only : in the Central Provinces a mortgage by an occupancy or ordinary tenant in favour of a society can be voided at the instance of the heir or co-sharer and no decree can be passed for the sale in execution of a right of occupancy or of ordinary tenant rights : while in Bengal and Bihar a society can only obtain a valid mortgage from an occupancy tenant in cases where a custom can be proved establishing the tenant's right to mortgage, and a custom allowing such a right in the absence of the landlord's consent is said to be very

Concession in cases where alienation is forbidden.

difficult to prove. It has been represented to us that in the case of occupancy tenants a society should be specially entitled to obtain a mortgage and (subject to certain safeguards in respect of the sub-division of holdings and the right of the landlord to object to the transferee) to bring the land to sale in execution. It is contended that the restrictions which are intended to guard against rapacious money-lenders are out of place when the mortgagee is a benevolent co-operative society, and that in any case the power of sale would only be exercised in rare and extreme instances. It is further urged that, as a society has under the law a prior claim on crops grown with the aid of a loan given for seed or manure, there can be no objection in principle to its having a lien on land, at any rate in respect of land freed from encumbrance by loans made for the repayment of old debts. The question is, of course, one which has to be considered in connection with the general tenancy arrangements of the provinces concerned, but our feeling is that if arrangements can be made with the concurrence of the landlord class to secure this concession for societies in areas where they would ordinarily be unable to obtain a mortgage, there can be no reasonable objection to it on the mere ground that the concession is not enjoyed by other creditors. Evidence has been given to us of the extreme insecurity of tenure in certain tracts, and, without desiring to enter into a question beyond the scope of our report, we feel that we are justified in pointing out that unless a tenant, who is a member of a co-operative society, has a reasonable assurance of continuing in enjoyment of his holding, and is free from the liability of having his earning power suddenly terminated without any fault on his part, it is impossible to invest much money in financing him through co-operation.

29. Sections 35 to 38 of the Act should be made clear to the members of the primary societies. "All officers and members of the society *shall* furnish such information in regard to the affairs of the society as the Registrar or the person authorised by the Registrar may require." Section 37 empowers the Registrar to charge the society with the costs of an investigation. The Registrar will, of course, only exercise his powers with one object in view, namely, the health of the co-operative system. If societies behave well, they will be treated well. But the best of rice crops must be weeded; and it is the duty of the Registrar and of all responsible for the welfare of the movement to root up weeds and destroy them.

30. The Reserve Fund of a primary Co-operative Credit Society is the whole of its accumulated *net* profits. Societies with unlimited liability are not permitted to divide any profits amongst their members. The by-laws dealing with the Reserve Fund are intended to secure the maximum efficiency of

co-operative effort as an agency for the permanent advancement of the village, the creation of local capital, and the progressive economic betterment of posterity. Central Banks collect interest from societies at 12 per cent., but of this 12 per cent. one quarter is sent to the Registrar, through the Provincial Bank, for investment in gilt edged securities. The meaning and objects of the Reserve Fund must be clearly and constantly explained to the members of societies.

31. The co-operative year in the Central Provinces and Berar ends on the 30th June, on which date all accounts are closed, and the Profit and Loss statements and Balance Sheets prepared. Interest *at 12 per cent.* should be calculated on all the loan accounts of the members of primary societies up to the 30th June and be debited to those accounts and credited to interest account. Should the repayments made by a member during the year, and credited to principal according to the *kutmiti* system, equal or exceed the total amount of interest up to the 30th June, there is *no interest due*. If, however, the total repayments fall short of the interest, the deficit is *interest due*. Similarly, interest on all deposit accounts should be calculated at 9 per cent. and be credited to the deposit accounts and debited to interest account as a loss. Interest on the Central Bank loan account should be calculated up to the 30th June and be debited to interest account and credited to the Central Bank loan account. If the total repayments made by the society during the year to the Central Bank equal or exceed the interest which has accrued up to the 30th June, no interest is due on the 30th June to the Central Bank. If, however, they fall short, the deficit is interest due to the Central Bank. Dividend earned on the society's share in the Central Bank should be taken as profit in the Profit and Loss statement. The loan accounts of all the members should then be debited with the Re. 1 Federation subscription and the Central Bank loan account credited. This means that the repayments made by members during the year include the Federation subscription *paid in advance for the next year*. Should, however, the repayments fall short of the total interest and Federation subscription, the Federation subscription due on the 30th June



passes into the loan account and is capitalised, and is, in this way, never allowed to be in arrears. All nominal accounts are then closed and summarised in the Profit and Loss account. The total of the profit side represents *gross profit*; and the balance of the profit and loss account *net profit*, and this net profit is carried to the liabilities side of the balance sheet. All real and personal accounts are then transferred to the Balance Sheet in accordance with the procedure explained in Chapter I of Part IV.

32. Although, strictly speaking, the books of the societies ought to be closed and the final statements prepared on the 30th June, this is not possible because the members of primary societies have no knowledge of accounts. A very small percentage of them can read and write after a crude fashion. Professional letter and petition writers are, it must be remembered, firmly established features of Indian life. The accounts of all primary societies are kept by Society Moharrirs, who are paid by the Central Provinces Federation of Co-operative Banks (that is to say by the societies themselves) and controlled and supervised by the local Central Banks, which, of course, merely represent the societies. The Central Banks are responsible for the accounts of their affiliated societies and must see that they are maintained correctly and up to date. For about one month or more after the 30th June the combined efforts of the Government Auditors, the Federation Auditors, the Society Moharrirs, and the paid staff of Central Banks, are employed in the work of collecting and tabulating the information required for the compilation of the returns called for by the Government of India every year. Final statements can, under the circumstances, be audited only during the following year, Auditors being few, societies many, and travelling a matter of time.

33. Sections 39 to 42 of the Act regulate the liquidation or winding up of societies. Rule No. 41 of the rules framed by the Administration under the Act (Appendix IV to this part of this book) deals with the procedure to be followed. Liquidation may be voluntary or compulsory. Three-fourths of the members of a society may, of their own accord, determine upon

liquidation ; or the Registrar may pass an order for compulsory liquidation. Should the Registrar order liquidation, an appeal may be made, within two months of the date of his order, to the Local Administration.

A liquidator, appointed under Section 42 of the Act, will, after examination of the accounts of the society, prepare a correct and up-to-date Balance Sheet or Statement of Affairs. The next step is to convert all assets into cash. Should the cash realised be short of the liabilities to be discharged, unlimited liability must be enforced (a) with respect to the present members, and (b) with respect to such past members as are within the two year and one year limits prescribed by Sections 23 and 24 of the Act. After enforcement of unlimited liability, if the cash realised still falls short of the liabilities, the Reserve Fund must be used. If after the entire property of the members has been disposed of and the Reserve Fund is exhausted, the realised assets are insufficient to meet the liabilities of the society in full, the creditors are paid a rateable percentage of their debts. This percentage is called the *dividend*; but personal liability remains and the Registrar will not permit claims upon members to be relaxed until the society's debts have been paid in full.

When a society has ceased to exist its Reserve Fund is dealt with in the manner described in the by-laws for primary societies; the shares in the Central Bank held by the individual members remain, of course, their private property, but the shares which belonged to the defunct society and were paid for out of profits are transferred to the Central Provinces Federation of Co-operative Banks and thus become the property of the co-operative movement.

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### CHAPTER III.

#### CIRCLE UNIONS OF PRIMARY SOCIETIES.

I. If a number of societies situated within a demarcated circle (see Union By-law 4 (a)), seek registration as a Circle

Union, they must proceed as follows. Each society must, by a majority of its members assembled in General Meeting, pass a resolution to the effect that it is willing to form a Union with certain other societies and to abide by the by-laws prescribed. Each society should then elect two of its members as the society's representatives, and these two members must be authorised to subscribe to the Memorandum of Association of the Circle Union on behalf of the society. When all the societies to be formed into a Union have recorded the necessary resolutions in their Proceedings Books, the Memorandum of Association is prepared and signed and then the Memorandum and the by-laws and copies of the resolutions are sent, through the Central Bank, to the Registrar. No special financial statement is submitted with the application for registration, as the financial position of the member societies is already known both to the Registrar and the Central Bank. Registration papers must, in order to provide the necessary records, be prepared in triplicate; but as the Union is simply a society of registered societies, they need not be submitted through the Deputy Commissioner of the district.

*Memorandum of Association.*

We, the undersigned representatives of the Primary Co-operative Credit Societies, named in column 2 of the list given below, and all being duly authorised by our respective societies as per copies of their resolutions herewith attached, to make this application, request on behalf of our respective societies, registration as a Circle Union of Primary Co-operative Credit Societies, with limited liability, to be called the \_\_\_\_\_ Circle Union of Primary Co-operative Credit Societies, Limited. The registered office shall be at \_\_\_\_\_, Post Office, \_\_\_\_\_ Tahsil \_\_\_\_\_, District \_\_\_\_\_.

2. This Circle Union will carry on its operations within the limits of the following villages situated in the \_\_\_\_\_ Tahsil of the \_\_\_\_\_ District and in such other villages as may hereafter be included in this Union with the sanction of the Registrar.

*Names of Villages.*

3. The objects of the Union are :—

- (i) To develop Co-operative Credit Societies to the utmost of its power within the area of its operations.
- (ii) To finance Co-operative Credit Societies situated within the area of its operations and affiliated to it.
- (iii) To provide means of guaranteeing the credit of each of the Co-operative Credit Societies affiliated to it.
- (iv) To control the Co-operative Credit Societies affiliated to it by careful and regular inspection.
- (v) To settle all matters of common interest, to advise and assist its affiliated societies and to further their interests in every way.

4. This Union proposes to raise its capital by borrowing from the \_\_\_\_\_ Central Bank, Limited.

5. In addition to the Primary Co-operative Credit Societies which subscribe to this Memorandum of Association, the following societies are eligible for membership of this Union :—

- (i) Co-operative Credit Societies which are situated within the area of operations of this Union and are solvent and sound in working.
- (ii) Co-operative Credit Societies that may be registered hereafter on the recommendation of this Union and are situated within the area of its operations, provided that such societies shall, by their Sirpanch and Secretary, sign a declaration accepting all the rights, duties, and liabilities as prescribed by the by-laws of this Union, and by the Co-operative Societies Act II of 1912, and the rules made thereunder.

6. We have, on behalf of our societies, agreed to the by-laws submitted with this application and we clearly understand these by-laws.

7. This Union agrees to purchase at least one share of Rs. 10 in the \_\_\_\_\_ Central Bank, Limited.

8. We sign this application for registration in writing or by thumb mark on behalf of our respective societies.

## LIST OF SIGNATORIES TO THIS APPLICATION.

| Serial No. | Name of Society. | Registered No. of Society. | Signature or thumb mark of the authorised representative of the society. |
|------------|------------------|----------------------------|--|
|            |                  |                            |  |

*Report of the Organizer.*

This should state :—

- (i) The name of the President elect.
- (ii) The name of the Secretary elect.
- (iii) The arrangements it is proposed to make for keeping the accounts of the Union.
- (iv) The number of literate representatives of societies which have at present joined the Union and the names of such of them as are likely to do the work of inspection of societies.
- (v) Name or names of Central Bank Directors residing or having a place of business within the Union area.
- (vi) Whether any of the above Directors are members of any society in the Union ?

2. On registration, the usual Certificate of Registration is granted by the Registrar, and an approved copy of the by-laws is sent to the Secretary of the Union through the Central Bank. Societies within the Union circle, which become candidates for membership after the Union has been registered, must make the following declaration :—

" We, the undersigned Chairman and two Committee members of the \_\_\_\_\_ Co-operative Credit Society, being authorised so to do by resolution of the General Meeting of our society, hereby, on behalf of the said society, agree to accept all the rights, duties, and liabilities prescribed by the by-laws of the \_\_\_\_\_ Union of Co-operative Credit

Societies and to abide by its by-laws as a condition of our society being admitted into the said Union as an affiliated society."

- |    |                   |
|----|-------------------|
| 1. | <i>Sirpanch.</i>  |
| 2. | <i>Secretary.</i> |
| 3. | <i>Member.</i>    |

3. A Circle Union does not handle cash, and the books and records to be maintained by it can and should be few and simple.

The following books and records are to be maintained by every Union :—

- (1) List of Societies constituting the Union.
- (2) Loan Account Ledger.
- (3) Account of Vouchers.
- (4) Proceedings Book.
- (5) Two File Books.

4. In one of the two File Books provided, the Society Moharrir should carefully file (a) the application for registration, (b) a copy of the by-laws, (c) the Certificate of Registration, and (d) copies of the Registrar's Circulars. In the other file should be kept miscellaneous papers, such as the copies of the proceedings of the constituent societies, etc.

5. The Moharrir should then write the List of Societies in the prescribed form. In the column "Date of affiliation" should be written the date on which the Union was registered, and for societies subsequently enrolled, the date on which the resolution granting admission to a society was passed by the Union.

6. It is important to remember that the liability of the Union as defined in its by-laws begins from the date of its registration. The accounts of the Central Bank with the Union's constituent societies should, therefore, be transferred to the Union *as on the date of its registration*. The following is the correct procedure when transferring the loan accounts from the Central Bank to the Union.

*Central Bank Books.*

(i) The Central Bank must calculate interest on the loan accounts of each society up to the date of the registration of the Union and debit the interest to them. The accounts are then closed and the debit balances are transferred to a new account opened in the name of the Circle Union. This means that instead of keeping separate loan accounts for individual societies, the Central Bank keeps only one account for a number of societies called the "Loan Account of the \_\_\_\_\_ Circle Union." In this account, all advances to and repayments from the individual Primary Societies affiliated to the Circle Union are entered. *No separate loan accounts of Primary Societies affiliated to a Circle Union should be maintained by a Central Bank.* Decentralisation of work is one of the main objects of the Union.

*Books of Primary Societies.*

(ii) When the loan accounts of the individual Primary Societies have been thus transferred to the loan account of the Circle Union by the Central Bank, the Society Moharrir concerned takes copies of the accounts from the books of the Central Bank and proceeds to close the Central Bank's loan accounts in the books of the Primary Societies. - Here, too, interest up to the date of registration of the Circle Union is calculated on the Central Bank's loan account and credited to that account. The amount must agree with the amount of interest debited by the Central Bank to the Primary Society. When this has been done, the account of the Central Bank is closed, a new account is opened in the name of the Circle Union, and the credit balance of the Central Bank's loan account is transferred to the credit of the Circle Union loan account.

*Books of the Circle Union.*

(iii) When the books of the constituent Primary Societies have been written up, the Society Moharrir should forthwith proceed to write the books of the Circle Union. In the Loan Account Ledger, the date to be entered in the first and fifth columns should be the date of the registration of the Circle

Union, so far as the opening transfer entries are concerned. For subsequent transactions, the actual dates of the transactions should be written. Columns 2 and 4 contain merely statistical information and are meant to serve as a "diary" of the dates on which repayments fall due. Columns 7 to 9 constitute the real financial account. Separate loan accounts for every constituent society should be opened, giving one page or more to each individual society. The debit balance of each society, including the interest up to date as it stood in the Central Bank's books, should be the first entry in the society's loan account in the books of the Circle Union. A loan account for the Central Bank should then be opened and the sum total of the debit balances of the individual constituent societies' loan accounts should be posted to the credit of this account. After these transfers have been recorded in the books of the Central Bank, the Circle Union and the individual Primary Societies the following accounts must agree :—

| Books of the Central Bank.  | Of the Circle Union.  | Of the Primary Societies.   |
|---|---|---|
| (a) Closing debit balances of individual societies' loan accounts, including interest up to date. | Opening debit balances of the individual societies' loan accounts, including interest up to date. | Closing credit balance of the Central Bank's loan account including the interest up to date, and the opening credit balance of the Circle Union's loan account. |
| (b) Opening debit balance of the Circle Union's loan account.                                     | Opening credit balance of the Central Bank's loan account.  |   |
| (c) Instalments due by the Union.   | Instalments due to Central Bank.  | Instalments due to Union by all the constituent societies put together.   |

It is important to remember that mere calculation and entry of interest in an account does not mean its *capitalisation*, unless interest is calculated on such interest. The debit and credit of interest, therefore, at the time of making the above transfers do not mean capitalisation of interest and *no interest should be calculated on such interest till the next 30th of June*. So long as interest on interest is not calculated, the *katmiti* system is strictly adhered to and it does not matter how many times during a year interest is calculated and entered in an account.



7. Vouchers are specially printed, engraved, and embossed, and are issued in serial numbers for denominations of Re. 1, Rs. 5, Rs. 10, Rs. 20, Rs. 50, Rs. 100. An account of vouchers must be kept very carefully in the prescribed form, receipts from the Central Bank being entered in the first three columns and issues to societies in the last three. The Union Secretary must, before distributing the vouchers to the societies, endorse each voucher on the back. The endorsement is printed, and the Union Secretary has merely to sign his name. The Union Secretary must furnish the Central Bank with a list of the serial numbers printed on the voucher books and vouchers supplied to each society. Vouchers are, of course, not transferable and can only be negotiated at the office of the Central Bank except by previous special arrangement.

8. One of the most important functions of the Union is to fix an annual cash credit for its affiliated societies. The societies, after fixing credit limits for their own individual members, send their representatives to the Union General Meeting with the detailed credit list and ask the meeting to sanction the credit limit of the society. The Union may or may not sanction a cash credit in full, but societies should themselves make any *individual* reductions necessary. Credit lists as finally passed by the Union are to be submitted to the Central Bank, with the Union's certificate of guarantee endorsed upon each list, thus:—"Passed for Rs.\_\_\_\_\_. The Central Bank may pay this sum to the\_\_\_\_\_ Society, registered No.\_\_\_\_\_." The Secretary of the Union must sign this certificate. The sum total of the credit limits of the constituent societies is the credit limit of the Circle Union. On this credit limit being sanctioned by the Central Bank, the Manager sends voucher books to the Union for the total amount of the credit limit sanctioned for the year; and the Union, in its turn, distributes the vouchers to the individual societies to the amount of credit sanctioned for each.

9. The Society Moharrir in charge of the Union accounts, must make abstracts every quarter (or more frequently), from the books of the Central Bank, of the accounts of the Union in his charge. From these abstracts, he checks and, where

necessary, writes up the books of the Circle Union and the books of the Primary Societies. The Central Bank writes up the members' pass books and the pass books of the societies as transactions take place in its office from time to time and issues receipts to the societies and to individual members for payments made. Moreover, the counterfoils of the vouchers issued are to be found in the books of vouchers distributed to the societies. These pass books, the receipts, and the counterfoils of vouchers are to be tallied with the entries dealing with the Circle Union's account in the books of the Central Bank, and with the books of the Union and of the Primary Societies.

10. No Cash Book is maintained for the Circle Union. The Union, as already pointed out, does not accept deposits; it borrows at 9% from the Central Bank and lends to affiliated societies at the same rate. Thus the Union makes no profit, and consequently has no Reserve Fund and no Profit and Loss Account. Should bad debts appear, the guarantee must be enforced to clear them.

11. Interest is calculated on the *katmiti* or the "daily balance" system already explained. Every year, on the 30th of June, interest is calculated and capitalised.

12. The Balance Sheet of the Union is exceedingly simple; the total of loans and interest due from member societies constituting the only asset, and the loans and interest due to the Central Bank, the only liability.

### FORMS PRESCRIBED FOR CIRCLE UNIONS.

#### CIRCLE UNION FORM No. I.

List of Societies constituting the \_\_\_\_\_ Circle Union.

No. \_\_\_\_\_ of \_\_\_\_\_ District.

| Serial No. | Name of Society. | Registered No. | Date of affiliation. | Signature of thumb mark of the representatives. | REMARKS. |
|------------|------------------|----------------|----------------------|---|----------|
|            |                  |                |                      |   |          |

CIRCLE UNION FORM No. II.

*Loan Account.*

Credit Limit. \_\_\_\_\_ Society Registered No. \_\_\_\_\_

| Month and year. | Date. | Loan advanced. | REPAYMENTS SETTLED. |         | Date. | Particulars. | Debit. | Credit. | Balance. | REMARKS. |
|-----------------|-------|----------------|---------------------|---------|-------|--------------|--------|---------|----------|----------|
|                 |       |                | Date.               | Amount. |       |              |        |         |          |          |
|                 |       |                |                     |         |       |              |        |         |          |          |

CIRCLE UNION FORM No. III.

*Account of Vouchers.*

| Date. | Particulars of Vouchers received. | Amount. | Date. | Particulars of Vouchers issued. | Amount. | REMARKS. |
|-------|-----------------------------------|---------|-------|---------------------------------|---------|----------|
|       |                                   |         |       |                                 |         |          |

CHAPTER IV.

CENTRAL BANKS.

THE efficiency of the Primary Societies depends, to a great extent, upon the efficiency of the Central Bank itself and that of its staff; and if the honorary worker has the satisfaction of knowing that the Bank's office and accounts are in good order, his hands are left free for organization, education, and supervision. Although the members of the paid staff are professional co-operators, they may be proud of the fact, for in no country has the movement progressed very far without paid staff. If, however, a man is a paid co-operator, he must understand and be constantly studying his work.

*Memorandum of Association.*

The Memorandum of Association of a Central Bank is in the following form:—

I. We, the undersigned persons, resident of \_\_\_\_\_ District, being above 18 years of age and having agreed to

purchase shares in accordance with the list herewith submitted, request registration as the \_\_\_\_\_ Co-operative Central Bank, Limited. The registered office shall be at \_\_\_\_\_, Post Office \_\_\_\_\_, Tahsil \_\_\_\_\_ District \_\_\_\_\_.

2. The liability of the Central Bank shall be limited to the face value of the shares issued.

3. The operations of the Bank shall be confined to the Tahsil or the \_\_\_\_\_ District.

4. The objects of the Central Bank are :—

(a) to finance registered Co-operative Societies affiliated to it and situated within the area of its operations as defined in paragraph 3 above ;

(b) by all means in its power to improve the material and moral condition of such affiliated societies.

5. The authorised share capital shall be Rs. \_\_\_\_\_ divided into \_\_\_\_\_ shares of Rs. \_\_\_\_\_ each. This capital may be increased by the issue of any number of additional shares of Rs. \_\_\_\_\_ each to registered co-operative societies that become members of the Bank and of any number of shares of Rs. 5 each to individual members of such societies. But no other increase of share capital may be made unless it has been approved of by the members of the Bank at a general meeting and duly sanctioned by the Registrar.

6. The Bank may also, within the maximum limits fixed by the Registrar from time to time, raise funds—

(a) by receiving deposits from members and non-members ; and

(b) by raising loans.

7. The qualification for membership shall be that laid down in the by-laws herewith attached.

With the Memorandum of Association, there must be submitted a list of subscribers and a copy of the proposed by-laws ; and this must be forwarded, through the Deputy Commissioner of the District, to the Registrar of Co-operative Societies, who will, if he thinks fit, register the Central Bank and issue his certificate accordingly.

The accounts of the Central Bank are maintained in the books and forms prescribed by the Registrar.

*Register of Shares.*

This book deals with the shares of the Bank in serial number in the first column ; and in columns 2, 3, 4, 5, 6, and 7 are recorded the date of purchase, name of purchaser, his address, the date of transfer (if any), the name of the transferee, and any remarks necessary—in the case of a transfer, for instance, the date and number of the resolution sanctioning the transfer. The writing up of this register follows allotment and should always be accompanied by the issue of share certificates.

*Register of Shareholders.*

The Register of shares deals with each share ; the Register of shareholders with each shareholder. In this register, the name of the shareholder's nominee (if any), is entered (see Section 22 of the Co-operative Societies Act and rule No. 34 of the rules issued by the Local Administration). *It is important to remember that a shareholder need not nominate his successor in interest unless he wishes to do so.* Other particulars given are the address of the shareholder, details of the shares held, and payments made by him and any transfer of such shares.

In the case of important transfers for consideration, it is as well to insist upon the execution of a transfer deed in the form below ; but, in this matter, Central Banks should use discretion and should not surround simple transactions with unnecessary formality.

*Transfer Deed.*

The \_\_\_\_\_ Co-operative Central Bank, Limited.  
 I \_\_\_\_\_ of \_\_\_\_\_ in  
 consideration of the sum of Rupees \_\_\_\_\_  
 \_\_\_\_\_ paid to me by \_\_\_\_\_  
 \_\_\_\_\_ of \_\_\_\_\_ hereby  
 assign unto the said \_\_\_\_\_ the  
 share (or shares) numbered \_\_\_\_\_  
 standing in my name in the books of the \_\_\_\_\_  
 Co-operative Central Bank, Limited, to hold unto the

said \_\_\_\_\_ subject to the several conditions on which I hold the same at the time of the execution hereof.

And I, the said \_\_\_\_\_ do hereby agree to take the share (or shares) subject to the same conditions.

As witness our hands this day \_\_\_\_\_ of \_\_\_\_\_  
 \_\_\_\_\_ One thousand nine hundred and \_\_\_\_\_

\_\_\_\_\_ *Witness* \_\_\_\_\_ *Seller.*

\_\_\_\_\_ *Witness* \_\_\_\_\_ *Buyer.*

### *Cash Book.*

On the left-hand side of the Cash Book, columns are provided for (i) date of receipt of cash, (ii) serial number of the entry in the Cash Book, (iii) the number of the Ledger page, (iv) payer's name, (v) the account to which the payment is taken, and (vi) the amount received. On the right-hand side of the Cash Book, similar columns are provided for disbursements, (iv) being the payee's name. A column is added for the "narrative" (as Bankers term it) or descriptive remarks concerning the item. After the numbers of the Ledger pages, ((iii) above), it is the practice to enter an index letter, such, for instance, as L (Loans) or D (Deposits) with reference to the Ledger to which the entry has been carried. The Cash Book must be balanced daily and the balance carried forward to the next day's account. The closing balance must agree with the actual cash in hand and at the Treasurer's, and auditors and inspecting officers should see that it does.

If no Journal is kept by a Central Bank, all adjustment entries, whether they refer to actual coming in or going out of cash or not, must be passed through the Cash Book, as no item can go into the Ledger except through a subsidiary book. It is as well, however, to maintain a separate Journal for all adjustments as very often the necessary entries cannot conveniently be passed through the Cash Book. For instance, Rs. 2,000 are transferred to the Building Fund from the Profit and Loss Account. This entry cannot very well be passed through the Cash Book; but in a Journal, the entry would be simply "Profit and Loss Account Dr. to Building Fund Account."

*Abstract Registers of Receipts and Disbursements.*

The entries in the Cash Book are to be posted daily into these registers. As many columns should be provided as there are heads of accounts, and the total of each column is to run (or be carried over) from page to page and month to month from the 1st July to the 30th June. The various totals provide, as it were, an analysis of the working of a Central Bank.

From the Abstract Registers, a General Ledger should be opened and posted. To do this, the entries on the last Balance Sheet should be posted under as many different headings as are necessary, the assets to the debit and the liabilities to the credit side. Thus maintained, the General Ledger will be self-balancing and from it the Central Bank can, at any time, prepare a Balance Sheet and Profit and Loss Statement.

*Ledger of Loans Advanced.*

This account gives the name and number of the registered society, the number of the pass book issued to it, and details of advances made to and repayments made by it. Each entry must be prefaced by a reference to the serial number of the corresponding entry in the Cash Book.

*Ledger of Deposits.*

In this book, the account of each depositor is entered in detail, at least one page being allotted to each account. Part of the book should be reserved for members; the other part left for non-members. This will facilitate the filling in of Returns. It is convenient, too, to group the different classes of deposits together.

In the case of deposits fixed for a period, interest calculated up to the 30th June is taken to the Profit and Loss Account. The amount of interest for each year is split, in fact, into two items for the sake of the Profit and Loss Account; but this does not mean that interest is to be allowed on the amount of interest credited on the 30th June. In the case of subject deposits, interest is calculated and is payable on the 30th June in each year, and if not paid in cash, is compounded. In

deposit accounts, each transaction is complete in itself, and although a total credit balance may be struck on the 30th June, the different items contributing to the total can on no account be amalgamated, because the conditions, period, rate of interest and due dates in respect of each deposit are different. It is, therefore, necessary after closing each depositor's account on the 30th June to carry forward the distinct items and not an amalgamated total.

#### *Register of Reserve Fund.*

This, as its name implies, is a record of appropriations from profit to the Reserve Fund and of their investment. It is important to remember that Central Banks are expected to remit their Reserve Funds for investment without unreasonable delay, that each Bank is liable to its Reserve Fund for at least 25% of its *annual* net profits, and that no Reserve Fund can be touched without the sanction of the Registrar.

#### *Treasurer's Pass Book.*

This is written up by the Treasurer of a Central Bank, and is a record of *cash* transactions between him and the Bank. Registrar's Circular No. II of 1915 (included in Appendix I) should be read.

#### *Pass Book for Depositors.*

In the case of savings deposit accounts (if any) and of fixed deposit accounts which are frequently operated, pass books may be issued; but in most cases, the issue of a deposit receipt in the Federation form will be sufficient. These receipts are *not transferable*, and they express clearly (i) that no payment of a deposit will be made before the due date, and (ii) that, unless notice is given to the contrary, the deposit will, from time to time, be renewed on the due date for the same period (as that for which it was fixed on deposit), on the same terms and at the same rate of interest.

When a fixed deposit receipt is lost by a depositor, an indemnity bond, in the form below, should be taken before any payment of the deposit or of interest thereon is made. All



indemnity bonds must bear *an eight anna stamp*, for they are not issued by the Bank in the course of its own business but by private persons in their own interest.

To

The Manager,

Co-operative Central Bank, Limited.

Having lost your \_\_\_\_\_% fixed deposit receipt No. \_\_\_\_\_, dated \_\_\_\_\_ for Rs. \_\_\_\_\_ in the name of \_\_\_\_\_,

I hereby agree, in consideration of your paying me the amount thereof with the interest due thereon amounting in all to Rs. \_\_\_\_\_ receipt of which is also hereby acknowledged by me, to hold you indemnified against any other claimant for the same, and to deliver up the receipt should it at any future time be forthcoming.

Dated the \_\_\_\_\_

*Signature.*

#### *Pass Book for Borrowing Societies.*

Central Banks must not only issue pass books to every society, but must insist on the production of a society's pass book at the time of each transaction. In the case of primary societies working the voucher system, it is the duty of the Central Bank to write the pass books of individual members presenting themselves on business at the Central Bank.

#### *Register of Promissory Notes.*

When the annual cash credit, or credit limit, is sanctioned, the Central Bank should at once obtain a Promissory Note for the whole amount sanctioned. This will secure all claims, and will make it unnecessary to enter the numbers of vouchers encashed in this register. The Registrar's instructions are that promissory notes are to be renewed every year; and if Central Banks faithfully observe these instructions, the salutary provisions of the by-laws of societies and Central Banks cannot very well be overlooked and business will be safe. Security, to be safe for banking purposes, must be fresh and realisable;



*Share Certificates.*

These clearly express that the Directors recognize no transfer of shares which is not made in accordance with the by-laws of the Bank. A single certificate may cover a large number of shares held by one shareholder. Each certificate should be signed by at least two Directors of the Bank. Sometimes a share certificate is lost, and in such cases the following form of indemnity bond should be used :—

“ I \_\_\_\_\_ having lost share certificate No. \_\_\_\_\_, for share or shares No. \_\_\_\_\_ to \_\_\_\_\_ in the \_\_\_\_\_ Co-operative Central Bank, Limited, of the face value of Rs. \_\_\_\_\_ each standing in my name in the books of the said Bank, hereby agree, in consideration of receiving a duplicate certificate, to hold the said \_\_\_\_\_ Co-operative Central Bank indemnified against any other claimant for the same and to deliver up the duplicate certificate should the original at any time hereafter be forthcoming.”

*Dated the* \_\_\_\_\_

*Signature.*

*Hand Receipts.*

Receipts should be granted in regular printed forms in cases in which entries are not made in the pass book. Receipts granted by or on behalf of the Bank are exempt from stamp duty.

*Federation Records.*

In general the Federation transactions with which a Central Bank is concerned are as follows :—

- (1) Federation collections ;
- (2) Federation disbursements on account of salary, establishment, printing, stationery, etc., etc. ;
- (3) Provident Fund accounts ;
- (4) Federation Head Office contribution ;
- (5) Investment of the Federation 25% contribution in the Central Bank shares ;
- (6) Dividend on Federation shares, interest on Provident Fund accounts, etc.

As Treasurer and local agent of the Central Provinces Federation of Co-operative Banks the Central Bank maintains the following records :—

(a) *Cash Book*.—Receipts and disbursements on behalf of the Federation should pass through the Central Bank's Cash Book. No separate Cash Book for the Federation is necessary. Against all receipts and disbursements the Central Bank will, of course, write "Federation account." These entries of receipts and disbursements will be collected in the appropriate columns of the Bank's Abstract Registers of Receipts and Disbursements.

(b) *Abstract Register of Receipts and Disbursements*.—The heading of this Federation register are as follows :—

| <i>Receipts.</i>                            | <i>Disbursements.</i>            |
|---|----------------------------------|
| Federation collections.                     | Head Office.                     |
| Provident Fund.                             | Salary and Travelling allowance. |
| Interest received.                          | Provident Fund disbursements.    |
| Dividend and bonus received on investments. | Printing and Stationery.         |
| Other items.                                | Investments.                     |
| Total.                                      | Other items.                     |
|   | Total.                           |

(c) *A Ledger Account* for each Primary Society, dealing with the Federation subscriptions due and paid by the individual members.

(d) *A Provident Fund Ledger for Federation servants*.—Every Federation servant is entitled to a pass book containing a copy of the ledger account concerning his Provident Fund.

#### *Inspection Note.*

The form of Inspection Note given below has been used by the Sihora Central Bank with satisfactory results. It deals, of course, with inspection work done by the staff of the Bank for the information of the Directors.

#### *Inspection Note.*

*Date.*

*Date of last inspection.*

*Name of society.*

*Registered No. and date.*

i. How many members are there ?

2. To what classes do the members belong ?
3. What was the date of the Society Moharrir's last inspection ?
4. Is the Society Moharrir's work up to date ? If not, what action has been taken to get the work completed ?
5. What were the defects pointed out in the last audit note and have they been removed ?
6. What action has been taken to recover the outstanding loans of members belonging to classes D and E shown in question 2 above ?
7. Have the ordinary requirements of the members been adequately met ; if not, why ?
8. Do the members complain of any difficulties in procuring loans from the Central Bank ? If so, what difficulties, and how can they be removed ?
9. Have you checked the ledger account of each member ? If so, are the members found punctual in paying ?  
Who are the usual defaulters, and what action has been taken to improve their conduct ?
10. Are the outside debts of the society increasing or decreasing ?
11. Do the members of the Panchayat understand their responsibilities and are the President, Secretary, and Treasurer of reliable character ? If not, what steps have been taken to remove them ?
12. Is there any case of embezzlement or illegal gratification ? If so, what action has been taken ?
13. What are the assets and liabilities of the society and the credit fixed by the Central Bank ?
14. Is any amount overdue from the society ? If so, what action has been taken to realise the same ?
15. Has the Federation subscription been paid in full ?
16. Have all loans been properly utilised ? If not, in how many instances have the loans been misused and what action has been taken to recover ?
17. Has the credit of each member been duly fixed at the General Meeting ?

18. Has any member's loan exceeded the amount of his credit fixed, and, if so, what action has been taken to reduce the loan or raise the credit ?

19. Were the last *rabi* and *kharif* harvests good or bad ? What are the prospects of the standing crops ?

20. Are the members satisfied with the dealings of the Society Moharrir ?

21. General Remarks.

*Notes.*—1. In answering these questions, the Inspectors will please note that they are always expected to state what definite action has been taken by them. It is not enough merely to issue orders to the Society Moharrirs.

2. Replies should never be vague. They should always be definite and comprehensive.

3. For the purposes of answering question 2, the members are to be classified thus :—

- A....Model.
- B....Good.
- C....Average.
- D....Bad.
- E....Hopeless.

It is of great importance that the Society Moharrirs should be instructed to furnish regularly to the Central Bank office information of the following points. This information should be obtainable from the books of the Primary Societies.

(1) The uses to which loans have been put.

(2) The borrowed money out on loan and spent by each individual member thus :—

- (a) Below Rs. 50.
- (b) From Rs. 50 to Rs. 100.
- (c) From Rs. 100 to Rs. 200.
- (d) From Rs. 200 to Rs. 500.
- (e) From Rs. 500 to Rs. 1,000.
- (f) Rs. 1,000 and above.

From these particulars, the Central Bank office must prepare statistical registers which will be found of great practical

value. The following forms are those which are recommended for general adoption :—

*Register showing employment of money borrowed by Primary Societies.*

(Additional columns may, of course, be added.)

| Name of the Society. | Seed. | Cultivation expenses. | Purchase of cattle. | Purchase of agricultural or industrial implements. | Purchase of land. | Improvement of land. | House building. | Marriage expenses. | Payment of Rent or Revenue. | Payment of old debts. |
|----------------------|-------|-----------------------|---------------------|--|-------------------|----------------------|-----------------|--------------------|-----------------------------|-----------------------|
|                      |       |                       |                     |  |                   |                      |                 |                    |                             |                       |

*Analysis of Loans advanced to individual Members of Primary Societies.*

| Name of the Society. | Below Rs. 50.      | From Rs. 50 to Rs. 100. | From Rs. 100 to Rs. 200. | From Rs. 200 to Rs. 500. | From Rs. 500 to Rs. 1,000. | Rs. 1,000 and above. | Remarks. |
|----------------------|--------------------|-------------------------|--------------------------|--------------------------|----------------------------|----------------------|----------|
| Mainpur              | $\frac{10^*}{200}$ | $\frac{15}{750}$        | $\frac{10}{2000}$        | $\frac{1}{400}$          | nil                        | nil                  |          |

\* The top figure 10 = Number of members ;  
The figure below the line = Loans in rupees.

*Compliance with Audit Notes.*

It is one of the Central Bank's most important duties to secure compliance with the instructions issued in the audit notes. If Central Banks do not give great attention and care to this vital matter, loss of money will follow. When audit notes are received from the office of the Registrar, the Manager of the Central Bank should make an entry in his Register of Audit Notes. The audit notes should then be given to the Society Moharrir in whose circle the society concerned is situated, or, if expedient, to some other competent Bank official. When the Audit Note has been complied with, an entry should be passed in the column provided in the register. Much misunder-

standing exists with regard to the meaning of "compliance"; some Central Banks consider that "compliance" is effected by writing "noted" on the instructions received. But "compliance" means that steps have been taken by the society to deal with the errors and weakness detected.

The following form is that in which the progress made in dealing with audit notes is to be recorded:—

| Serial No. | Name and registered number of the Society. | Date of receipt of audit note from the Govt. Auditor. | Name of official to whom the note was given for compliance. | Date on which the note was given to the official. | Date on which the audit note was returned by the official after compliance. | Date on which the audit note was returned to the Govt. Auditor. | Date of return of audit note for final record. | Remarks. |
|------------|--|---|---|---|---|---|--|----------|
|            |  |   |   |   |   |   |  |          |

Every use should be made of the Circle Unions of Primary Societies as agencies to compel compliance with audit notes.

## CHAPTER V.

### THE PROVINCIAL CO-OPERATIVE BANK.

The accounts of the Provincial Co-operative Bank are maintained on the double entry system. The statistical registers which do not contribute to the compilation of the balance sheet are maintained in the forms prescribed by the Registrar for Central Banks; whereas the books of account which directly contribute to the preparation of the balance sheet are like those generally used by Joint Stock Banks.

#### *Statistical Registers.*

1. Register of Shares.
  - (a) Founders.
  - (b) Preference.
2. Register of Shareholders.
3. Register of Reserve Fund.
4. Record of Dividends.
5. Register of Promissory Notes.
6. Stock Register.
7. Proceedings Book.
8. Inspection Book.
9. Diary of Loans and Deposits.

#### *Books of Account.*

1. Cash Book.
2. Abstract Registers of Receipts and Disbursements.
3. Ledger of Loans Advanced.
4. Ledger of Loans Taken.
5. Ledger of Fixed Deposits.
6. Ledger of Current Deposits.
7. Journal.
8. General Ledger.



*Register of Shares.*

This is maintained in Form No. 1 prescribed for Central Banks. Founders Shares are, however, written in one register and the Preference Shares in another.

*Register of Shareholders.*

This register differs from that used by Central Banks in that it contains accounts for two kinds of shares, Founders and Preference.

*Register of Reserve Fund.*

This is maintained in the same form as that in use by Central Banks.

*Record of Dividends.*

This register, too, is in the form prescribed for Central Banks. For the two kinds of shares, the dividend is entered separately and the record of the 1% commission on the capital of guarantee, which is payable to preference shareholders annually, is also maintained. Entries are passed in this register as soon as a dividend is declared by the general meeting. When payments are made, remarks are made in column 5. The Provincial Bank usually distributes its dividend by the issue of dividend warrants on Central Banks ; but shareholders desiring to avail themselves of this arrangement must empower a Central Bank to issue a receipt for payment on their behalf. A most valuable privilege conferred by Government on co-operative banks is that which allows them the use of the Government Treasuries and of remittance transfer receipts for the despatch of money.

*Register of Promissory Notes.*

This is also maintained in the form prescribed for Central Banks. The Provincial Bank accepts the promissory notes of Central Banks ; the Central Banks retain the promissory notes of the primary societies, but pledge themselves to hold, on behalf of the Provincial Bank, the societies' notes to the full amount of the loans granted by the Provincial Bank. The Provincial Bank negotiates the promissory notes of the Central Banks with the Allahabad Bank.

*Stock Register.*

This is maintained in the Central Bank Form No. 12. Such stock as is not written off in the Profit and Loss Account is entered here. The balance in hand is an asset.

*Proceedings Book and Inspection Book.*

These are blank books. The former is the Minute Book and the proceedings of all meetings of the Board of Directors and of the General Meeting of shareholders are recorded in it. In the latter book, inspecting officers record their remarks on the working of the Bank.

*Diary of Loans and Deposits.*

Separate diaries are maintained for loans and deposits. The diary of loans shows exactly upon what dates repayments fall due and it is a very important and necessary record. The diary of deposits is maintained in the usual commercial diary, the names of depositors and the amount payable to them being entered on the various dates on which they fall due. A careful watch is kept over both these diaries, Central Banks being reminded of their contracts well beforehand, while it is the custom of the Provincial Bank to solicit instructions from depositors a fortnight in advance of the due date, concerning the disposal of deposits and of the interest thereon. If no intimation is received from the depositor on or before the due date, interest is compounded and the deposit renewed on the same terms in accordance with the rules of the Bank and the conditions stipulated on the deposit receipt.

*The Cash Book.*

The Provincial Bank does not handle cash, all receipts and payments of cash being made direct to or through the Jubbulpore Branch of the Allahabad Bank. This, once more, does not mean, that the Provincial Co-operative Bank is, in any way, a branch or agency of the Allahabad Bank. The Cash Book is maintained in the same form as that used by Central Banks with the addition of one money column. There are two money columns ; one for " office cash," and the other for the " Bank "

on both the debit and credit sides. All remittances by cash order whether received or paid and, in fact, the receipts and payments of all monies, cash or paper, passing through office are shown both in the "office cash" and "Bank" columns, the office cash column balancing itself by a debit for a credit and leaving a net debit or credit in the Bank column. This is a faithful record of transactions and of the procedure observed. All receipts and payments *direct* by the Allahabad Bank are, however, passed through the "Bank" column only. It is thus easy to see what monies have passed through the office of the Provincial Bank and through the Allahabad Bank direct without coming to the office of the Provincial Bank. If, for instance, a Cash Order is received from a Central Bank late in the evening after the Allahabad Bank has closed, it is entered only in the office cash column as a receipt and not in the Bank column. Next morning the books show that a Cash Order is to be sent to the Allahabad Bank for collection and credit. The Cash Book is balanced daily and the necessary postings are made in the Abstract Registers of Receipts and Disbursements and in the linked Ledgers of Loans and Deposits.

*Vouchers.*

No transaction is recorded in any of the subsidiary books of the Provincial Bank without the authority of a voucher in the following form :—

The Provincial Co-operative Bank, Limited, Central Provinces and Berar.

*Voucher.*

Debit \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Credit \_\_\_\_\_

\_\_\_\_\_

*Posted*

*Manager.*

*Registrar, C. S., C. P. & Berar.*

*Accountant.*

*For and on behalf of the Directors.*

Vouchers in the above form are made up by the accountant for every transaction whether by cash or adjustment, and are signed by the Manager and then by the Registrar *for and on behalf of the Directors of the Bank*. Armed with such authority, the accountant makes up his books. This arrangement prevents debits and credits under wrong heads in the case of transactions of a complicated nature. These vouchers are carefully filed and are of great assistance to the Bank's Auditors.

*Abstract Registers of Receipts and Disbursements.*

These are, at the beginning of every year, blank registers. There are no prescribed columns, and the accountant is left to make fresh columns to match the new accounts which find their way into the General Ledger. These registers are posted daily from the Cash Book, running totals being carried over from day to day and month to month from the 1st July to the 30th June. The totals of each column are journalised every month and posted to the debit and credit of the respective ledger accounts in the General Ledger.

*Ledger of Loans Advanced.*

The Provincial Co-operative Bank charges interest on all accounts on the *katmiti* or "daily balance" system and maintains a diary for repayments falling due. An account of loans advanced is maintained in the following prescribed form:—

| Month and Year. | Date. | Particulars. | Folio. | Debit.    | Credit.   | Balance.  | Days. | Product. |
|-----------------|-------|--------------|--------|-----------|-----------|-----------|-------|----------|
|                 |       |              |        | Rs. A. P. | Rs. A. P. | Rs. A. P. |       |          |

This register is posted from the Cash Book and the Journal. On the 30th June, interest is calculated on the product sand

debited to the loan account, and the balance is carried forward to the ensuing year.

#### *Ledgers of Fixed and Current Deposits.*

Separate ledgers are maintained for fixed and for current deposits, and these are alphabetically indexed. *Current deposits are accepted only from Central Banks* and the fixed deposits are divided according to the rates of interest they carry. These ledgers are maintained in the same form as the Ledger of Loans. Advanced and interest thereon is, in the case of fixed deposit accounts, credited (but not compounded) every 30th of June. Compound interest on the amount credited on the 30th June to current deposit and subject deposit accounts is, of course, allowed because in the case of these deposits there is no fixed or known date of maturity.

#### *Ledger of Loans Taken.*

This is maintained in the same form as the Ledger of Loans Advanced. The daily debit and credit transactions with the Allahabad Bank are maintained in this account and are posted from the Cash Book and the Journal. The Provincial Bank's ledger account in the books of the Allahabad Bank may not, at times, agree with this account, the difference being due to the fact that cheques issued by the Provincial Bank and credited to the Allahabad Bank Loan account have not been presented. The Accountant of the Provincial Bank must see that receipts and payments recorded by him are, in due course, recorded by the Allahabad Bank.

#### *The Journal.*

It has already been explained that the Abstract Registers are journalised every month and posted in the General Ledger. The entries refer to the actual movements of cash and they come through the Cash Book. There are various other entries in the Journal which are of the nature of adjustments, such, for instance, as renewals of loans and deposits, closing adjustment entries for depreciation, etc., etc., and they are made in the Journal from time to time as transactions take place, and are then posted to the General Ledger. When the accounts are

finally balanced, the balances are taken to the Profit and Loss Account and to the Balance Sheet through the Journal. This book serves an important purpose, and with its help, actual cash transactions can be distinguished from mere adjustments very easily.

#### *The General Ledger.*

This is a blank register of accounts with dr. and cr. sides and two money columns on each side as explained and illustrated in Chapter I. The General Ledger contains all the accounts of the Bank, real, personal and nominal. The various personal accounts in the Ledger of Loans Taken, Ledger of Loans Advanced, Ledgers of Fixed and Current Deposits are all totalled every month and posted in this ledger which is self-balancing. From the General Ledger, the Balance Sheet is prepared. When all the accounts in the General Ledger have been closed and the balances taken to the respective sides of the Profit and Loss Account and the Balance Sheet, the two sides of the Balance Sheet *must agree*. The Manager of the Provincial Bank prepares a trial balance every month and this is placed before the Directors and signed by them. No mistake can escape the notice of the Accountant for long for it will come to light when striking the monthly trial balance.

#### *The Accounts of the Federation.*

The accounts of the head office of the Central Provinces Federation of Co-operative Banks are maintained in the Provincial Bank. All Central Banks contribute Rs. 10 and the Provincial Bank Rs. 50 annually to the head office expenses of the Federation. In addition, contributions are made by Central Banks, from time to time, for special purposes of common interest such as the printing of Conference Reports, etc., etc. The Provincial Bank is the Treasurer of the Federation. Only two books, a Journal and a Ledger, are maintained for the Federation head office. At the beginning of each co-operative year, all Central Banks are debited with the subscriptions due to the Federation head office and credited from time to time as payments are received from them. The whole amount of

the subscriptions received is treated as profit and expenses incurred on account of printing, stationery, establishment, contingencies, etc., are debited to nominal accounts which are closed in a Profit and Loss Account at the end of the year. The balance of the Provincial Bank account in the books of the Federation and that of the Federation account in the books of the Provincial Bank must agree. This balance represents the cash balance of the Federation in the hands of the Provincial Bank.

When funds have been sufficient, the Federation has paid and trained candidates for employment under Central Banks, and all such trained candidates have immediately found employment. In this direction, the activities of the Federation are bound to develop.

Every Central Bank has to submit to the Federation in the months of May and June budget estimates of income and of administrative expenses for the ensuing year. The Governor of the Federation subjects these budgets to careful scrutiny, paying special regard to such questions as staff and emoluments, the provision of suitable business premises, provision of reserve and sinking funds, bad and doubtful debts, etc., etc.

Monthly business returns are submitted by every Central Bank to the Secretary of the Federation through the Circle Auditor, who is held responsible for the correctness of the information given. These monthly returns are most important and they are placed before the Governor for his information and orders.

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## CHAPTER VI.

### AUDIT AND RETURNS.

SECTION 17 of the Co-operative Societies Act imposes the responsibility for the audit of Registered Societies upon the Registrar. *The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf the accounts of every Registered Society once at least in every year. The audit shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.* It is most important to note the fact that

overdue debts *must* be examined, and that the valuation of assets and liabilities required by law applies to the society in its corporate capacity only, and not to its individual members in their private capacity. It is not part of an Auditor's legal duty to write up the Haisiyat Register, which, as I have already pointed out, is a most dangerous guide if used blindly in the assessment of credit.

At present the Registrar is, in the Central Provinces and Berar, the Governor of the Federation as well. But the agency by means of which audit is regularly carried out is not altogether official; the staff of 1 Chief Auditor and 22 District Auditors employed and paid for by Government, is supplemented by a staff of Federation Auditors. The money with which to pay the servants of the Federation comes, as we have already seen, from the annual subscription of Re. 1 which every member of a primary society undertakes to pay, and from the revenues of the Provincial and Central Banks. The audit of these latter institutions is carried out, in the case of the Provincial Bank, by a firm of chartered accountants, and, in the case of the Central Banks, by the Government Auditors. The Federation Auditors are, in fact, intended to deal with the audit of primary societies only.

It is not the intention of Government to increase the number of Auditors employed and paid for by the State. This policy is based not so much upon considerations of expense as on the indisputable fact that the experience of every country is that State audit is never as searching, as thorough, and as complete, as the audit of a staff employed and paid for by co-operative institutions themselves. State audit is prone to be mechanical if it is performed by a State establishment, and on this point great experts such as Wolff, Luzzatti, and Haas are unanimous. It is, however, necessary that the system of audit should be regulated by, and be under the control of the State. "The duties of control and audit" declare the Government of India\* "cannot be left entirely to the private agency of

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\* Paragraph 29, "Co-operation in India," Resolution No. 12-287-1, Simla, the 17th June, 1914.



Unions and Central Banks. It is desirable that this non-official agency should be utilised as much as possible and that purely departmental routine in the work of audit and control should be avoided, but the success of the movement would be endangered if this principle were carried out to an extreme. Without some degree of Government supervision Registrars would lose touch with the societies; and the outside public, who depend largely on the information possessed by Registrars, and who value the scrutiny carried out by those on whom they rely, would lose that confidence in the financial position of the societies which it is so essential to maintain. Had this safeguard been neglected, it is doubtful whether societies would have escaped—as fortunately they have almost everywhere escaped—the evil effects of the recent banking crisis in India, and the circumstances attending that crisis indicate that any arrangement which would dispense altogether with Government supervision is impracticable. The audit, moreover, of a group of societies by a central society, whose own credit is bound up with that of the societies dependent on it, will not be accepted by the public as equivalent in value to an audit by an outside agency. It is necessary, therefore, that societies should be controlled and audited by a reliable staff which can keep the Registrar informed of the financial position of the societies, and it is also necessary that the agency employed should be such as will ensure the confidence of the money-lending public. The staff need not be paid by Government, and it is indeed as a rule better that societies should themselves be responsible for the payment of the controlling and auditing staff than that they should be indebted to Government for its services, but whether the staff is paid by the societies or not, it is ordinarily advisable that it should be appointed subject to the approval of the Registrars, and that it should remain under their general control. If by this or any other means the two main conditions above noted are satisfied—first, that Registrars should possess reliable information regarding the financial position of societies, and secondly, that the outside public should have confidence in the control and audit—it is an advantage that the number of Government officials employed should be as small

as possible, and every effort has been made to reduce to the lowest figure the agency directly employed by Government." "In order to be fully co-operative and thoroughly business-like," remark the Committee on Co-operation in India,\* "a society must live up to a high standard. Considering the class of people who compose the bulk of the agricultural societies it is useless to expect the maintenance of such a standard without frequent audit and unceasing supervision from without. It is difficult to exaggerate the importance of such audit and supervision. Without them a good society may soon degenerate and a bad society may soon come to ruin. The work of audit and supervision should in the first instance be vested in the higher co-operative institutions, Unions † and Central Banks, but the ultimate responsibility for these duties must rest with the Government as represented by the Registrar. There is indeed no reason, in our opinion, why the whole of such supervision and audit should fall on the Government staff and be met at Government expense. A full audit by a Government staff of the accounts of each society is essential, but this might take place once in two or three years, the audit in the meanwhile being conducted either by the Unions, where these exist, or by the central financing institutions. Constant supervision is part of the duty of a Union, and where there is no Union it should be incumbent on the central financing institutions to carry out the duties of supervision and to maintain an efficient staff for the purpose. The cost of this can fairly be met by the societies either by a direct contribution or by the central financing institution's charging on loans to them a rate of interest which will cover the expenditure. At the same time we hold that the Registrar cannot abrogate his responsibility in the matter of directing and supervising this co-operative audit and supervision, and that he must see that the influence of central financing institutions is not misdirected or applied in wrong, improper or mischievous ways, and must maintain an efficient direction and control to ensure that the movement

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\* Page XVI of their Abstract Report.

† "Federations" is the correct term.

is kept on co-operative lines and is confined to these lines. The exercise of due care before formation and the ensuring of full and proper supervision after formation we consider indeed the most important part of the Registrar's duty. If the Primary Societies are sound and solvent the whole provincial edifice must be sound unless there is instability in the higher finance. If the Primary Societies are unsound, if they are based on mere money lending and not on co-operative principles, no matter how sound the higher finance may apparently be, its assets will be locked up in indifferent or bad securities and sooner or later serious trouble, if not failure, is bound to result."

In co-operative work the term "audit" includes an enquiry into all the circumstances which determine the general position of a society; and it is clear that an audit in this sense entails a much more comprehensive examination than is usually made in the case of purely commercial concerns, the reason being that it is not only money which is at stake, but the moral and material progress of the co-operative movement which, of course, is a matter of great public importance deeply affecting the future of India.\* Audit, in fact, must include inspection; and inspection made by a man with local knowledge and experience, dependent for his bread upon the welfare of the societies, is far more likely to be efficient than the inspection made by a man without such knowledge and sense of dependence.

In course of time, therefore, the number of Federation Auditors will increase; and as the movement gathers that internal strength which it is the purpose of Government to foster, the organization of the Federation will gradually become complete and its staff thoroughly efficient and reliable. Finally, when the goal has been reached, it will be possible for the Governor of the Federation to step into his proper place in the system and to take over, from the Registrar, the control of the Federation Auditors. The present Government Auditors will, most probably, become Government Inspectors, and the Registrar,

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\* "If the system of co-operation can be introduced and utilised to the full, I foresee a great and glorious future for the agricultural interests of this country."

H. M. The King-Emperor.

13th December, 1911.

while remaining responsible for the efficiency of audit, will be able, with the assistance of the Federation organization, to deal with the vast amount of work which the future ought to have in store. It is in this direction that the movement towards co-operation ought, in the writer's opinion, to develop.

The Federation Auditors are on a separate provincial cadre of their own; they are not, in any way, under the control of the Central Banks nor of the primary societies, though the members of the latter are fully aware that they pay for Federation audit and that they can, if they have any complaints to make, make a representation either to their Central Bank, or to the Government Auditor, or to the Governor of the Federation, or to the Registrar. For the executive and administrative work assigned to the Central Banks as such, and conducted by the staff controlled by the Central Banks, the Federation Auditors are not responsible. Their functions are strictly confined to the work of statutory audit, and for this work they are specially trained. Incompetent men are weeded out by the Registrar, and would, if there was a separate Governor of the Federation, responsible to the Registrar, be dealt with by him. Subject as it is to check by the Government Auditor, and to a somewhat jealous scrutiny on the part of the Central Bank, the work of a Federation Auditor must reach a high standard if it is to give satisfaction. Moreover, the work of the Federation and of the Government Auditors is inspected by the Chief Auditor (who is bound to make a *local* examination of the audit of a certain number of primary societies in detail, in each Government Auditor's charge), by the Deputy Registrars, and by the Registrar. As might be expected, it is no easy matter to recruit and train men for the Federation audit staff; for the work involves constant touring in the villages, and requires strength and health as well as integrity and intellectual ability. The future before the co-operative movement is, however, fraught with great possibilities, and a good career is already open to the right stamp of man.

What are the qualifications which a Federation Auditor must possess? He need not necessarily know English, though if he is to rise high in the service of the Federation he will find

that a knowledge of English is necessary. Most Central Banks, for instance, prefer to employ a man who knows English. He should be young; for if, by hard and zealous work, he contributes to the success of the co-operative movement he will find that the people whom he helps and benefits will be grateful to him. He must be intelligent enough to study local problems and conditions and to study the interests of the people who pay him, that is to say of co-operators. He must be patient, upright, and steadfast; and he must be content to live on his salary and not corrupt those with whom he works nor allow them to corrupt him. The first quality a Federation Auditor must possess is *character*.

Now, as a rule, Federation servants either cannot look or do not take the trouble to look beyond "the daily round, the common task." Not that these furnish all that they ask for—far from it. Promotion, they think, is simply a matter of time; the mango ripens on the tree, the salary should increase automatically. But in the business of co-operation, it is very necessary to take a strictly business view of merit. Let us, for instance, take the case of an audit circle. In size such a circle is from about 70 to 100 villages, varying according to local conditions; it is, at any rate, a very considerable tract of country. To the circle is posted a Federation Auditor without the qualities required of a co-operative worker. The societies remain dull, uninstructed, lifeless; "borrowing" societies they are, and nothing else. The Auditor points out, in an apathetic way, all the defects which the societies exhibit. He then considers that he has done his duty, and although the societies fail to make progress and regard the visits of the Auditor as a nuisance, he expects promotion and is pained and surprised because he does not get it. The inspecting authorities (if they are worth anything at all) notice the stagnation in the circle, and they change the Federation Auditor. The new man has sympathy, energy, and that desire for knowledge which is characteristic of the business intellect. He gets into touch with the societies, teaches and exhorts without stopping, and learns the needs of the locality. Being a good judge of men he gets rapidly into touch with the leading members of the

societies and is wise enough to use them and work through them. The societies improve, thrift increases, mutual supervision becomes a reality and not a farce. The societies begin to clamour for improved seed and to take a keen interest in the demonstration work of the Agricultural Department. The inspecting authorities note the results obtained, and they mark down the Auditor as a valuable servant. In the management of co-operative business it is fatal to ladle out promotion without strict attention to worth. It is not sufficient to say "B, it is true, is a far more valuable servant than A but there is nothing against A. Therefore, promotion must go to A because he is the senior man." The point is (and it is to this outlook that the Directors of Central Banks and others must adjust their view) that B is worth more salary than A because he obtains results which A cannot obtain. In other words, B is the better man.

It is of very great importance that it should become known that the service of the Federation offers a career to talent, and quick promotion to men of real ability. Otherwise, the Federation staff will be of inferior material.

#### *Audit of Primary Societies.*

The audit of a primary society, and indeed of any co-operative institution must be made at its registered headquarters. If audit is to include a searching inspection as many members of a primary society as possible must be in attendance. Auditors are absolutely prohibited from summoning the members of primary societies away from their villages, and the account books and registers are not to be removed from the custody of the Secretary. A formal paper audit serves no practical purpose. Local information is what is wanted and this can only be obtained by enquiries made in the village itself.

All Auditors are supplied with a printed form containing questions which they are expected to answer fully and intelligently. The trend of these questions will be apparent to readers who have studied the preceding portion of this book. The questions are given below.

*Preliminary.*

1. What is the area to which the society's operations extend? And is this area restricted in accordance with the by-laws?

2. Has the Society Moharrir kept the books and accounts properly? What sum is in arrears (not paid into the Central Bank) on account of Federation subscriptions?

*Register of Members and Haisiyat Register.*

3. Is the register of members property maintained?

4. How many new members have joined since last audit?

5. Have all new members been elected formally and paid their admission fees?

6. Have any members been expelled or withdrawn? If so, for what reasons?

7. Has the Haisiyat Register been properly maintained? And is it kept up to date?

8. Is the Haisiyat Register entered up by the Society Moharrir in a General Meeting of all the members of the society?

9. How many entries in the Haisiyat Register have you tested in detail and with what results?

*Capital.*

10. What is the capital of the society and how is it raised? What is the credit limit fixed for the society by the Central Bank?

11. Is there any prescribed limit to the capital? If so, has the limit been exceeded?

12. Have repayments on account of principal and interest been punctually made?

13. Are the borrowing powers of the society duly fixed by the members in general meeting? Have these powers been exceeded?

*Rokar (Cash Book).*

14. Does the opening balance of the present audit agree with the closing balance of last audit?

15. Is the daily balance signed by the Secretary?

16. Have you checked all items of receipts and expenditure with subsidiary accounts and vouchers? If not, why not?

*Khatas (Ledger).*

17. Have you traced all the entries to the Rokar?

18. Are credits and loans to individual members granted only after full consideration by all the members assembled in General Meeting?

19. Are there any overdue loans? If so attach a list of these to the note and mention against each the date of the original advance and the prospects of recovery as far as can be ascertained.

20. Is the purpose of each loan duly recorded?

21. Are repayment kists fixed with reference to the purpose of loans?

22. Have any loans been misapplied? If so, what action has been taken?

*Deposits and Loans taken by the Society.*

23. What is the amount of the deposits made by (a) members, and (b) non-members? Is the society allowed to accept deposits from non-members?

24. Have you scrutinized the Pass Books of the members present and found that the deposits and withdrawals are properly accounted for in the Rokar?

*Proceedings Books.*

25. Are the minute books properly written and meetings regularly held and attended?

26. Are credit limits for each member fixed and are the purposes for which loans are granted duly considered and sanctioned by the members in General Meeting? And does the Panchayat, within such limits, subsequently carry out the duties of supervision and careful scrutiny imposed on it by by-law?

*General.*

27. Have you verified the Cash Book balances with the cash in hand and found it correct?



28. Have you explained the meaning and importance of the Reserve Fund ?

29. What is the amount of the Reserve Fund ?

30. What rate of interest does the society pay on loans and deposits ?

31. Is the working capital of the society sufficient for the legitimate needs of its members ? If not, what steps does the society propose to take to find sufficient capital ?

32. Was the Annual General Meeting held and were the Panchayat and office bearers duly elected ?

33. Have you explained the society's by-laws to the members ?

34. Has the society a copy of the Co-operative Societies Act ? Have you explained the important sections in the Act and the "dispute"\* procedure to the society ?

35. Has the society a copy of the Registrar's Vernacular Circulars ? Do the members understand the Circulars ? If not, have you carefully explained them ?

36. Are the accounts on the whole well, punctually, and correctly kept ?

37. Is the management efficient ?

38. Have the defects pointed out in the last audit note been remedied ?

39. Are there any remarkable or unusual matters to bring to the Registrar's notice ?

*Note 1.*—Statement No. 2 appended to the Audit Note is to summarise all receipts and disbursements for the co-operative year to which the Profit and Loss Statement and the Balance Sheet relate. It should not be prepared for the broken period running from the date of the last audit to the date of the current audit. Receipts and disbursements must be abstracted from the Cash Book in order to compile the Statement. There is no Government money employed in loans to co-operative institutions in the Central Provinces and Berar and primary societies have no share capital. In the case of

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\* See rules 25—33 of the rules made by the Administration under section 43 (2) (1) of the Act. (Appendix IV).

primary societies, therefore, serial items Nos. 2 and 6 on the "Receipts" side and items Nos. 1, 6, 7 and 9 on the "Disbursements" side will be blank.

*Note 2.*—Statement No. 5 is to contain an abstract of the entries in the Cash Book from the preceding 1st of July to the date of the current audit.


*Note 3.*—Statement No. 7 is an abstract of the Haisiyat Register. The value of land held in non-transferable right is not to be included in serial item No. 5 on the "Assets" side and in dealing with item No. 7 on the "Assets" side the greatest care should be taken to avoid enquiries of an inquisitorial nature. Serial item No. 6 is instructive as backward villages very frequently have no carts at all, and the number of carts in a village is often a very useful guide to its economic condition. The main purpose of this Statement is to ascertain whether co-operative credit is increasing the material prosperity of the members of the society or is merely adding to their indebtedness.

*Note 4.*—The Auditor is required to distinguish between debts which are (a) good, (b) doubtful, and (c) bad.

*Note 5.*—On completion of the audit a certificate is to be furnished in the following form:—

#### AUDIT CERTIFICATE.

I certify that I have this day completed the local audit of \_\_\_\_\_ Tahsil, \_\_\_\_\_ District.  
 the accounts of the \_\_\_\_\_ *Bank Limited.* No. \_\_\_\_\_  
*Society, <sup>Limited</sup>/<sub>Unlimited</sub>*

The certificate of registration is correct and in order and is held by the  *Bank Society* and business has been transacted with fairness, legality and honesty.

The accounts for the period \_\_\_\_\_ to \_\_\_\_\_ have been scrutinized in detail,

\* In the blank circle enter capital A, B, C, D or E.

corrected where necessary, and left in clear order and up to date.

The  $\frac{\text{Bank}}{\text{Society}}$  is  $\left\{ \begin{array}{l} \text{A—(Very good.)} \\ \text{B—(Good.)} \\ \text{C—(Fair.)} \\ \text{D—(Bad and unco-operative.)} \\ \text{E—(Financially dangerous.)} \end{array} \right.$   
 (Signature) \_\_\_\_\_

Dated \_\_\_\_\_ 191 .

*Brief reasons for class allotted (The Auditor should be clear and brief.)*

*Brief remarks by the Circle Officer (The Circle Officer should be brief and to the point.)*

From the information contained in the audit note an abstract is entered on the reverse of the audit certificate thus :—

BALANCE SHEET AS ON 30TH JUNE 191 .

(Registrar's Form No. 3.)

| LIABILITIES.               |    | Rs.   | ASSETS.              |    | Rs.   |
|----------------------------|----|-------|----------------------|----|-------|
| Central Bank's loans       | .. |       | Loans outstanding    | .. |       |
| Deposits of members        | .. |       | Interest outstanding | .. |       |
| Interest due on :—         |    |       | Investment % of :—   |    |       |
| Loans and deposits         | .. |       | Reserve fund         | .. |       |
| Other items                | .. |       | Other funds          | .. |       |
| Reserve Fund               |    |       | Other items          | .. |       |
| Profit and Loss account :— |    |       |                      |    |       |
| Profit up to 30-6-19       | .. |       |                      |    |       |
| Profit for 19 —19          | .. |       |                      |    |       |
| Carried to reserve         |    |       |                      |    |       |
|                            |    |       | Cash Balance         |    |       |
| Total Liabilities          | .. | _____ | Total Assets         | .. | _____ |

ASSETS AND LIABILITIES OF THE SOCIETY ON \_\_\_\_\_ 191

(Registrar's Form No. 7).

| ASSETS.                  |    | Rs.   | LIABILITIES.         |    | Rs.   |
|--------------------------|----|-------|----------------------|----|-------|
| Value of landed property | .. |       | Debts due to society | .. |       |
| Other assets             | .. |       | Outside debts        | .. |       |
| Total                    | .. | _____ | Total                | .. | _____ |

*Registrar's Office note regarding compliance by the Society with the Audit Note.*

The classification of societies is a most difficult matter and the general tendency is to underclass. For instance, if a society has had bad crops and has for that reason been unpunctual in repayment it does not follow that it is either unsound or bad from the co-operative point of view. Erroneous classification is generally due to lack of local knowledge ; for lack of local knowledge is responsible for a want of confidence on the part of those responsible for supervision and audit. The tests to apply to co-operative efficiency are roughly as follows. A progressive society must show :—

- (a) increasing deposits by members ;
- (b) increasing reserve funds ;
- (c) profitable use of money borrowed, as betokened by increased assets ;
- (d) diminishing outside debts ;
- (e) punctuality in repayment ;
- (f) a full sense of mutual responsibility ;
- (g) full mutual knowledge ;
- (h) an intelligent understanding of the main principles as set forth in the leaflet described in the Chapter on Primary Societies and pasted in each member's Pass Book ; and
- (i) mutual control and keen interest on the part of all the members.

Societies must be given to understand that failure to progress in co-operative efficiency will result in a loss of prestige and, therefore, of credit.

All audit notes pass through the hands of the Government Auditor responsible for the District in which the society is situated and are submitted to the Deputy Registrar in charge of the territorial Division.

As regards the submission and disposal of the audit notes of primary societies the following procedure is observed :—

- (a) The Auditor prepares or causes to be prepared two copies of the audit note in Vernacular.
- (b) He sends one copy of the note and the audit certificate to the Deputy Registrar.

- (c) The Deputy Registrar passes orders on the audit note and returns it to the Auditor and keeps the audit certificate with him. The Deputy Registrar has thus a pending file of audit certificates the reduction of which is one of his principal duties.
- (d) The Auditor enters the remarks of the Deputy Registrar on the second copy of the audit note and then sends the complete note to the Central Bank for necessary action.
- (e) The Central Bank *after necessary action has been taken* returns the note to the Deputy Registrar through the Auditor with a certificate of compliance.
- (f) The Deputy Registrar after satisfying himself that all is in order declares on the back of the audit certificate that audit is complete and then despatches the audit note and the certificate to the Registrar's office.
- (g) In the Registrar's office the necessary entries are made in the register of statutory audit ; and in the Provincial Bank office statistics are entered on record cards which are maintained in the following form and cover a period of ten years :—

\_\_\_\_\_ *Co-operative Society* \_\_\_\_\_

Bank \_\_\_\_\_ Registered No. \_\_\_\_\_

Date of Certificate \_\_\_\_\_ 19

|                            | 19 | 19 | 19 | 19 | 19 |
|----------------------------|----|----|----|----|----|
| Number of Members ..       |    |    | •  |    | •  |
| Total Assets ..            |    |    |    |    |    |
| Total Liabilities ..       |    |    |    |    |    |
| Reserve Fund ..            |    |    |    |    |    |
| Members' Deposits ..       |    |    |    |    |    |
| Loans from Central Bank .. |    |    |    |    |    |
| Class of Society ..        |    |    |    |    |    |

(h) Finally, the audit note is returned by the Registrar's office to the Central Bank through the Auditor. Thus, each Central Bank and each Government or Federation Auditor has a complete series of the audit notes prepared for primary societies, while essential information regarding each society has been abstracted and tabulated in the offices of the Registrar and of the Provincial Bank. The audit certificate is filed on the society's permanent record.

In order to keep in touch with the progress of annual audit, weekly returns are submitted to the Deputy Registrars by the Auditors and passed on by the Deputy Registrars to the Registrar. From the weekly returns the Chief Auditor prepares for the Registrar's information a monthly progress return of audit for the whole Province.

*The Audit of Circle Unions of Primary Societies.*

The books of each Circle Union must be audited once in a year. The Auditor must see that the List of Societies is correctly maintained; that new admissions are legally made; that credit limits are properly fixed and not exceeded; that the voucher system has been intelligently used and that the Proceedings Book of the Circle Union and other records are maintained and the by-laws observed.

The Ledger of Loans must be checked from the Advice Notes of the transactions received from Central Banks. A list of overdue debts must be prepared. Interest on all loan accounts must be calculated and debited or credited as on the preceding 30th June, and the accounts must be left in clear order and up to date.

The Unions make no profit. The necessary statements, therefore, are (1) the Statement of Receipts and Disbursements, (2) the Balance Sheet, and (3) the list of overdue loans.

The Audit Note and Audit Certificate are submitted in the same way as those of Primary Societies.

*The Audit of Central Banks.*

The Central Banks are at present audited by the Government Auditors ; and the following instructions issued by the Registrar will be useful to Directors and others who make periodical inspections :—

- “ 1. Furnish information on the following points :—
- (a) Name of the Bank, Tahsil, District, date of registration and date of audit ;
  - (b) the period covered by the audit ;
  - (c) the amount of the authorised and of the working capital and the manner in which the latter has been raised ;
  - (d) the area of the Bank's operations and the number of societies financed.

*Review of last audit.*

2. See whether the defects pointed out in the last audit have been remedied.

*Register of Shares.*

3. See that the shares are properly entered in the Register of Shareholders and that share certificates have issued.

*Register of Shareholders.*

4. See that the register is properly maintained, that members have been properly elected and that admission fees and the amount of calls made have been duly paid.

*Cash Book.*

5. See that the opening balance of the present period of audit agrees with the closing balance of the preceding period. Also see that the totals have been correctly made every day, and the correct balances carried forward from day to day.

6. State whether the daily cash balance is certified by the signature of the Secretary or other authorised officer of the Bank.

7. Check all receipts on account of share payments and entrance fees with the Register of Shareholders ; all receipts

on account of deposits with the depositors' accounts ; all loans taken with their respective loan accounts ; the sale proceeds of stock with the stock account, and all loans repaid by societies with the societies' loan accounts.

8. In all cases in which receipts cannot be traced in any register, the papers relating to them should be carefully scrutinized and the receipts checked.

9. Check loans and deposits repaid, with interest thereon, with the Ledger of Deposits ; Loans to societies with the Ledger of Loans Advanced ; dividend and bonus paid with reference to the Record of Dividends ; stock bought with the Stock Account, and " Establishment and Contingencies " with papers relating to them and with the " payment orders."

10. For all important items of disbursement, the receipts obtained should be inspected and examined and defaced so that they cannot be produced to support a second charge.

*Abstract Registers of Receipts and Disbursements.*

11. See that these are properly posted in the correct columns and are maintained up to date.

*Ledger of Loans Advanced.*

12. Check the calculations in each account throughout.

13. See that every entry on the receipt and payment side is supported by an entry in the Cash Book.

14. Make a list of all overdue loans and note against each loan the prospect of recovery (as far as can be ascertained), and make also a list of all doubtful loans.

15. Scrutinize the list of loans prepared as above at last audit, and if any item on that list is still outstanding, deal with the case in detail.

16. See that all societies to which loans have been made are registered societies.

17. Scrutinize the agreements, pro-notes, and vouchers, and check them with the books of accounts.

18. Check (and state how many you check) a number of pass books and see whether the entries therein agree with the societies' ledger accounts.



*Ledger of Deposits.*

19. Check the calculations of each account throughout and see whether payments of interest have been regularly made or capitalised, and the deposits formally renewed on due dates.

20. See whether any deposits fell due for payment during the period covered by the audit and whether they were punctually withdrawn or renewed.

21. See that all receipts and disbursements entered in these Ledgers are supported by entries in the Cash Book.

*Reserve Fund Accounts.*

22. Is the Reserve Fund properly maintained in accordance with the provisions of the Act, the rules, and the by-laws of the Bank? See whether the Registrar's orders regarding the investment of Reserve Funds have been properly carried out. Also see whether the collections made on account of the Reserve Funds of Societies have been promptly and fully remitted to the Provincial Bank for investment.

23. See whether the Register of Reserve Funds is maintained in accordance with the instructions, and check the entries in the Register with the Cash Book.

*Treasurer's Pass Book.*

24. See that all entries in this book are properly supported by challans and cheques *and are attested by the Treasurer*, and that the book is kept in proper custody.

*Pass Books.*

25. Ascertain whether printed pass books have been supplied to all societies, members of societies, and to depositors if fixed deposit receipts are not issued. Also see whether these pass books are kept up to date and written up regularly.

*Register of Promissory Notes.*

26. See that this Register is maintained and that all promissory notes are renewed in time. State the position of

the Central Bank's account with the Provincial Bank and whether the Central Bank has met its obligations towards the Provincial Bank punctually or not.

*Record of Dividend.*

27. Check the calculations with reference to share payments and see whether disbursements are properly acknowledged.

*Stock Register.*

28. See that this Register is maintained according to instructions.

*Proceedings Books.*

29. State whether the Proceedings Books are properly recorded and meetings are regularly held and properly attended, and whether proceedings are duly signed.

30. Comment on any measure of special importance recorded in the Proceedings Book.

*Forms.*

31. Make sure that the Central Bank gives a sufficient supply of forms and books, etc., to the societies and that these are paid for from Federation funds.

*Federation Accounts.*

32. See whether the Federation subscriptions are properly realised in advance, and state the amount in arrears. Also see whether the Abstract Register of the Federation, the Federation Societies' Ledger, and the Provident Fund Register are properly maintained and posted from the Bank's Cash Book. Also see whether the Federation expenses are in keeping with the local income.

State whether the Bank's contribution to the permanent and indivisible fund of the Federation is regularly and fully made.

*General.*

33. State whether the capital is sufficient and whether the Bank is prospering or decaying.

34. State whether Committee and other office bearers of the Bank have been properly elected and whether their duties have been properly allocated. State, also, whether the committee members work collectively and whether members take an individual interest in the work of the Bank.

35. State whether the working Committee meet regularly for the transaction of business, whether the accounts have been on the whole properly kept, whether applications for registration and for loans are promptly dealt with, whether any such applications are pending, whether the instructions issued on the societies' audit notes are satisfactorily and promptly complied with and returned, and whether the paid staff is sufficient and efficient.

36. Append the following financial statements :—

- (1) Receipts and Disbursements for the last financial year ending the 30th June.
- (2) Balance Sheet as on the last day of the financial year namely, the 30th June.
- (3) Profit and Loss Statement for the same period as for (1) and (2).
- (4) Abstract of Cash Receipts and Disbursements from the last 30th June to the date of audit."

The Central Bank audit note is recorded in a blank register kept for the purpose. The Auditor forwards this to the Deputy Registrar in charge of the Circle together with an audit certificate in the same form as for Primary Societies. The Deputy Registrar forwards the audit note to the Registrar with his remarks. The Registrar then passes orders on any important points raised in the audit note. The Registrar's office then makes two copies of the audit note embodying the remarks of the Deputy Registrar and the Registrar. One copy is sent through the Deputy Commissioner of the District to the Central Bank concerned, and the other copy is filed in the Registrar's office for record. The original audit register is returned to the Government Auditor through the Deputy Registrar.

From the copy of the audit note filed in the Registrar's office the Provincial Bank fills up record cards in the form below. Each card covers a period of ten years.

| District _____                          |  | REGISTERED NO. _____ |          |          |             |          |
|---|--|----------------------|----------|----------|-------------|----------|
| Bank. _____                             |  | Tahsil _____         |          |          | of 19 _____ |          |
|   |  | 19 _____             | 19 _____ | 19 _____ | 19 _____    | 19 _____ |
| Societies Financed .. Rural ..          |  |                      |          |          |             |          |
| A                                       |  |                      |          |          |             |          |
| B                                       |  |                      |          |          |             |          |
| C                                       |  |                      |          |          |             |          |
| D                                       |  |                      |          |          |             |          |
| E                                       |  |                      |          |          |             |          |
| Industrial                              |  |                      |          |          |             |          |
| Others ..                               |  |                      |          |          |             |          |
| Working Capital .. ..                   |  |                      |          |          |             |          |
| Share Capital (paid up) .. ..           |  |                      |          |          |             |          |
| Deposits held .. ..                     |  |                      |          |          |             |          |
| Loans from Provincial Bank .. ..        |  |                      |          |          |             |          |
| Other loans .. ..                       |  |                      |          |          |             |          |
| Reserve Fund .. ..                      |  |                      |          |          |             |          |
| Pro-notes held by Provincial Bank .. .. |  |                      |          |          |             |          |

Behind the record card for each Central Bank are filed the record cards of the societies working under it.

*The Audit of the Provincial Bank.*

The audit of the Provincial Bank is in the hands of a firm of regular Chartered Accountants acting on behalf of the Registrar. The Auditors are appointed by the shareholders in their Annual General Meeting subject to the Registrar's approval.

*The Audit of the Central Provinces Federation of Co-operative Banks.*

The accounts of the Federation are maintained partly by the Central Banks, and partly by the Provincial Bank. The Central Banks, as the authorised agents of the Governor of the Federation collect Federation subscriptions and disburse the salaries of Federation servants. The accounts maintained by

the Central Banks are audited by the Government Auditors. The Provincial Bank keeps only the head office accounts of the Federation, and these are audited by the Auditors of the Provincial Bank.

*Monthly Returns regarding Deposit Business and Increase of Share Capital.*

Central Banks, as we have already seen in the chapter dealing with them, submit monthly financial statements to the Governor of the Federation. These statements are carefully scrutinized by the Government or Federation Auditors, by the Deputy Registrars, and by the Provincial Bank. In addition, monthly returns are prepared by each Central Bank dealing with the deposit business for which it is responsible and with the increase of its share capital. These returns are submitted to the Governor of the Federation and to the Registrar, and every care is taken to see that the Provincial Bank maintains the fluid resource necessary to provide for deposit liabilities as these accrue. Attention is also devoted to the proportion which paid up share capitals bear to liabilities incurred. The rule of the Federation is that no Co-operative Bank may borrow, whether in the shape of loans or deposits, more than a sum equivalent to eight times its paid up share capital *plus* its reserve fund invested in approved securities outside its own business. As regards fluid resource the standard maintained by the Provincial Bank is one-third of the total deposits falling due for repayment throughout the Provinces during the succeeding twelve months. An additional safeguard is provided by the quarterly financial returns prepared by the Registrar and submitted to the Local Administration. These returns deal with the financial position of the movement as a whole. The Registrar is also responsible for the preparation of complete statistical statements every year. These statements deal with the twelve months ending the 30th of June, are appended to the Registrar's annual report on the working of the Co-operative Banks and Societies in the Central Provinces and Berar, and are forwarded by the Local Administration, with a Resolution on the report, to the Government of India.

## APPENDIX I.

### CIRCULAR INSTRUCTIONS ISSUED BY THE REGISTRAR.

#### REGISTRAR'S MEMORANDUM No. 1 OF 1911.

##### *Duties of Auditors.*

Auditors constantly "point out to the Secretary" or "advise the members" that such and such a procedure is wrong and such an entry has been omitted. This is insufficient. It is an Auditor's duty not only to criticize but also to put things right himself, not merely to find fault, but to help.

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#### REGISTRAR'S MEMORANDUM No. 2 OF 1911.

##### *Duties of Auditors.*

The exact duties and functions of a co-operative Auditor cannot be precisely defined. They certainly extend far beyond the mere audit of accounts. A co-operative Auditor is not to be a mere official but, he is to be, in the truest sense, the friend of the people, and it is necessary that he should be on the most cordial terms possible with them. Unless he places a very high ideal before him he cannot expect to exercise a stimulating influence upon others. An Auditor is employed not merely to give orders but to get things done.

All Auditors are expected to pass an examination set by the Registrar, and are liable to be called up for examination or re-examination at any time. Failure to pass may mean stoppage of promotion, while persistent failure will entail removal from the service.

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#### CIRCULAR No. I OF 1912.

##### *(Enforcement of prior claims under Section 19 of the Co-operative Societies Act, No. II of 1912.)*

When property bought with money lent by a Society, or crops for which it has advanced money or seed, are attached, the Society must enter and prove its claim under clauses 58 and 59 of Order XXI of the First Schedule in the Code of Civil Procedure. If this claim is rejected, it can file a regular suit under clause 63 *ibid*, and, if necessary, file an appeal on that. If the claim is upheld, the property will either be (a) freed from attachment, or (b) sold under or free from the charge as the Society may agree, according to Section 73 of the Code of Civil Procedure.

It is incumbent on the Society to prove its claim or its right to object by showing, firstly, that it has lent money to the judgment-debtor and, secondly, that this money was spent in buying the cattle or implements, etc., under attachment. It is not enough merely to state the claim. Only when proved can the claim rank before those of other creditors by virtue of Section 19 of the Co-operative Societies Act.

The Society would generally be well advised to consent to sale by the Court free of the charge and then to obtain payment from the sale-proceeds in priority to other creditors.

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REGISTRAR'S MEMORANDUM NO. 1 OF 1912.

*Equalisation of Dividend.*

For the purpose of equalisation of dividend, that is to say to make dividend up to an even figure in years when business is poor, a fund should be created; and to this fund a certain portion of the profits, after providing for reserve, should be allotted every year. It is a well-known rule of banking practice that dividend should be even and that it should never be allowed to fall below the figure of the previous year. It is, therefore, essential that young Banks should start their career with a very small and modest dividend to shareholders. If a Bank starts off by paying nine per cent. it is extremely unlikely that it will be able to continue to pay such a dividend in bad years, because no provision will have been made for the contingency fund; and in bad years profits will be small and will require adding to in order to equalise dividend. It must be remembered that we are not establishing Banks to last for a few years only but to last for ever. Permanent growth and stability will never be gained except by methods of prudence and foresight, and the same qualities that have made for success in the management of other business concerns can alone be looked to for the successful issue of the co-operative movement.

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REGISTRAR'S MEMORANDUM NO. 2 OF 1912.

*Preparation of Annual Returns.*

Central Banks should endeavour to dispense with official assistance in the preparation of their Annual Statements and Returns. It is the duty of a Central Bank to supervise the rural societies with which it is connected; and this supervision should extend to the keeping of accounts and the submission of returns. It must be remembered that Central Banks are profit making concerns managed on business principles and constituted on lines that are intended to be as far as possible self-governing. It is clear, therefore, that a business concern distributing profits to its shareholders has no right to expect executive assistance from Government free of charge. It is the task of Government to point out the correct route to success, to give expert supervision, and to assist in the creation of a spirit of independent self-help. But Government cannot do the work of Central Banks for them.

## CIRCULAR NO. II OF 1912.

*(Advance of money by the Central Banks to their Constituent Societies for the repayment of the old debts of their members.)*

The business of advancing money for the repayment of old debts is still insufficiently understood by Central Banks, and the Registrar hopes that the following instructions will prove useful:—

1. No Society should be formed for the express and *sole* purpose of paying off old debts in mass. The main object of co-operative banking is to bring capital into brisk circulation and to increase the earning power of the people by teaching them to make better and more frequent use of their money. This object can best be achieved by the employment of loans in productive work; the loan with interest to be paid back out of profits, and the borrower left, by the product of his loan, better off than he was before. Such productive loans are generally for *short terms*, they must result in brisk circulation, and they assist co-operative banking by keeping assets liquid.

2. Short term loans for productive purposes can, with safety, be granted to Societies on the strength of unlimited liability, and to individual members of such Societies on personal security. But safety disappears unless Central Banks carefully supervise the Societies working under them and unless the members of Societies exercise that mutual check which ensures that loans are not misapplied and that the dealings of every member with his Society are honest. Moreover, very powerful reasons must be required for failure to observe strict punctuality in repayment, and, in addition, it must be impressed on all Societies that it is their duty to repay and not the duty of the Central Bank to send and collect.

3. Short term loans for the relief of slight indebtedness can, generally, be given with safety on personal security. But, even in the case of such loans, a careful scrutiny of the borrower's resources is necessary. The question to be decided in each case is this: "Is the borrower's income large enough and secure enough to justify the expectation that he will be able to meet his ordinary expenses and pay interest charges and instalments of principal?"

4. Long term loans cannot, as a rule, be safely granted on mere personal security. There is always a grave risk of loss involved in such loans. The borrower may die without estate and without heirs, he may change his abode, his character may alter, his land may go from him. A thousand things may happen any one of which would result in loss of money if not to the Central Bank at any rate to members of the Society of which the defaulter is a member. The furnishing of sureties and real security may, with absolute propriety, be insisted on before granting any loan the repayment of which is to extend over a term of years. Even so, great care must be exercised in approving sureties and in making a very moderate valuation of real security, and, in almost every case, a Central Bank should gain practical business experience of a Society before undertaking to grant it long term loans.



5. Above all, it must be remembered that there is but one safe rule which can be laid down and universally applied by Banks and Societies, and that is "Lend no money about the recovery of which there is room for doubt."

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CIRCULAR NO. III OF 1912.

*(Admission of minors to the benefits of a Co-operative Society.)*

In cases in which it is considered necessary to admit minors to the benefits of a Co-operative Society it must be clearly understood that they cannot possibly be admitted as members. The proper course is to make the guardian a member and to enter up the guardian as "A" guardian of "B." But in the matter of advancing money supposed to be borrowed on behalf of minors great discretion is necessary. The safest rule to adopt is to take the guardian's credit alone into consideration and to consider whether the whole of the sum advanced could be recovered from the guardian's separate estate if necessary. This precaution will, in no way, deter an honest guardian, whose intentions as regards his ward are above suspicion, from making use of the benefits of the Society on behalf of his ward. It must be remembered that no legal claim for money advanced directly to a minor can be made. In any case where there is doubt as to the sufficiency of the guardian's security for money borrowed by him on behalf of a minor, additional sureties or real security may be quite reasonably insisted upon.

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CIRCULAR NO. IV OF 1912.

*(Exclusion of value of land from the statement of assets and liabilities.)*

The Registrar notes that when forwarding applications for registration, the total assets given in column II (of the statement of assets and liabilities) sometimes include the *value* of land. The value of land should be omitted from this column. All that is required is the total of columns 8, 9 and 10; and as regards and details of right, area and rent or revenue are to be entered up in column 7.

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CIRCULAR NO. V OF 1912.

*(Importance of encouraging local deposits in Co-operative Societies.)*

The Registrar desires to invite attention to the extreme importance of encouraging local deposits. The very best guarantee for the sound working and control of Co-operative Credit Societies is the fact that members themselves have contributed substantial amounts to working capital in the shape of savings deposits. It must be remembered that these deposits remain with the Societies and are under the direct supervision of the members. It is not enough to lay down that small compulsory deposits shall be made. Credit must be regulated by the extent to which Societies show an inclination to practise thrift; and this inclination can best be measured by an increase in the amount of savings deposits. This point cannot be too strongly insisted upon.

and all Directors and Secretaries are urged to exert themselves to encourage and obtain local deposits.

These remarks apply to Central Banks as well as to Credit Societies and all other Co-operative Institutions. The matter is an extremely urgent and important one and the Registrar trusts that all Directors and Secretaries will co-operate with him in securing large and steady increases in the amount of deposits. It must be remembered that too free a use of borrowed money is apt to lead to carelessness in management and mutual supervision.

REGISTRAR'S MEMORANDUM NO. I OF 1913. TO ALL AUDITORS.

*Education in Co-operation.*

I want you to remember that it is far more important to pay careful attention to existing societies than to press for expansion before you have seen and attended to the wants of existing societies. In particular, I do not think that you pay sufficient attention to the co-operative education of members. They must be taught the real meaning of the reserve fund and they must be made to understand that it is to the growth of the reserve fund and the annual income from the reserve fund that they must look for gradual reduction of interest on their loans. Secondly, it is most important that members should understand that loans once granted are not to be lost sight of; that the uses to which money is put must be carefully observed and effort must always be made to make money productive. Once more, our purpose is not to plunge people deeper into debt but to give them the necessary capital with which to improve their status and increase their assets, for all money taken is intended to be made profitable use of. There must not only be confidence between members but there must also be mutual supervision between members.

Next, you must impress upon the people that no effort must be spared to repay money punctually according to the terms agreed on. If members are slack in this respect and too indulgent to each other the movement cannot progress satisfactorily. The rule should be that the borrower is to have time to repay out of his profits. If profits do not accrue for reasons entirely beyond the borrower's control then postponement can rightly be given provided always that the interest is paid up. But if profits do accrue, there must on no account be any failure to repay the money according to agreement.

Next, I want you to impress upon members that if a man is worthy of confidence and trust at all he is worth financing properly. For instance, if a man wants a pair of bullocks it is useless to advance him a sum which will only purchase diseased bullocks. If the man is to have bullocks at all by far the safest course is to supply him the best and healthiest bullocks available.

Next, I find that members do not understand what they should do as regards the fixation of kists. Here the rule should be (as stated before) that the money should be repaid out of the profits resulting from the loan and that due regard must be had to the continuance of the object achieved by the loan. Take for instance a loan for seed. This should be repaid out of the crop which

is grown from the seed and should on no account be allowed to remain over as a charge on succeeding harvests. The security for the seed is the crop produced from it, and that security should not be allowed to disappear until the loan for seed has been repaid. Then, again, take the case of a loan for bullocks. Here we cannot expect the whole sum to be repaid in one kist ; two or three kists may be fixed but the member should on no account be allowed to sell the bullocks which are the security for the loan until he has paid back the money borrowed for their purchase. Loans for unproductive purposes should be cut down to the lowest figure possible with a view to protecting members from useless and extravagant expenditure. Loans for marriages may be given, but the marriage expenses should be as small as they can possibly be made ; and societies should be taught to protect the economic interests of their members in this respect.

Next, you must always take care to point out the value of thrift deposits and dwell on the fact that it is far better to allow your money to earn interest for you than to allow it to lie idle in the ground. Members can keep their own savings deposits with their societies and thus employ them under their own supervision ; or, if they prefer it, they can lodge their savings with the Central Bank. Societies, moreover, must be taught that it is the duty of all members to fix each other's credit in general meeting. Members can then be granted loans within their respective credits but it must always be understood that the Sirpanch and Secretary may, for really good reason, stop a member's credit provided they at once call a general meeting and explain and justify their action to all the members with whom the ultimate decision rests.

Lastly, you should spare no pains to impress upon societies the higher aspects of the movement. You should show them how these societies will steadily grow in importance and resources. You should show them that money put to productive purposes must result in the increase of the wealth and assets of members ; and increase of wealth means increase in comfort and better living. Members must not only work for themselves but for each other and for the future welfare and prosperity of their children. A society once established is not intended to be a temporary institution but is supposed to last for ever and to grow steadily. I find from my inspections that there is still much to be done in the way of educating the members of societies on these very important points ; and I trust that you will spare no pains to advance the cause of co-operation by patiently talking to members and explaining these important matters very clearly to them. Unless we realise, and unless Central Banks realise, that the main object of the movement is to teach societies co-operative principles and to make them self-contained self-governing bodies, we are bound to fail. It is useless having hundreds of weak societies ; and I shall be far more satisfied if, during my inspections, I find that societies are making real co-operative progress than if I find that expansion has merely resulted in the creation of a large number of weak societies ignorant of the principles of co-operation and wholly unable to control their own affairs on safe and sound lines.

## CIRCULAR NO. I OF 1913.

(Subject:—*Mortgage by members of Co-operative Societies of their transferable interests.*)

It seems necessary to explain what the policy should be as regards the mortgage by members of Co-operative Societies of their transferable interests in houses and land and immovable property of all descriptions. It is dangerous for any Central Bank to rely on mortgage security, simply because in the event of realisation being necessary the position of the Central Bank will be an extremely difficult one. The full value of property is very seldom realised when the sale is a forced one; and it is very hard to value accurately the property which is to be mortgaged. Central Banks are, therefore, warned against placing too much reliance upon mortgage security.

2. But, where members have transferable interests and these can be mortgaged *to their own societies* in order to reinforce and strengthen the joint unlimited liability which is the main security offered to Central Banks, then Central Banks would be well advised to encourage such mortgages, it being understood that mortgage security is *collateral* only to the security offered by joint unlimited liability and by sureties.

3. Where members have transferable rights they, in fact, protect themselves by making over such rights to their society; for they make it difficult for themselves to raise money on their immovable property except from their society. Moreover, should a member decide to raise money on the strength of his land or houses from an outside moneylender, he would first have to inform the society of his intention and obtain cancellation of the mortgage bond and this would certainly make for the protection of the society's interests.

## CIRCULAR NO. II OF 1913.

(Subject:—*Inspection and taking copies of records of rights and papers (kept by Patwaris) by Co-operative Societies and members of societies interested therein.*)

The following extracts from the Central Provinces Land Revenue Act (XVIII of 1881) and the Patwari Rules are reproduced for general information:—

\* \* \* \* \*

Section 147—Patwaris shall produce at all reasonable times, for the inspection of all persons interested therein, all records and papers which they are so required to prepare or keep, and shall allow such persons to make copies of such records and papers.

Patwaris to produce papers for inspection, and to allow copies to be made.

Rule CIII.—The Patwari shall allow any one interested to inspect his records in his presence and to take notes of the same, and he shall, if required, give an extract of any portion directly affecting his rights to any applicant whose name is therein recorded on being provided by the applicant with paper for the purpose.

*Note.*—By the Government of India's Notification No. 316, dated the 18th January 1889, copies of extracts certified by Patwaris to be true copies of or true extracts from records or papers which they are required to prepare or keep by any rule made by the Chief Commissioner under Section 146 of the Central Provinces Land Revenue Act are exempt from stamp duty.

CIRCULAR NO. III OF 1913 (REVISED).

(*Subject:—Control of Bank and Federation Staff.*)

Some confusion still appears to exist with regard to the Federation staff. Under the Federation by-laws every salaried servant (excepting those on the menial staff on less than Rs. 10 per mensem) working under the control of a Central Bank is bound to obtain the Governor's license to work. It follows, therefore, that all servants of Central Banks are Federation servants, no matter whether their salaries be paid by Central Banks or by the Societies under them. The Federation staff working under a Central Bank consists of (a) Bank staff proper, that is to say, Manager, Inspector, Accountant, etc., etc., and (b) Societies' staff, *viz.*, Federation Auditors and Society Moharrirs. The Bank staff is paid from the income which a Central Bank earns, and not from the Federation subscriptions which Societies pay. The Bank staff is appointed by and dismissed by the Directors of the Central Bank, subject, of course, to the Governor's licensing powers, and is thus under the discipline and control of the Central Bank. Federation Auditors are, on the other hand, licensed by the Registrar and appointed and dismissed by the Governor of the Federation. They are paid out of the subscriptions contributed by Societies. Society Moharrirs are, however, in the same position as members of the Bank staff proper, except for the fact that their salaries are paid out of the subscriptions of Societies.

2. Government is maintaining its responsibility for the control of audit. The Registrar's power to delegate authority to audit to any competent person is vested in him by law; and until Federation Auditors have been properly trained and taught, it will be impossible to delegate independent powers to them. Moreover, all Central Banks have not yet worked up to the minimum scale of one Federation Auditor and two Society Moharrirs for every circle of 100 Societies. That, however, is the minimum scale in view, and Central Banks should keep it carefully in mind and see that it is worked up to without unnecessary delay.

3. Directors of Central Banks are particularly requested to see that their touring servants maintain proper diaries showing the work they do.

The diaries of Federation Auditors will go to the Government Circle Auditor. Federation Auditors should work on definite tour programmes arranged by the Government Auditor and the Honorary Secretary of the Central Bank in consultation. All diaries kept by members of the staff under Central Banks will, in the first instance, go to the Honorary Secretary for orders and then to the Government Circle Auditor for information.

4. It is not to be understood that the maintenance of diaries does away with the submission, when necessary, to Central Banks by their staff, of separate reports dealing with any matter of special interest. If any case of defalcation is detected, an urgent report should be immediately submitted to the officer to whom the Federation servant submits his diary, that is to say, a Federation Auditor will report cases of defalcation to the Government Circle Auditor direct, while other Federation servants will submit their reports to the Honorary Secretaries of Central Banks.

5. Society Moharrirs should keep their diaries in the same form in which Patwaris keep theirs. The various entries under different dates should be signed or initialled by the Sirpanch of the Society visited, or by the Director in charge of the Circle, or by the Federation or Circle Auditor, in token of the correctness of the entries made. When preparing monthly salary bills, diaries should be carefully inspected in order to see that honest work has been done.

6. Federation Auditors should maintain their diaries in the same form as that used by Revenue Inspectors, and these diaries should be carefully scrutinized when monthly salary bills are prepared. It is requested that if these orders are incomplete in any way, a reference may at once be made to the Registrar.

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REGISTRAR'S MEMORANDUM NO. 2 OF 1913.

*Importance of proper accounts.*

The grant of an Audit Certificate is not to be easily made. It is the clear duty of the Central Bank to see that all the accounts of its constituent societies are properly kept; and I insist on this duty being efficiently carried out. Central Banks must clearly understand that I place safety and effective control and supervision of societies above all other considerations. Unless a Central Bank's control is really efficient there is no excuse for the existence of the Central Bank. If, then, I find that audit certificates cannot be granted by Auditors because Central Banks have failed in their duty I have to deal with the Central Banks and see that they mend their ways. We must have a reasonably high standard of work in this vital matter of accounts. To be slipshod and careless must be, in the end, ruinous to all concerned.

There appears to be some misapprehension regarding the duties of Government in this matter of account keeping. I will, therefore, try and make the position clear. It is not for Government to provide men to go round and write up the accounts of societies. I know that Auditors have had to write

up accounts in the past. But this can now no longer be done ; at best, such a procedure is a mockery of "Self-help." Societies cannot, as a rule, keep their accounts properly. Therefore men must be provided for the service of societies, and societies must pay for this service. Hence our Society Moharrirs. A sufficient and well-trained staff of Federation men is indispensable. These men want supervision. They get it (i) from the Central Bank, (ii) from the Registrar and his staff. For supervision Central Banks must, no less than Government, maintain a good staff of men. But the Government staff is there to exercise guidance and general control and not to execute every detail. The Central Bank staff is there to see that the wants of societies are promptly attended to, and to do all the necessary routine business involved in the working of a Central Bank. The Central Bank makes profits for its shareholders and is a paying concern. But Government pays for the Registrar and his staff out of the public purse, the sole justification for the charge on the taxpayer being the benefits which the country *as a whole* is reaping from the co-operative movement. Now these benefits have their origin in one thing, and one thing only. If that thing be absent then co-operative credit is merely so much poison to the manhood and strength of the people obtaining it. This vitally necessary thing is "self-help," the desire to make an honest effort to pay full value for benefits obtained, to work for results. It is the strengthening of moral fibre and the development of character and capacity which are the main aims of the co-operative movement. Some obstinate and ignorant people will, I fear, never understand the movement simply because they are too stupid to be able to see beyond the narrow horizon of "cheap money." "Cheap money" is obtainable only if self-help be exhibited ; the greater the personal effort, the stronger the self-help, the more earnest the united effort, the cheaper will money become for co-operators.

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REGISTRAR'S MEMORANDUM NO. 3 OF 1913.

*Policy when crops fail.*

The early withdrawal of the rains will, it now seems certain, cause crop failures of varying degrees of severity in areas in which Central Banks and co-operative credit societies are situated. It will, therefore, be of assistance to the Directors of Central Banks if I lay down the general lines of policy which should be adopted by co-operative banks and societies in times such as the present.

The principle underlying co-operative finance is that the borrower must be given time to realise the purpose of the loan which he has taken and pay back the loan and interest out of the profits he makes, leaving his estate the better off for the transaction. Now it is obvious that when crops are bad postponements will have to be granted to borrowers. But I cannot too sufficiently impress upon Central Banks that postponements should bear a direct relation to the degree of crop failure experienced by the particular society and

the particular member concerned. It is bad policy to grant wholesale postponements when conditions vary from village to village and from holding to holding. In the matter of agricultural prospects certain districts are this year much better off than others. Again certain parts of districts, and even of tahsils, are badly affected by this season while other parts have, owing to the local nature of the rainfall, been more favoured. It will therefore be necessary for Central Banks to use great discretion in the coming year, and to make full use of the staff at their disposal in order to acquaint themselves thoroughly with the circumstances of each credit society. Enquiries of this nature cannot be conducted merely from headquarters, nor can any accurate opinion be obtained by merely listening to the vague rumours and reports of people who have no direct interest in the welfare of co-operative societies. Each bank must face the task before it in a methodical manner and must accumulate its own evidence in order to enable it to deal justly with its constituent societies.

It is in times of uncertainty, and even of distress, such as the present that Central Banks should make it their business to put good heart and confidence into the societies the affairs of which they are responsible for. The people must not be allowed to suppose that co-operative institutions are merely intended for good seasons and are not likely to be of service to borrowers in bad years. Loans should, therefore, be granted for every reasonable and legitimate purpose provided that credit is sufficient. It would be unreasonable for borrowers to expect, in times like the present, large loans on easy terms for ceremonial expenditure or for unproductive purposes. Economy must be the watch-word of all concerned, and expenditure must be reduced, if unproductive, to the lowest limits. I trust that it will be understood by all Central Banks that the present season furnishes them with an opportunity of showing how valuable they can be as friends to the people and how wisely their Directors can administer their affairs during periods of distress and difficulty. It would be fatal, I need scarcely point out, to restrict credit unreasonably and thereby to drive the members of co-operative credit societies back into the clutches of private money-lenders. The *Sahukar* is no doubt on the watch and will not fail to take full advantage of the slightest weakness which may now be exhibited by the Directors of our Central Banks.

Most of our banks are now in the position of having to expand their business in order to find the funds with which to pay the staff which is indispensable for the work of a bank and its societies. This expansion of business may either take the form of increasing the membership of the existing societies or the organization of fresh societies. As a general principle I would lay down that a Central Bank should first make certain of satisfying all the reasonable requirements of its existing societies and their present members before seeking for expansion. Thus, it must be borne in mind that a bad *kharij* harvest followed by a poor *rabi* crop will probably lead to short collections and to small turnovers. About June or July, 1914, when the rains break there will be a demand for money for *kharij* operations, and this will be followed again by a



demand for the needs of *rabi* cultivation later in the year. It will not be until May, 1915, that money will begin to come back to the banks from the societies in normal fashion. I am, however, of opinion, after most careful deliberation, that it will be the best and soundest policy to allow all our Central Banks to expand, at any rate up to their budget requirements ; and I would go further than this and say that the universal rule should be that all good and sound business well tested and well enquired into should be accepted and that all doubtful business involving unusual risk of any kind should be steadfastly rejected. I think that we are in a position, thanks to the steps that we have taken in the past year or so to strengthen our resources and organization, to meet the present difficulties of the situation calmly and to continue the even flow of our business just as though prospects were favourable and harvests likely to be excellent.

I cannot close this letter of instructions without once again impressing upon the Directors of Central Banks the absolute necessity for good, sufficient and capable paid Federation staff. Where I see that banks are failing to carry out the accepted policy of the Federation I shall absolutely refuse to help expansion. Nor, of course, shall I permit expansion on unsound lines.

The time has now passed for experimental measures ; and it is only by effective organization and constant care and attention to business that we can hope to make of our co-operative banks and societies that tremendous machine for good which we all hope they will prove to be.

CIRCULAR NO. V OF 1913.

(Subject:—*Custody and renewal of pro-notes.*)

1. It has been the practice for Central Banks to forward the pro-notes executed by Credit Societies to the Provincial Bank, and for the Provincial Bank to forward these pro-notes to the Allahabad Bank. - This procedure has been necessary in order to introduce Central Banks and Societies to, and educate them in, the pro-note system. With experience, however, we are now able to take another step forward.

2. The present practice produces unavoidable difficulties. Central Banks cannot obtain ready access to the pro-notes of their Societies ; and it thus comes about that the pro-notes held by the Allahabad Bank and the Provincial Bank are not infrequently out of date in respect of the transactions they relate to. The Registrar, therefore, directs that, in future, the simple rules given below shall be strictly observed.

3. (i) No Central Bank shall lend money borrowed from the Provincial Bank except to Co-operative Societies registered *with unlimited liability*.
- (ii) Such loans must invariably be secured by a pro-note or pro-notes in the form prescribed by the Registrar.
- (iii) Pro-notes executed by Societies must be kept in safe custody in the offices of Central Banks.

- (iv) When a Central Bank borrows money from the Provincial Bank it shall execute a pro-note or pro-notes in favour of the Provincial Bank; and the Manager of the Provincial Bank shall see that all pro-notes forwarded to him are duly signed by the person or persons authorised by by-laws, or by resolutions passed in accordance with by-laws, to sign on behalf of each Central Bank.
- (v) Pro-notes executed by Central Banks shall be forwarded, when necessary, to the Allahabad Bank after proper endorsement by the Provincial Bank.

4. The Assistant Registrar, the Chief Auditor, and all Government Auditors are ordered to see that the above rules are scrupulously observed. Auditors are, at the time of passing and testing the monthly returns from Central Banks which have been prescribed by the Registrar, to check and examine the pro-notes of Societies held in safe custody. It must, in particular, be seen that the loans granted to Credit Societies are fully secured by pro-notes held by the Central Bank; and all pro-notes must be very carefully examined and checked with reference to the cash-book and ledger of loans. Care must be taken to see that pro-notes are up to date with respect to the transactions they cover, and that they are not time barred. The regular annual overhaul of all pro-notes as already laid down by the Registrar must be insisted on. It may also be mentioned, in this connection, that the Registrar expects his Auditors, at their monthly inspections of Central Banks, to see that all work is up to date, that applications for registration are promptly disposed of, applications for loans promptly attended to, etc., etc. These orders do not in any way affect the standing orders of the Department on the subject of audit which is an annual affair and distinct from regular and systematic inspection.

CIRCULAR NO. I OF 1914.

*(Subject:—Necessity of scrutinizing the composition of Credit Societies from time to time with a view to weeding out bad and doubtful members.)*

Experience of the working of young co-operative credit societies shows that cases are not infrequent in which, by some means or other, insolvent persons succeed in obtaining enrolment in membership. Cases have also occurred in which men of doubtful character have been elected as members owing to the ignorance of the people of the fundamental principles of co-operation. Central Banks must not omit that important part of their duty which consists of scrutinizing the composition of credit societies from time to time, with a view to weeding out bad and doubtful members and making the financial position as strong as possible. The Registrar would point out that the enrolment of heavily indebted men in co-operative credit societies is a source of very real danger to the movement; and it is for Central Banks to carefully consider whether the position of a member is such as to warrant the expectation that he will eventually be relieved from the load of old debt which he carries, or whether his

position is beyond hope and irretrievable by means of co-operative credit. In the latter class of case the proper course is to remove the hopelessly involved member from the society, while in the former class of case the Central Bank must see that steps are taken to grapple with the member's old debts ; either the member must gradually pay them off himself, or the debts may be consolidated (and, if possible, conciliated) and taken over by the Society. On no account must old debts be neglected and allowed to accumulate until they threaten ruin. It must be borne in mind that co-operative credit is not a cure for every kind of evil ; and it must be the aim of Central Banks to deal with solvent and honest men, in the reasonable expectation of maintaining them in solvency and honesty. To attempt the hopeless task of rescuing bankrupt people wholesale is to allow the movement to run mad. If the composition of societies is carefully scrutinized from time to time when annual credit limits are fixed, and if the members of societies are taught to fix each other's credit limits with due care and consideration, the soundness of co-operative banking business will be established on a firm basis. If, on the other hand, people are allowed to continue incurring outside debts and to let old debts accumulate, heavy losses must follow. It is, moreover, certain that unlimited liability and joint responsibility, strong security as they offer, will not stand the strain of careless or imprudent finance. The Registrar trusts that these words of warning will receive the attention of all workers in the field of co-operation, and especially of the Directors of Central Banks and of the non-official and official staff employed to safeguard the interests of the public.

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CIRCULAR NO. II OF 1914.

(Subject :—*Audit to be local audit and to include inspection.*)

All Auditors, Government and Federation, are expressly prohibited, on pain of most severe penalty, from summoning the members of Co-operative Societies away from their villages for the work of inspection and audit. Under section 17 (2) of the Co-operative Societies Act, the Registrar's audit (which is carried out on his behalf by a Government or Federation Auditor) must include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society. Moreover, in the audit of Co-operative Societies education and the inspection of detail play a most important part ; and satisfactory answers cannot possibly be given to the questions put by the Registrar in his form of audit note unless the work is patiently and thoroughly done within the village and amidst the actual surroundings of the members. The Registrar must point out that the certificate of audit required is so worded as to solemnly declare that audit has been *local* audit ; and no audit is local which renders it necessary for either the books or the members of a society to leave the village which is the society's registered head-quarters. To grant a certificate for work which has not been done on the spot is a very serious matter.

2. The Registrar finds it necessary to warn Central Banks that they must not allow the process of statutory audit to blind them to their own duties and responsibilities. The opinions and judgments of the Government and Federation Auditors must, at best, provide a most unsatisfactory substitute for the independent decisions of Central Banks. Experience in all countries has proved that the inspection and audit of Government Co-operative Auditors are apt to become lifeless and mechanical; and though the Registrar is fully alive to this danger and will, with the active co-operation of Central Banks, do his best to guard against it, it must be clearly understood by all concerned that Central Banks must form their own opinions of credit capacity for themselves, and, therefore, must inspect for themselves. In carrying out the work of statutory audit, Government accepts no financial responsibility whatever; and it is not intended that the staff engaged in the work of statutory audit should be used as part of the necessary executive machinery which every Central Bank must possess for its own work. Every decision to grant or to refuse credit must be made in the first place, as far as individual members are concerned, by the societies to which they belong, and, in the second place, as far as societies corporate are concerned, by the Central Banks which finance them. Societies must be live working bodies, and not mere puppet shows the strings of which are pulled by outside agency to make an imitation of life; and the same remark applies to Central Banks. To disregard these fundamental principles of co-operation is to stifle the movement at its birth.

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CIRCULAR NO. IV OF 1914.

*(Subject:—Periodical scrutiny of Societies by Central Banks.)*

The Directors of Central Banks are reminded of the responsibility which devolves upon them of carefully scrutinizing the affairs of each society from time to time. Great care has to be taken to see that security remains good and does not decay; and no society should be permitted to continue in existence unless its ledger account with the Central Bank is a healthy one.

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CIRCULAR NO. V OF 1914.

*(Subject:—Annual payment of interest—a condition to govern all loans by Central Banks to societies and by societies to their members.)*

The Registrar begs to point out that Central Banks cannot, for their own sakes, allow the interest on loans to societies to run from year to year. Central Banks have their own annual charges to meet, and in order to meet them they must realise their income from invested capital or, in other words, the interest on loans made to societies. It must, therefore, be made an *inflexible* condition (to govern all loans by Central Banks and by societies to their members) that interest shall fall due and shall be settled once a year on such date as may be agreed upon.

## CIRCULAR NO. VI OF 1914.

(Subject :—Method to be followed in arriving at the annual income to be shown in column 12 of the Statement of Assets and Liabilities of the applicants for registration of a Co-operative Society, and in the Haisiyat Register of the Members of Societies.)

The attention of Central Banks is invited to the different methods now followed in arriving at the figures entered in column 12 of the Statement of Assets and Liabilities appended to applications for registration, and in column 16 of the Haisiyat Register. Sometimes gross income is shown, and sometimes net income ; the net income being arrived at in all sorts of different ways. This want of uniformity of method renders it almost impossible to make any intelligent use of the information which the figures are intended to convey. The Registrar thinks that, on the whole, it will be best if the figures in the columns mentioned above show what amount a member may be expected to be able to pay in an average year towards the liquidation of his debt with the society ; and it is requested that this procedure may be followed in future.

## Registrar's Memorandum No. 1 of 1915.

*On Weak Societies.*

I am now coming across cases of societies the members of which have been driven back into the hands of the moneylenders owing to the refusal of Central Banks to finance them even for seed. The particular societies I have in mind required money for the last *kharij* sowings, and in some cases they failed to obtain money either from the moneylenders or from their Central Bank. In these cases the members could get no seed and their lands remained unsown. The assets of these societies have steadily deteriorated, and they are rapidly drifting into a position in which loss of money is almost certain to occur. I would suggest that when a Central Bank finds that it cannot even trust a society with further advances for the purchase of seed, the Central Bank should at once take steps to recover its outstandings and not allow the society to drift into a position of increasing insolvency. When a Central Bank refuses to grant loans to enable the members to get their lands sown, the Directors, I take it, have come to the conclusion that the Bank cannot have further dealings with the society. The decision is a serious one both for the society and for the Central Bank. At this audit the societies indicated in this letter have been placed correctly in the " D " class ; and I now ask that your Directors will give the position of these societies detailed consideration in order that the movement may be freed from the stain of their existence, or that steps may be taken to revive or to instil the co-operative spirit amongst the members. I find that in almost every case societies which have worked badly have not received careful instruction in their duties. If societies do not fully understand their by-laws they cannot be expected to carry out the duties which are required of them. Central Banks, too, are prone in some instances to pass

over flagrant breaches of the by-laws, thus, in a measure, contributing to the deadening of the "co-operative conscience" which it is the object of our system to create. I take this opportunity of repeating once more that too great pains cannot be expended upon the training and instruction of societies in their duties. Trouble taken in this direction is sure to be rewarded by good results.

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Registrar's Memorandum No. 2 of 1915

*Punishment of Dishonesty.*

Attention is invited to sections 35 to 38 of the Co-operative Societies Act. We have here a useful weapon with which to punish intentionally dishonest members of societies; and use should be made of these sections to visit dishonesty with prompt and immediate punishment.

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CIRCULAR NO. II OF 1915.

*(Subject:—The Pass Books kept by Treasurers of Central Banks.)*

The Pass Book kept by the Treasurer of a Central Bank must be an accurate record of *cash* transactions between the Treasurer and the Central Bank. Unless an actual disbursement of money has been made by the Treasurer to, or on behalf of, the Central Bank, or by the Central Bank to the Treasurer, no entry is to be made in the Treasurer's Pass Book. Auditors must not alter the Treasurer's Pass Book so as to make the book tally with the Cash Book of the Central Bank; for the Cash Book may contain entries which refer to mere paper transactions or book adjustments (such entries are, it is directed once more, to be made in red ink); and once the Treasurer has signed the entries in his Pass Book nobody except the Treasurer himself, under his own signature, has any right to correct the entries. A Treasurer's Pass Book is not one of the Central Bank's books of account, but is the Treasurer's own statement of his dealings with the Bank and of his liabilities to the Bank, and is a copy not of any book of the Bank but of the ledger account opened by the Treasurer himself in his own books in the Bank's name.

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CIRCULAR NO. III OF 1915.

*(Subject:—Scrutiny of the financial condition of societies by the Directors of Central Banks.)*

The attention of all Central Banks is invited to the provision in their by-laws which lays upon the Board of Directors, or upon the Working Committee of the Directors, the duty of scrutinizing the financial condition of societies with a view to safeguarding the shareholders of Central Banks against loss. The Registrar considers it necessary to point out that the duty imposed is a personal one and carries personal responsibility with it.

## CIRCULAR NO. IV OF 1915.

(Subject:—Enrolment in membership of all the members of a joint family of which the managing co-parcener is a member of a society, and their exemption from the entrance fee and Federation subscription.)

In order to protect societies against loss and to avoid troublesome disputes, all the members of a joint family of which the managing co-parcener is a member of a society should be formally enrolled in membership. In cases of this kind it is fair to collect the entrance fee and Federation subscription from the managing co-parcener only, it being understood, of course, that the other members of the joint family cannot take loans from the society in their individual capacities.

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 Registrar's Memorandum No. 3 of 1915.
*Reserve Funds of Cancelled Societies.*

The reserve funds of cancelled societies may, in all cases, and without further reference to the Registrar, be transferred to the Reserve Fund of the Central Bank. Shares purchased by cancelled societies stand on a somewhat different footing: (i) in cases in which shares have been purchased out of profits which would have otherwise been transferred to reserve, the most suitable course is to transfer the shares to the Governor of the Federation, and this practice should be followed: (ii) in cases in which shares have been purchased out of subscriptions or savings deposits, they must stand in the name of the societies cancelled, until transfer to the Bank or to some other person can be arranged for by purchase. Dividends, of course, cannot be distributed to cancelled societies as they are no longer members of the Bank and lose all rights under the Act. Shares held by cancelled societies will not rank for dividend so long as they are so held.

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 Registrar's Memorandum No. 4 of 1915.
*Supervision of Society Moharrirs.*

Your attention is invited to the necessity for a closer co-operation between the Government Auditors and the Federation Audit Staff on the one side and the Central Bank and the Society Moharrirs on the other. In the first place, I beg to point out that the Society Moharrirs must be sufficiently well trained and educated to impart elementary co-operative teaching and instruction in the by-laws to the members of the societies. Secondly, I would point out that the Managers of Central Banks are directly responsible for the co-operative quality and efficiency of the societies affiliated to the Central Banks. Thirdly, I must insist on the necessity for the strict supervision of the work of Society Moharrirs by the Directors and executive staff of the Central Banks. Unless the accounts of the societies are regularly written up and proper instruction and teaching are given to the members of the societies far too great a strain is placed on the audit machine.

As far as possible care should be taken to visit societies during their slack seasons ; and in this connection I mention that the slack season for a *kharij* village is not that which is slack for a *rabi* village. In most villages either the *rabi* or the *kharij* crop is predominant.

In conclusion, I have to state that in considering the question of licenses (which, of course, are always subject to cancellation) the quality of societies under Central Banks will be given full consideration. Good teachers will, as experience has proved, succeed in turning out a very large proportion of really good sound co-operative societies. There is far too great a tendency on the part of the paid staff to look upon themselves as masters and not as servants of the societies ; and I am afraid the paid staff fail to perceive that this attitude is particularly foolish, for the continuance of their salaries depends upon the co-operative health of the societies of which they are the servants. These observations may be translated into Hindi by all Central Banks and circulated to each member of the Bank and Federation Staff.

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Registrar's Memorandum No. 1 of 1916.

*Applications for Awards.*

It seems that some instructions are necessary as regards applications for awards or for orders under section 35, Act II of 1912, by societies and Central Banks.

(1) Recently a number of societies have applied for awards against defaulting members. It should not be necessary for any properly constituted society to apply for assistance in recovering its loans. All members are supposed to know the character and financial position of other members ; and living, as they do, in the same village they do have such knowledge except in very rare cases. It is open to them to refuse to allow a dishonest, lazy, or insolvent person to join the society. It is also open to them to expel any member whom they consider dishonest, lazy, or insolvent. If they do not do so they cannot complain if they have to make good any losses incurred by the default of any such member, as they are all jointly and severally responsible for the debts of each member. If societies are able, without trouble or financial loss, to recover by an award or an order of the Registrar, the loans due from defaulters, they will never realise their duties and responsibilities in regard to the admission and expulsion of members. Awards should therefore only be recommended in favour of societies against their members in very rare cases.

(2) The conditions are quite different as regards the application for awards by the Central Bank against societies. A society may be quite solvent owing to its joint and unlimited liability although it contains one or two dishonest defaulters. It is quite unreasonable for a Central Bank to wait until the society has recovered by award or otherwise the loans due from such defaulting members. When the loan to the society becomes overdue the Central Bank should (unless there are good reasons to the contrary, such as failures of crops, etc.), apply to the Registrar for an award against the society.



## Registrar's Memorandum No. 2 of 1916.

*Collection of Reserve Funds.*

It is noticed that some Central Banks, in order to reduce their outstanding arrears, take all the payments made by the societies to loan accounts and do not pass the necessary credits to the Reserve Fund accounts.

It should be understood that the Reserve Funds of the societies constitute a first charge on the interest collected.

## Registrar's Memorandum No. 3 of 1916.

The main purpose of insisting on the purchase of shares by members of primary societies is to enable Central Banks which, of course, include in their organization primary societies working under them, to accumulate a large capital of their own as rapidly as possible. Experience in other countries emphasises the great necessity for this policy, for in times of strain money borrowed, no matter from what source, is apt to be called in. Shortly after the South African War, and again in 1907, 1912, and 1914 the German societies which depended to a very unsafe extent on borrowed money were put in the direst straits by the general scarcity of loanable money which prevailed. Accordingly, it has now been accepted by all co-operative bankers that a policy which aims at as large a permanent owned capital as possible is indispensable to stability of organization.

In the next place, it is very necessary to teach the villager that co-operation does not begin and end inside his own village society. What is required is education of every kind, and practical measures as well, to instil into the villagers a sense of association. In Japan, where every village has its own Agricultural Association and 75 per cent. of the total number of towns, villages, and hamlets, their own co-operative credit societies, a sense of association has been instilled into the people in a most remarkable degree. But it is not to be expected that the villagers will understand the steps which are being taken on their behalf and strictly in their own interests, unless instruction is given them.

## APPENDIX II.

### THE CO-OPERATIVE SOCIETIES ACT, 1912 (II OF 1912).

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## ACT NO. II OF 1912.

PASSED BY THE GOVERNOR-GENERAL OF INDIA IN COUNCIL.

(Received the assent of the Governor-General on the 1st March, 1912.)

An Act to amend the Law relating to Co-operative Societies.

WHEREAS it is expedient further to facilitate the formation of Co-operative Societies for the promotion of thrift and self-help among agriculturists, artisans,

and persons of limited means, and for that purpose to amend the law relating to Co-operative Societies ; It is hereby enacted as follows :—

*Preliminary.*

Short title and extent. 1. (1) This Act may be called "The Co-operative Societies Act," 1912 ; and

(2) It extends to the whole of British India.

Definitions. 2. In this Act unless there is anything repugnant in the subject or context —

- (a) "by-laws" means the registered by-laws for the time being in force and includes a registered amendment of the by-laws :
- (b) "committee" means the governing body of a registered society to whom the management of its affairs is entrusted :
- (c) "member" includes a person joining in the application for the registration of a society and a person admitted to membership after registration in accordance with the by-laws and any rules :
- (d) "officer" includes a chairman, secretary, treasurer, member of committee, or other person empowered under the rules or the by-laws to give directions in regard to the business of the society.
- (e) "registered society" means a society registered or deemed to be registered under this Act :
- (f) "Registrar" means a person appointed to perform the duties of a Registrar of Co-operative Societies under this Act : and
- (g) "rules" means rules made under this Act.

*Registration.*

3. The Local Government may appoint a person to be Registrar of Co-operative Societies for the Province or any portion of it, and may appoint persons to assist such Registrar, and may, by general or special order, confer on any such persons all or any of the powers of a Registrar under this Act.

4. Subject to the provisions hereinafter contained, a society which has as its object the promotion of the economic interests of its members in accordance with co-operative principles, or a society established with the object of facilitating the operations of such a society, may be registered under this Act with or without limited liability :

Provided that unless the Local Government by general or special order otherwise directs—

(1) the liability of a society of which a member is a registered society shall be limited ;

(2) the liability of a society of which the object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists, and of which no member is a registered society, shall be unlimited.

Restrictions on interest of member of society with limited liability and a share capital.

5. Where the liability of the members of a society is limited by shares, no member other than a registered society shall—

- (a) hold more than such portion of the share capital of the society, subject to a maximum of one-fifth as may be prescribed by the rules ; or
- (b) have or claim any interest in the shares of the society exceeding one thousand rupees.

Conditions of registration.

6. (1) No society, other than a society of which a member is a registered society, shall be registered under this Act which does not consist of at least ten persons above the age of eighteen years and, where the object of the society is the creation of funds to be lent to its members, unless such persons—

- (a) reside in the same town or village or in the same group of villages ; or,
- (b) save where the Registrar otherwise directs, are members of the same tribe, class, caste, or occupation.

(2) The word " limited " shall be the last word in the name of every society with limited liability registered under this Act.

7. When any question arises whether for the purposes of this Act a person is an agriculturist or a non-agriculturist, or whether any person is a resident in a town or village or group of villages, or whether two or more villages shall be considered to form a group, or whether any person belongs to any particular tribe, class, caste, or occupation, the question shall be decided by the Registrar, whose decision shall be final.

Power of Registrar to decide certain questions.

Application for registration.

8. (1) For purposes of registration an application to register shall be made to the Registrar.

(2) The application shall be signed—

- (a) in the case of a society of which no member is a registered society, by at least ten persons qualified in accordance with the requirements of section 6, sub-section (1) ; and
- (b) in the case of a society of which a member is a registered society, by a duly authorised person on behalf of every such registered society, and where all the members of the society are not registered societies, by ten other members or, when there are less than ten other members, by all of them.

(3) The application shall be accompanied by a copy of the proposed by-laws of the society, and the persons by whom or on whose behalf such application is made shall furnish such information in regard to the society as the Registrar may require.

9. If the Registrar is satisfied that a society has complied with the provisions of this Act and the rules and that its proposed by-laws are not contrary to the Act or to the rules, he may, if he thinks fit, register the society and its by-laws.

Registration.

10. A certificate of registration signed by the Registrar shall be conclusive evidence that the society therein mentioned is duly registered unless it is proved that the registration of the society has been cancelled.

11. (1) No amendment of the by-laws of a registered society shall be valid until the same has been registered under this Act, for which purpose a copy of the amendment shall be forwarded to the Registrar.

(2) If the Registrar is satisfied that any amendment of the by-laws is not contrary to this Act or to the rules, he may, if he thinks fit, register the amendment.

(3) When the Registrar registers an amendment of the by-laws of a registered society, he shall issue to the society a copy of the amendment certified by him, which shall be conclusive evidence that the same is duly registered.

*Rights and liabilities of members.*

12. No member of a registered society shall exercise the rights of a member unless or until he has made such payment to the society in respect of membership or acquired such interest in the society, as may be prescribed by the rules or by-laws.

Member not to exercise rights till due payment made.

13. (1) Where the liability of the members of a registered society is not limited by shares, each member shall, notwithstanding the amount of his interest in the capital, have one vote only as a member in the affairs of the society.

Vote of members.

(2) Where the liability of the members of a registered society is limited by shares, each member shall have as many votes as may be prescribed by the by-laws.

(3) A registered society which has invested any part of its funds in the shares of any other registered society may appoint as its proxy, for the purpose of voting in the affairs of such other registered society, any one of its members.

14. (1) The transfer or charge of the share or interest of a member in the capital of a registered society, shall be subject to such conditions as to maximum holding as may be prescribed by this Act or by the rules.

Restrictions on transfer of share or interest.

(2) In case of a society registered with unlimited liability a member shall not transfer any share held by him or his interest in the capital of the society or any part thereof unless—

(a) he has held such share or interest for not less than one year; and

(b) the transfer or charge is made to the society or to a member of the society.

*Duties of registered societies.*

15. Every registered society shall have an address, registered in accordance with the rules, to which all notices and communications may be sent, and shall send to the Registrar notice of every change thereof.

Address of societies.

16. Every registered society shall keep a copy of this Act and of the rules governing such society, and of its by-laws, open to inspection free of charge at all reasonable times at the registered address of the society.

Copy of Act, rules and by-laws to be open to inspection.

17. (1) The Registrar shall audit or cause to be audited by some person authorized by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year.

Audit.

(2) The audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.

(3) The Registrar, the Collector, or any person authorized by general or special order in writing in this behalf by the Registrar shall at all times have access to all the books, accounts, papers, and securities of a society, and every officer of the society shall furnish such information in regard to the transactions and working of the society as the person making such inspection may require.

*Privileges of registered societies.*

18. The registration of a society shall render it a body corporate by the name under which it is registered, with perpetual succession and a common seal, and with power to hold property, to enter into contracts, to institute and defend suits and other legal proceedings and to do all things necessary for the purposes of its constitution.

Societies to be bodies corporate.

19. Subject to any prior claim of the Government in respect of land-revenue or any money recoverable as land-revenue or of a landlord in respect of rent or any money recoverable as rent, a registered society shall be entitled in priority to other creditors to enforce any outstanding demand due to the society from a member or past member—

Prior claim of society.

(a) in respect of the supply of seed or manure or of the loan of money for the purchase of seed or manure—upon the crops or other agricultural produce of such member or person at any time within eighteen months from the date of such supply or loan ;

(b) in respect of the supply of cattle, fodder for cattle, agricultural or industrial implements or machinery, or raw materials for manufacture, or of the loan of money for the purchase of any of the foregoing things—upon any such things so supplied, or purchased in whole or in part from any such loan, or on any articles manufactured from raw materials so supplied or purchased.

20. A registered society shall have a charge upon the share or interest in the capital and on the deposits of a member or past member and upon any dividend, bonus, or profits payable to a member or past member in respect of any debt due from such member or past member to the society, and may set off any sum credited or payable to a member or past member in or towards payment of any such debt.

Charge and set-off in respect of shares or interest of member.

21. Subject to the provisions of section 20, the share or interest of a member in the capital of a registered society shall not be liable to attachment or sale under any decree or order of a Court of Justice in respect of any debt or liability incurred by such member, and neither the Official Assignee under the Presidency-towns Insolvency Act, 1909, nor a Receiver under the Provincial Insolvency Act, 1907, shall be entitled to or have any claim on such share or interest.

Shares or interest not liable to attachment.

22. (1) On the death of a member a registered society may transfer the share or interest of the deceased member to the person nominated in accordance with the rules made in this behalf, or, if there is no person so nominated, to such person as may appear to the committee to be the heir or legal representative of the deceased member, or pay to such nominee, heir, or legal representative, as the case may be, a sum representing the value of such member's share or interest, as ascertained in accordance with the rules or by-laws :

Transfer of interest on death of member.

Provided that—

(i) in the case of a society with unlimited liability, such nominee, heir, or legal representative, as the case may be, may require payment by the society of the value of the share or interest of the deceased member ascertained as aforesaid ;

(ii) in the case of a society with limited liability, the society shall transfer the share or interest of the deceased member to such nominee, heir, or legal representative, as the case may be, being qualified in accordance with the rules and by-laws for membership of the society, or on his application within one month of the death of the deceased member to any person specified in the application who is so qualified.

(2) A registered society may pay all other moneys due to the deceased member from the society to such nominee, heir, or legal representative, as the case may be.

(3) All transfers and payments made by a registered society in accordance with the provisions of this section shall be valid and effectual against any demand made upon the society by any other person.

23. The liability of a past member for the debts of a registered society as they existed at the time when he ceased to be a member shall continue for a period of two years from the date of his ceasing to be a member.

Liability of past member.



24. The estate of a deceased member shall be liable for a period of one year from the time of his decease for the debts of a registered society as they existed at the time of his decease.

Liability of the estates of deceased members.

25. Any register or list of members or shares kept by any registered society shall be *prima facie* evidence of any of the following particulars entered therein:—

Register of members.

(a) the date at which the name of any person was entered in such register or list as a member ;

(b) the date at which any such person ceased to be a member.

26. A copy of any entry in a book of a registered society regularly kept in the course of business, shall, if certified in such manner as may be prescribed by the rules, be received, in any suit or legal proceeding, as *prima facie* evidence of the existence of such entry, and shall be admitted as evidence of the matters, transactions, and accounts therein recorded in every case where, and to the same extent as, the original entry itself is admissible.

Proof of entries in societies' books.

Exemption from compulsory registration of instruments relating to shares and debentures of registered society.

27. Nothing in section 17, sub-section (1), clauses (b) and (c), of the Indian Registration Act, 1908, shall apply to—

(1) any instrument relating to shares in a registered society, notwithstanding that the assets of such society consist in whole or in part of immoveable property ; or

(2) any debenture issued by any such society and not creating, declaring, assigning, limiting, or extinguishing any right, title, or interest to or in immoveable property except in so far as it entitles the holder to the security afforded by a registered instrument whereby the society has mortgaged, conveyed, or otherwise transferred the whole or part of its immoveable property or any interest therein to trustees upon trust for the benefit of the holders of such debentures ; or

(3) any endorsement upon or transfer of any debenture issued by any such society.

28. The Governor-General in Council, by notification in the *Gazette of India*, may, in the case of any registered society or class of registered society, remit—

Power to exempt from income-tax, stamp-duty, and registration-fees.

(a) the income-tax payable in respect of the profits of the society, or of the dividends or other payments received by the members of the society on account of profits ;

(b) the stamp-duty with which, under any law for the time being in force, instruments executed by or on behalf of a registered society or by an officer or member and relating to the business of such society, or any class of such instruments, are respectively chargeable ;

- (c) any fee payable under the law of registration for the time being in force.

*Property and funds of registered societies.*

Restrictions on loans. 29. (1) A registered society shall not make a loan to any person other than a member :

Provided that, with the general or special sanction of the Registrar, a registered society may make loans to another registered society.

(2) Save with the sanction of the Registrar, a society with unlimited liability shall not lend money on the security of moveable property.

(3) The Local Government may, by general or special order, prohibit or restrict the lending of money on mortgage of immoveable property by any registered society or class of registered societies.

Restrictions on borrowing. 30. A registered society shall receive deposits and loans from persons who are not members only to such extent and under such conditions as may be prescribed by the rules or by-laws.

Restrictions on other transactions with non-members. 31. Save as provided in sections 29 and 30, the transactions of a registered society with persons other than members shall be subject to such prohibitions and restrictions, if any, as the Local Government may, by rules, prescribe.

Investment of funds. 32. (1) A registered society may invest or deposit its funds—

- (a) in the Government Savings Bank ; or
- (b) in any of the securities specified in section 20 of the Indian Trusts Act, 1882 ; or
- (c) in the shares or on the security of any other registered society ; or
- (d) with any bank or person carrying on the business of banking, approved for this purpose by the Registrar ; or
- (e) in any other mode permitted by the rules.

(2) Any investments or deposits made before the commencement of this Act which would have been valid if this Act had been in force are hereby ratified and confirmed.

Funds not to be divided by way of profit. 33. No part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members :

Provided that after at least one-fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits and from any profits of past years available for distribution may be made among the members to such extent and under such conditions as may be prescribed by the rules or by-laws :

Provided also that in the case of a society with unlimited liability no distribution of profits shall be made without the general or special order of the Local Government in this behalf.

34. Any registered society may, with the sanction of the Registrar, after one-fourth of the net profits in any year has been carried to a reserve fund, contribute an amount not exceeding ten per cent. of the remaining net profits to any charitable purpose, as defined in section 2 of the Charitable Endowments Act, 1890.

Contribution to charitable purpose.

*Inspection of affairs.*

35. (1) The Registrar may of his own motion, and shall on the request of the Collector, or on the application of a majority of the committee, or of not less than one-third of the members, hold an inquiry or direct some person authorized by him by order in writing in this behalf to hold an inquiry into the constitution, working, and financial condition of a registered society.

Inquiry by Registrar.

(2) All officers and members of the society shall furnish such information in regard to the affairs of the society as the Registrar or the person authorized by the Registrar may require.

36. (1) The Registrar shall, on the application of a creditor of a registered society, inspect or direct some person authorized by him by order in writing in this behalf to inspect the books of the society :

Inspection of books of indebted society.

Provided that—

- (a) the applicant satisfies the Registrar that the debt is a sum then due, and that he has demanded payment thereof and has not received satisfaction within a reasonable time ; and
- (b) the applicant deposits with the Registrar such sum as security for the costs of the proposed inspection as the Registrar may require.

(2) The Registrar shall communicate the results of any such inspection to the creditor.

37. Where an inquiry is held under section 35, or an inspection is made under section 36, the Registrar may apportion the costs, or such part of the costs as he may think right, between the society, the members or creditor demanding an inquiry or inspection, and the officers or former officers of the society.

Costs of inquiry.

38. Any sum awarded by way of costs under section 37 may be recovered, on application to a Magistrate having jurisdiction in the place where the person from whom the money is claimable actually and voluntarily resides or carries on business, by the distress and sale of any moveable property within the limits of the jurisdiction of such Magistrate belonging to such person.

Recovery of costs.

*Dissolution of society.*

39. (1) If the Registrar, after an inquiry has been held under section 35 or after an inspection has been made under section 36 or on receipt of an application made by three-fourths

Dissolution.

of the members of a registered society, is of opinion that the society ought to be dissolved, he may cancel the registration of the society.

(2) Any member of a society may, within two months from the date of an order made under sub-section (1), appeal from such order.

(3) Where no appeal is presented within two months from the making of an order cancelling the registration of a society, the order shall take effect on the expiry of that period.

(4) Where an appeal is presented within two months, the order shall not take effect until it is confirmed by the appellate authority.

(5) The authority to which appeals under this section shall lie shall be the Local Government :

Provided that the Local Government may, by notification in the local official Gazette, direct that appeals shall lie to such Revenue-authority as may be specified in the notification.

40. Where it is a condition of the registration of a society that it should consist of at least ten members, the Registrar may, by order in writing, cancel the registration of the society if at any time it is proved to his satisfaction that the number of the members has been reduced to less than ten.

Cancellation of registration of society.

Effect of cancellation of registration.

41. Where the registration of a society is cancelled, the society shall cease to exist as a corporate body—

- (a) in the case of cancellation in accordance with the provisions of section 39, from the date the order of cancellation takes effect ;
- (b) in the case of cancellation in accordance with the provisions of section 40, from the date of the order.

42. (1) Where the registration of a society is cancelled under section 39 or section 40, the Registrar may appoint a competent person to be liquidator of the society.

Winding up.

- (2) A liquidator appointed under sub-section (1) shall have power—
  - (a) to institute and defend suits and other legal proceedings on behalf of the society by his name of office ;
  - (b) to determine the contribution to be made by the members and past members of the society respectively to the assets of the society ;
  - (c) to investigate all claims against the society and, subject to the provisions of this Act, to decide questions of priority arising between claimants ;
  - (d) to determine by what persons and in what proportions the costs of the liquidation are to be borne ; and
  - (e) to give such directions in regard to the collection and distribution of the assets of the society, as may appear to him to be necessary for winding up the affairs of the society.

(3) Subject to any rules, a liquidator appointed under this section shall, in so far as such powers are necessary for carrying out the purposes of this section, have power to summon and enforce the attendance of witnesses and

to compel the production of documents by the same means and (so far as may be) in the same manner as is provided in the case of a Civil Court under the Code of Civil Procedure, 1908.

(4) Where an appeal from any order made by a liquidator under this section is provided for by the rules, it shall lie to the Court of the District Judge.

(5) Orders made under this section shall, on application, be enforced as follows :—

(a) When made by a liquidator, by any Civil Court having local jurisdiction in the same manner as a decree of such Court.

(b) When made by the Court of the District Judge on appeal, in the same manner as a decree of such Court made in any suit pending therein.

(6) Save in so far as is hereinbefore expressly provided, no Civil Court shall have any jurisdiction in respect of any matter connected with the dissolution of a registered society under this Act.

*Rules.*

43. (1) The Local Government may, for the whole or any part of the Province and for any registered society or class of such societies, make rules to carry out the purposes of this Act.

*Rules.*

(2) In particular and without prejudice to the generality of the foregoing power, such rules may—

(a) subject to the provisions of section 5, prescribe the maximum number of shares or portion of the capital of a society which may be held by a member ;

(b) prescribe the forms to be used and the conditions to be complied with in the making of applications for the registration of a society and the procedure in the matter of such applications ;

(c) prescribe the matters in respect of which a society may or shall make by-laws and for the procedure to be followed in making, altering, and abrogating by-laws, and the conditions to be satisfied prior to such making, alteration, or abrogation ;

(d) prescribe the conditions to be complied with by persons applying for admission or admitted as members, and provide for the election and admission of members, and the payment to be made and the interests to be acquired before the exercise of the right of membership ;

(e) regulate the manner in which funds may be raised by means of shares or debentures or otherwise ;

(f) provide for general meetings of the members and for the procedure at such meetings and the powers to be exercised by such meetings ;

- (g) provide for the appointment, suspension, and removal of the members of the committee and other officers, and for the procedure at meetings of the committee, and for the powers to be exercised and the duties to be performed by the committee and other officers ;
- (h) prescribe the accounts and books to be kept by a society and provide for the audit of such accounts and the charges, if any, to be made for such audit, and for the periodical publication of a balance sheet showing the assets and liabilities of a society ;
- (i) prescribe the returns to be submitted by a society to the Registrar and provide for the persons by whom and the form in which such returns shall be submitted ;
- (j) provide for the persons by whom and the form in which copies of entries in books of societies may be certified ;
- (k) provide for the formation and maintenance of a register of members and, where the liability of the members is limited by shares, of a register of shares ;
- (l) provide that any dispute touching the business of a society between members or past members of the society or persons claiming through a member or past member or between a member or past member or persons so claiming and the committee or any officer shall be referred to the Registrar for decision or, if he so directs, to arbitration, and prescribe the mode of appointing an arbitrator or arbitrators and the procedure to be followed in proceedings before the Registrar or such arbitrator or arbitrators, and the enforcement of the decisions of the Registrar or the awards of arbitrators ;
- (m) provide for the withdrawal and expulsion of members and for the payments, if any, to be made to members who withdraw or are expelled and for the liabilities of past members ;
- (n) provide for the mode in which the value of a deceased member's interest shall be ascertained, and for the nomination of a person to whom such interest may be paid or transferred ;
- (o) prescribe the payments to be made and the conditions to be complied with by members applying for loans, the period for which loans may be made, and the amount which may be lent, to an individual member ;
- (p) provide for the formation and maintenance of reserve funds, and the objects to which such funds may be applied, and for the investment of any funds under the control of the society ;
- (q) prescribe the extent to which a society may limit the number of its members ;
- (r) prescribe the conditions under which profits may be distributed to the members of a society with unlimited liability and the maximum rate of dividend which may be paid by societies

(s) subject to the provisions of section 39, determine in what cases an appeal shall lie from the orders of the Registrar and prescribe the procedure to be followed in presenting and disposing of such appeals ; and

(t) prescribe the procedure to be followed by a liquidator appointed under section 42, and the cases in which an appeal shall lie from the order of such liquidator.

(3) The Local Government may delegate, subject to such conditions, if any, as it thinks fit, all or any of its powers to make rules under this section to any authority specified in the order of delegation.\*

(4) The power to make rules conferred by this section is subject to the condition of the rules being made after previous publication.

(5) All rules made under this section shall be published in the local official Gazette and on such publication shall have effect as if enacted in this Act.

*Miscellaneous.*

44. (1) All sums due from a registered society or from an officer or member or past member of a registered society as such to the Government, including any costs awarded to the Government under section 37, may be recovered in the same manner as arrears of land-revenue.

Recovery of sums due to Government.

(2) Sums due from a registered society to Government and recoverable under sub-section (1) may be recovered, firstly, from the property of the society ; secondly, in the case of a society of which the liability of the members is limited, from the members subject to the limit of their liability ; and, thirdly, in the case of other societies, from the members.

45. Notwithstanding anything contained in this Act, the Local Government may, by special order in each case and subject to such conditions, if any, as it may impose, exempt any society from any of the requirements of this Act as to registration.

Power to exempt societies from conditions as to registration.

46. The Local Government may, by general or special order, exempt any registered society from any of the provisions of this Act or may direct that such provisions shall apply to such society with such modifications as may be specified in the order.

Power to exempt registered societies from provisions of the Act.

47. (1) No person other than a registered society shall trade or carry on business under any name or title of which the word " co-operative " is part without the sanction of the Local Government :

Prohibition of the use of the word " co-operative."

Provided that nothing in this section shall apply to the use by any person or his successor in interest of any name or title under which he traded or carried on business at the date on which this Act comes into operation.

(2) Whoever contravenes the provisions of this section shall be punishable with fine which may extend to fifty rupees and in the case of a continuing offence with further fine of five rupees for each day on which the offence is continued after conviction therefor.

Indian Companies Act, 1882, not to apply. 48. The provisions of the Indian Companies Act, 1882, shall not apply to registered societies.

49. Every society now existing which has been registered under the Co-operative Credit Societies Act, 1904, shall be deemed to be registered under this Act, and its by-laws shall, so far as the same are not inconsistent with the express provisions of this Act, continue in force until altered or rescinded.

Saving of existing societies.

Repeal.

50. The Co-operative Credit Societies Act, 1904, is hereby repealed.



## APPENDIX III.

### EXEMPTIONS AND CONCESSIONS.

#### SEPARATE REVENUE DEPARTMENT.

##### Income Tax.

*No. 681-F., dated Delhi, the 28th December 1912.*

In exercise of the powers conferred by section 28, clause (a) of the Co-operative Societies Act (II of 1912), the Governor-General in Council is pleased to remit the income tax payable in respect of the profits of any Co-operative Credit Society for the time being registered under that Act, or of the dividends and other payments received by the members of any such society on account of profits.

2. The Notification of the Finance and Commerce Department No. 6216-S.R., dated the 30th September 1904, is hereby cancelled.

##### *Separate Revenue.*

##### Stamps.

*No. 683-F., dated Delhi, the 28th December 1912.*

In exercise of the powers conferred by section 28, clause (b), of the Co-operative Credit Societies Act, 1912 (II of 1912), the Governor-General in Council is pleased to remit the stamp duty with which, under any law for the time being in force, instruments executed by or on behalf of any Co-operative Credit Society for the time being registered under that Act, or instruments executed by any officer or member of any such Society, and relating to the business of the society, are respectively chargeable.

2. The Notification of the Finance and Commerce Department No. 6220-S.R., dated the 30th September 1904, is hereby cancelled.

### NOTIFICATION.

*No. 376, Home Department (Judicial), dated Simla, the 24th April 1914.*

In supersession of the Home Department Notification No. 2025, dated the 20th June 1910, and in exercise of the powers conferred by section 28,

clause (c), of the Co-operative Societies Act, 1912 (II of 1912), the Governor-General in Council is pleased to remit the following fees payable under the law of registration for the time being in force, namely :—

- (a) All fees payable by or on behalf of any Co-operative Society for the time being registered under that Act ; and
- (b) All fees payable in respect of any instrument executed by any officer or member of such a society and relating to the business thereof.

#### NOTIFICATION.

*No. 363, dated Nagpur, the 13th August 1912.*

In exercise of the powers conferred by section 46 of the Co-operative Societies Act II of 1912, the Chief Commissioner is pleased to exempt the Central Provinces and Berar Provincial Co-operative Bank, Limited, from the following provisions of the said Act, namely :—

Section 5, clause (b).

- “ 14 (1).
- “ 23.
- “ 24.
- “ 33.

#### CONCESSION FOR THE ISSUE OF REMITTANCE TRANSFER RECEIPTS AT PAR.

*Article 143B (9) of the Civil Account Code :—*

“ *Co-operative Societies (credit and non-credit).*—For remittances between societies provided that the amount to be remitted is not less than Rs. 150.”

#### ISSUE OF CASH ORDERS ON SUB-TREASURIES.

*Note to Article 390 of the Civil Account Code :—*

“ *Note.*—Remittance transfer receipts are not payable at sub-treasuries save as expressly provided in Appendix D. But if the money payable on a remittance transfer receipt is required at a sub-treasury there is no objection to the issue of a cash order to the payee for presentation at the sub-treasury. In such case the payee should receipt the remittance transfer receipt as ‘Received payment by a cash order on \_\_\_\_\_ Sub-treasury,’ and the Treasury Officer at the district treasury should finally deal with the remittance transfer receipt, and should take the same precautions regarding the delivery of the cash order as are prescribed in the case of payment in cash.”

*Note.*—In cases of slight clerical irregularities the Central Banks may encash Remittance Transfer Receipts under Article 391 of the Civil Account Code, which runs as follows :—

“ The points in order are, that the bill has been advised ; that it corresponds in all particulars with the advice ; that it bears the genuine signature of the drawer ; that it bears the signature purporting to be that of the Treasurer unless issued by a Presidency Bank or one of its branches ; that it has not been tampered with ; and, of course, that it is not a cancelled or a lapsed bill or one of which a duplicate has been paid. Yet a bill may be paid—

*Without advice*, if there is no reason whatsoever to doubt its genuineness, and if sufficient security is offered. In the case of well known and reliable holders, this security may be dispensed with. The Treasury Officer should in all such cases apply for the necessary advice without delay.

*Even though differing from the advice*, at the discretion and risk of the drawee, provided there is no suspicion of fraudulent alteration, nor any possible doubt of the genuineness of the bill. But great caution should be exercised before paying on a bill an amount larger than that named in the advice.

*Note.*—If the Remittance Transfer Receipt bears no signature purporting to be that of the Accountant the fact should be immediately brought to the notice of the Treasury Officer who issued the bill, in order that he may ascertain whether the amount was correctly brought to book.”

#### INVESTMENTS AND DEPOSITS BY GOVERNMENT SERVANTS IN CO-OPERATIVE BANKS.

The Local Administration has permitted Government servants of every class to make investments or place deposits in the Provincial Co-operative Bank, Limited, Jubbulpore, and in all Co-operative Central Banks situated in the Central Provinces and Berar.

## APPENDIX IV.

*The following rules have been framed by the Central Provinces Administration under Section 43 of the Co-operative Societies Act II of 1912. They have been made applicable to the Central Provinces by Notification No. 355 of the 26th of September, 1916, and to Berar by Notification No. 356 of the same date.*

### RULES.

1. In these rules—

The " Act " means the Co-operative Societies Act, 1912 (II of 1912), and " Rules " mean Rules made under the Act and for the time being in force.

2. Subject to the provisions of Section 5 of the Act, where the liability of a member is limited by shares, no member other than a registered society shall hold more than one-fifth of the share capital of the society.

3. Every application for the registration of a society shall state—

- (1) the name and address of the society proposed for registration ;
- (2) whether it is intended to be limited or unlimited ;
- (3) the area of operations ;
- (4) the objects of the society ;
- (5) the amount of initial capital it is proposed to raise ;
- (6) the manner in which the capital is to be raised, *i.e.*,  
by the issue of shares,  
by receiving deposits,  
by borrowing,  
by donations,  
and the amount of capital already subscribed or promised ;
- (7) the qualifications for membership of the society ;
- (8) the names and residences of the applicants ; and

(g) whether each applicant is an agriculturist or non-agriculturist.

4. Every such application shall be attested by the signature (or the thumb impression) of each applicant, and shall be forwarded to the Registrar through the Deputy Commissioner of the District in which the place of business of the society is situated.

5. In forwarding the application the Deputy Commissioner shall recommend (a) registration, or (b) refusal of registration. If the recommendation be that registration should be refused, the Deputy Commissioner shall state the reasons for it clearly.

6. The Registrar shall consider the application and may, if necessary, order further enquiry or refuse registration. Should he decide to allow registration he shall register the society in a register to be kept for that purpose.

7. Every such entry shall be attested by the seal and signature of the Registrar, and shall be open to inspection by the public without fee.

8. The Registrar shall communicate to the society his decision to allow or refuse registration by an order under his own signature. He shall also forward to the society a certified copy of the by-laws, as finally approved by him, as soon as they have been finally passed.

9. If the Registrar refuses to register a society, an appeal shall lie to the Financial Commissioner, within two months from the communication of such refusal to the applicants, who may direct the Registrar to register the society.

10. No society with unlimited liability shall be registered unless it agrees to purchase at least one share in the Central Bank to which it proposes to become affiliated.

11. Every application for registration shall be accompanied by by-laws dealing with the following matters:—

(1) the election and admission of members and the payment to be made or interests to be acquired before exercising rights of membership;

(2) the withdrawal and expulsion of members and the payments to be made to members who withdraw

or are expelled and for the liabilities of past members ;

- (3) the mode in which the value of a deceased member's interest shall be ascertained ;
- (4) the liability of the members of the society ;
- (5) the conditions on which loans to members may be granted, the period for which loans may be made, and the amount which may be lent to an individual member ;
- (6) the formation of a reserve fund, and in the case of societies with limited liability the proportion to the total liabilities to which it should attain and the rate to which interest on loans to members should be reduced before profits may be distributed to the members ;
- (7) the manner in which the capital of the society may be raised ;
- (8) the procedure at general meetings of members, the powers to be exercised by such meetings, and the intervals at which they must be held ;
- (9) the appointment of a committee and other officers of the society, the procedure at meetings of the committee, the powers and duties of the committee and other officers and the suspension and removal of officers of the society ; and
- (10) the rate of interest on deposits, the objects to which reserve funds may be applied and the investment or utilization of such funds or of any other funds under the control of the society.

12. All by-laws must be passed at a general meeting by a majority of not less than two-thirds of the votes of members present.

13. No by-laws shall be made, altered, or abrogated without the sanction of the Registrar.

14. (1) Every applicant for admission as a member must agree to pay such admission fee as may be prescribed in the by-laws. In the case of borrowing societies with unlimited liability no member shall be granted a loan unless he agrees

to purchase at least one share of Rs. 5 in the Central Bank to which his society is affiliated; and his debt to his society shall not be allowed to exceed a sum greater than ten times the value of the share or shares in the Central Bank which he has agreed to purchase. The Registrar may apply this rule to any society or class of societies with limited liability.

(2) No person shall be granted a loan from the funds of a registered society unless he produces from amongst his fellow members two sureties who shall in the first instance be personally responsible for his borrowings up to the amount of the credit duly sanctioned by the society in his favour.

(3) No person shall be admitted to membership of a registered society who does not satisfy the requirements of the Act or who is legally or mentally disabled or who is a bankrupt or against whom a conviction stands of a cognizable and non-bailable offence or, in the case of a society with unlimited liability, who is already a member of another society of unlimited liability.

(4) Any member who may at any time be found to be disqualified for any of the reasons mentioned in clause (3) above shall be removed from the society.

(5) In case of doubt, the decision of the Registrar as to whether a person is, or is not, eligible for membership of a registered society, or is, or is not, liable to removal from membership of a registered society shall be final.

15. (1) Subject to such limit as the Registrar may impose from time to time on its maximum borrowing powers and the maximum rates of interest to be paid on its borrowings, a registered society may borrow funds to be used in its business from members and non-members.

(2) Subject to the limit imposed by the Registrar a registered society shall determine annually at a general meeting the maximum limit of indebtedness in respect of existing and new borrowings which may be incurred in the coming year; such limit may be modified at a subsequent general meeting.

16. The issue of bonds or debentures by a registered society shall be subject to such conditions as the Registrar may prescribe.

17. With the previous sanction of the Registrar, any society may invest its funds or a portion thereof in the purchase or leasing of land or in the construction of buildings or in such other manner as may be necessary for the conduct of its business and the welfare of the co-operative movement.

18. If a registered society requires financial assistance from Government, it shall forward an application through the Deputy Commissioner to the Registrar setting forth in full the reasons which lead the society to ask for such assistance.

19. Notwithstanding anything contained in these rules or in the by-laws of a registered society as to the mode of summoning a general meeting and the object, time, and place of such meeting, the Registrar or any person authorized by the Registrar may summon at any time a special general meeting of the society in such manner and at such time and place as he may direct and may specify what matters shall be discussed by the meeting. Such meeting shall have all the powers of, and be subject to the same rules as, a general meeting called according to these rules or the by-laws of the society.

20. Every society shall maintain such accounts and registers as the Registrar may from time to time prescribe, and shall publish a balance sheet annually in such manner as the Registrar may, by general or special order, prescribe.

21. Every registered society shall be liable to pay such audit fees as the Registrar may prescribe.

22. Every society shall from time to time furnish the Registrar with such information and with such returns as may be called for by him.

23. Copies of such entries in the books of societies as may be required for the purposes of Section 26 of the Act shall be made by the Secretary of the Society and shall be certified by him and by another officer of the society or member of the committee to be true copies.

24. Every society shall maintain a register of members, and where there is share capital a register of shares.

25. Any dispute touching the business of a Co-operative Society between members or past members of the society or persons claiming through a member or past member, or between



a member or past member or persons so claiming and the committee or any officer, shall be referred to the Registrar.

26. The Registrar, on receiving notice of such dispute, shall, at his discretion, either decide the dispute himself or shall appoint an arbitrator or shall refer it to three arbitrators, of whom one shall be nominated by each of the parties to the dispute and the third shall be nominated by the Registrar and act as chairman. If any party to a dispute fails to nominate an arbitrator within 15 days, the Registrar may himself make the nomination.

27. The Registrar or the arbitrator or arbitrators shall have power to administer oaths, to require the attendance of all parties concerned and witnesses, and to require the production of all books and documents relating to the matter of the dispute, by a summons sent by registered post to the party's last known address.

28. The arbitrator appointed by the Registrar, or the arbitrators to whom the Registrar has referred a dispute, shall record a brief note in English or the vernacular of the evidence of the parties and witnesses who attend and, upon the evidence so recorded and after consideration of any documentary evidence produced by either side, a decision or award, as the case may be, shall be given in accordance with justice, equity, and good conscience and shall be reduced to writing. In the absence of any party duly summoned to attend, the dispute may be decided against him in default. In cases where three arbitrators are appointed, the opinion of the majority shall prevail.

29. Any person duly summoned by the Registrar or arbitrator or arbitrators to appear before him or them, or to produce any document, and failing to do so shall be liable to the penalties prescribed in Rule 7 (2) of the Second Schedule of the Code of Civil Procedure, 1908 (V of 1908).

30. Any party aggrieved by an award of an arbitrator or arbitrators may appeal to the Registrar within one month of the date of the award.

31. An award of the arbitrators, if not appealed against within one month, and any decision or order of the Registrar

shall, as between the parties to the dispute, not be liable to be called in question in any Civil or Revenue Court and shall be in all respects final and conclusive.

32. Decisions and awards mentioned in Rule 31 shall, on application to any Civil Court having local jurisdiction, be enforced in the same manner as a decree of such Court.

33. In proceedings held under Rules 25 to 30 no party shall be represented by any legal practitioner, except with the permission of the Registrar or arbitrator or arbitrators.

34. (1) Any member of a registered society may, in writing or by a declaration duly made, nominate any person or persons to whom his share or interest, or the value of such share or interest and all other monies specified in Section 22 of the Act that may be due to him, may on the death of such member be paid or transferred under the provisions of the said section, and may in similar manner from time to time revoke or vary such nomination :

Provided that the value of the member's share or interest shall be represented by the sum actually paid by the member to acquire such share or interest, unless the by-laws provide for calculation thereof otherwise.

(2) Every registered society shall keep a register of all persons so nominated.

35. Every registered society shall form and maintain a reserve fund to which at least one-fourth of the net profits must be carried.

36. The reserve fund of a registered society shall be indivisible and no member shall be entitled to claim any specified share in it.

37. On the dissolution of a registered society, the reserve fund shall be applied—

- (i) to discharging such liabilities of the society as may remain undischarged after the enforcement in full of the liability of the individual members of the society;
- (ii) to the repayment of share capital paid up, if any;
- (iii) to the payment of dividend upon such share capital at a rate not exceeding 10 per cent. per annum

for any period or periods for which no dividend has been paid.

38. Any balance of the reserve fund which may remain after making the payments specified in Rule 37 shall be applied to such local object or objects of public utility as may be selected by a majority of the votes of the members of the society (as they existed on the date of dissolution) assembled in a special meeting, and approved of by the Registrar. If within three months of the dissolution of the society the members fail to make a selection which is approved of by the Registrar, the latter shall credit the above mentioned balance of the reserve fund to the reserve fund of the Co-operative Society, if any, to which the society was affiliated, or, if the society was not affiliated to any other society, shall place the said balance on deposit in some co-operative or other bank until a new Co-operative Society with a similar area of operations is registered, in which event it shall be credited to the reserve fund of such society.

39. In no registered society shall the rate of dividend paid on shares exceed 12 per cent. per annum without the sanction of the Registrar.

40. Except for the appeal allowed under Section 39 of the Act and under Rule 9 of these rules, no appeal shall lie against any order of the Registrar passed in any matter dealt with in the Act or in the rules framed under the Act.

41. The following procedure shall be adopted by a liquidator appointed under Section 42 of the Act :—

(a) The liquidator shall take into his custody or under his control all the books, registers, and accounts belonging to the society and all the property, effects and actionable claims to which the society is entitled.

(b) The liquidator shall ascertain what the dues and other assets of the society and its debts and liabilities are, and shall investigate all claims against the society. The liquidator may publish in such manner as he thinks proper a notice requiring all claims against the dissolved society to

- be submitted to him within two months from the date of publication thereof.
- (c) The liquidator shall decide questions of priority arising between claimants and shall draw up a scheme for the payment of their dues.
  - (d) The liquidator shall recover all sums and other properties to which the society is entitled and may institute such suits for that purpose or such suits incidental to the liquidation proceedings as he may think proper.
  - (e) The liquidator may empower any person to make collections and to grant valid receipts on his behalf.
  - (f) If the assets of the society (including the amounts recovered by the liquidator) are not sufficient to cover the costs of liquidation and to pay off the liabilities of the society, the liquidator shall—
    - (i) determine the contribution to be made by the members and past members, respectively, to the assets of the society, and
    - (ii) determine by what persons and in what proportion the costs of liquidation are to be borne.
  - (g) The liquidator may apply to the Civil Court, having local jurisdiction, for the enforcement of his orders in respect of the payment of contribution and the costs of liquidation. Every such application shall be made in the same manner and (so far as may be) shall contain such particulars as is provided in the case of applications for the execution of decrees under the Code of Civil Procedure, 1908.
  - (h) The liquidator may from time to time revise his orders determining the amounts of contribution and the costs of liquidation, and may apply to the Civil Court for the enforcement of such revised orders or for the modification of any application already made.

- (i) The liquidator may send to the Deputy Commissioner for service or execution all processes for the enforcement of the attendance of witnesses and of the production of documents, including all orders for the attachment of property and orders for the levy of fine made by the liquidator in exercise of the powers vested in him by Section 42, Sub-section (3) of the Act :

Provided that all costs for serving or executing such processes shall be payable in Court-fees in accordance with the scale fixed for, and in the same manner as is provided in the case of process issued by Revenue Courts, under the Court-fees Act, 1870.

- (j) The liquidator shall keep such books and accounts as may from time to time be prescribed by the Registrar, who may at any time cause such books and accounts to be audited.
- (k) The liquidator shall deposit the funds and other assets of the dissolved society which are collected by him or which may come into his possession as liquidator, in such manner and in such place as may from time to time be determined by the Registrar.
- (l) The liquidator shall every three months submit to the Registrar a report stating the progress made in winding up the affairs of the society, and shall on completion of the liquidation proceedings submit a final report and make over to the Registrar all books, registers, and accounts belonging to the society and all books and accounts relating to such proceedings kept by him.
- (m) The liquidator shall also submit such information and particulars with regard to the liquidation proceedings as may from time to time be required by the Registrar.

42. No appeal shall lie from any order of the liquidator.

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