

REPORT
ON
Co-operative Societies
and
Banks
in
Gwalior



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IN

GWALIOR



BY

PROF. V. G. KALE, M. A.

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CHAPTER I.

INTRODUCTION.

1. His Highness the Maharaja Sahib's Initiative.

The enquiry into the condition of Co-operative Societies and Banks in Gwalior State, the results of which are embodied in this report, had its origin in the keenness of feeling with which His Highness the Maharaja Sahib takes interest in the well-being of his subjects and particularly the large class of cultivators among them. At His Highness' express desire, I undertook to examine the position of the Co-operative movement in Gwalior and to make recommendations with a view to place it on a sound and satisfactory footing. It was His Highness' wish that my investigation should be searching and thorough and that I should make suggestions for improvement that might be put into speedy operation.

2. Terms of Reference.

Following were the terms of reference for the enquiry :—

- (1) To audit the accounts of Co-operative Societies.
- (2) To examine and report on the personnel of the Co-operative Department.
- (3) To indicate mistakes in the policy in the past and the present.
- (4) To indicate future policy.
- (5) To propose a plan for the next five years for the working of the Co-operative movement.

3. Assistance Received.

The Darbar gave me every facility for carrying out my tour programme and investigation and Captain Sardar C. S. Angre, Huzoor Secretary, and Rao Raje General Rajwade, the then Member-in-Charge, interested themselves personally in my work. The Director, Co-operative Societies, himself and the staff placed by him at my disposal, rendered me every assistance and the Subas and other officers were very helpful. I was given free access to all such reports, documents and papers as were called for.

I was fortunate in securing the willing co-operation of Mr. D. D. Chitale, Managing Director of the Poona Central

Co-operative Bank, and Mr. G. D. Apte, B.A., G.D.A., R.A., Auditor, both of whom have had prolonged and practical experience of the working of co-operative and banking institutions and they were associated with me throughout the enquiry.

4. Programme of Enquiry.

Very soon after the enquiry was decided upon, I chalked out, in consultation with the Director of Co-operative Societies, the programme of a tour through the entire territory of the State and started on it on 19th February, 1937. The itinerary is given in Appendix I. The tour was so designed that the headquarters of every district and Pargana might be visited and the varying conditions prevailing in the different parts of the State might be closely observed. Meetings of Directors of Banks were arranged and discussions were held with them at these centres. The Subas were also consulted and their views, which were sympathetically but freely expressed, were very valuable. Other officers were likewise requested for their opinions which were willingly given. A list of officers who were specially consulted, will be found in Appendix V.

5. Information and Views Collected.

Discussions at meetings with Banks' Directors and Managers were free and frank and were productive of a lot of useful information. They had undoubtedly considerable educative value. Visits were regularly paid to offices of the Banks and their books were scrutinised. The viewpoint of the Banks was everywhere clearly put forward. Arrangements were made for the special audit of typical Societies, and good and bad Societies in each district were selected for this purpose. In all 25 Societies were exhaustively audited and 57 were superaudited. A list of the names of these Societies will be found in Appendices VII and VIII. At different places, Societies were actually visited and meetings of their members were called. They were questioned and their difficulties and grievances were ascertained. Societies' books and those of their members were scrutinised.

The Auditors, three of whom had been deputed to assist the enquiry, the Inspectors, the Supervisors and the Secretaries were all called for interviews and were afforded every opportunity to ventilate their opinions and to make suggestions. Questionnaires were issued for Subas, Bank people, Auditors and Inspectors to answer and they are printed as Appendices II and III. The Director of Co-operative Societies and his staff at headquarters and also the Deputies readily supplied all the required information.

Touring and direct consultation with officials and non-officials were completed by the end of the third week of April. Answers to questionnaires and other information asked for, were received in the course of May and June and the drafting of this report was finished by the beginning of August. While final touches were being given to it, Mr. Rang Lal, the Director, was called for consultation and Mr. Parchure, Inspector, who assisted the enquiry throughout, was serviceable in the verification of facts and figures embodied in the report. Rao Bahadur L. B. Mulye, Member-in-Charge, was good enough to discuss with me various problems arising out of the enquiry and my grateful thanks are due to him for the courtesy shown and the assistance rendered to me.

CHAPTER II.

AGRICULTURAL BANKS.

6. Peculiarities of Agricultural Industry.

Certain features, which are peculiar to agriculture, create handicaps and difficulties for farmers, particularly in communities where the industry is carried on by people with limited resources. The capital required for seasonal agricultural operations rarely comes out of savings made by the cultivator and has to be procured from some external source. The ordinary farmer is not able to lay by capital on which he can draw for the purchase of seed, manure and bullocks and sometimes even for the maintenance of himself and his family during the whole of the agricultural season. The crops take long to nurse and mature and the cultivator has to wait for months till the fruits of his toils can be gathered. Natural calamities like droughts, floods and pests are apt to frustrate his labour and destroy his hopes and to drive him into debt which throws a heavy additional burden upon his industry. The Indian agriculturist has long suffered from these difficulties, and as a result, indebtedness and poverty have been his lot. The common cultivator in Gwalior State could not, of course, be expected to surmount these handicaps which generally confront the Indian agricultural industry. In such circumstances, in countries which are predominantly agricultural, it is deemed essential in the interest, both of the people and the State, that Government should adopt suitable measures for helping the cultivating classes out of their troubles.

7. State Assistance to Agriculturists in Gwalior.

In Gwalior State, this necessity has been long recognised and the authorities have spared no effort to assist the agricultural population in a variety of ways. Up to the end of the nineteenth century, agriculturists in the State, like their brethren elsewhere, were required, as a rule, to meet their economic needs by resorting to local money-lenders who, for obvious reasons, generally charged exorbitant rates of interest on the loans they granted. With a view to relieve this burden of the rural population and to save farmers and cultivators from the clutches of Sowkars, the State thought it desirable to finance them directly out of its own funds. A definite beginning in that direction was made in the year 1903 when Rules embodying the

terms and conditions on which such loans would be granted, were adopted; and these were later on amended and consolidated in an enactment known as the Agricultural Banks Act of 1909.

8. "Agricultural Banks."

This Act provided for the establishment of "Agricultural Banks" at the headquarters of Tahsils, the Tahsildar being the Agent of the bank in his area and the Suba the Manager of his district. There was also a General Manager for the whole State, acting under the control of the Accountant-General. All the capital required by these banks was provided by the State. These institutions were not, however, 'banks' in the accepted sense of the word, since they did not transact any ordinary banking business such as accepting deposits and remitting funds. They were concerned simply with lending State funds to needy agriculturists and with recovering the loans, in due course, as arrears of land revenue, if necessary. There were neither boards nor committees of management to look after or supervise the work of these agencies or to advise the officers concerned. In effect, the District and Pargana officers were given special designations with reference to their dealings with the public in their capacity as banks' officers. This arrangement did not, therefore, differ materially from the ordinary system of granting Takavi loans to agriculturists.

9. Their Business.

The agricultural banks used to advance money on easy terms to Zamindars and Kashtkars, *i. e.*, tenants, both for raising annual crops and for land improvement. The loans were given on individual or on collective responsibility. The ordinary rate of interest was $6\frac{1}{4}$ per cent and on loans for agricultural machinery it was $3\frac{1}{8}$ per cent. Loans were generally given for the following purposes:—

- (1) Purchase of seed, fertilizers and fodder.
- (2) Purchase of plough, cattle and mares for breeding purposes.
- (3) Construction of bunds, wells and other Kachcha and Pacca irrigation works or their repairs.
- (4) Miscellaneous agricultural purposes and agricultural improvements.
- (5) Purchase of agricultural machinery.

As the tenants had no transferable right in the lands they cultivated, the Zamindars were required to stand surety for the loans advanced to their tenants and be ultimately responsible for them in case of default either by the principal borrowers or other sureties, if any. It sometimes happened that Zamindars were not prepared to shoulder responsibility for their tenants'

debts though the money was needed for legitimate agricultural purposes. In such cases the tenants could directly apply to the agricultural banks for loans which, if sanctioned by the proper authority, were advanced to them unless the Zamindars could show valid reasons for the rejection of the loan applications.

Loans for seed and bullocks required for agricultural operations were given on a simple promissory note. The loans for seed and manure were made payable at the next harvesting season while the loans for cattle and other purposes were to be repaid in two or more instalments.

Loans for objects other than seed, manure and bullocks were given on the security of immovable property belonging either to the borrower or his sureties and such loans were recovered in 3 to 5 years according to the purpose to which they were applied. The loans were sanctioned by the Tahsildars and the Subas, according to the powers vested in them by the Agricultural Banks Act, after the needs and the repaying capacity of the applicants had been ascertained. The amounts of the loans were disbursed in the presence of the Tahsildars with a view to guard against leakage and the officers were expected to see that the money was utilised for the proper purpose, failing which, the loans could be recalled forthwith. Punctual repayment was insisted on and in case of default, the amount due could be recovered as arrears of land revenue. The Tahsildars were enjoined to give the agriculturists every facility in securing loans and to prevent undue delay in the disbursement of the loans sanctioned. They were also expected to see that the capital of the banks was kept fully employed and that proper propaganda was carried on to make the system as popular as possible.

10. Results of their Working.

The following table shows the amount of loans advanced and the number of persons who were helped by these banks during the period 1915-1916 to 1924-1925 :—

Year.	Loans advanced.	Persons helped.
	Rs.	
1915-16	6,67,783	13,242
1916-17	6,88,800	10,315
1917-18	11,53,394	16,481
1918-19	9,92,198	37,312
1919-20	6,16,414	5,150
1920-21	9,24,029	17,513
1921-22	8,63,460	15,107
1922-23	10,91,789	10,040
1923-24	8,57,493	10,572
1924-25	4,38,350	3,007

These figures will indicate the success with which the simple machinery of the agricultural banks was operated by the revenue officers whose personal care and attention undoubtedly contributed materially to the development of that system of agricultural credit. Promptness in the disposal of applications for loans and in their recovery, was guaranteed in the arrangement and the cost of the management of the business was moderate. With the progress of the agricultural banks the area under cultivation steadily expanded and the number of small irrigation works, such as wells, considerably increased. Mares were purchased for breeding purposes and the use of agricultural machinery was stimulated. The personal factor was very important in this development and it was natural that noticeable improvements took place in the areas of operation of banks which were under the jurisdiction of intelligent, active and sympathetic revenue officers since they would carefully study and understand the proper needs and the financial condition of the people in their charge and try to bring the benefits of their banks to the notice of agriculturists. Experience of the working of the banks also showed that they could be conveniently utilised for relieving rural distress in times of famine and for helping the cultivators in bad years. They had, however, their inherent shortcomings which it is necessary to point out.

11. Their Defects.

All the powers and responsibilities connected with the management of the banks were concentrated in one officer who was already overburdened with his multifarious departmental duties. It was physically impossible for him personally to cope with the numerous applications which poured in from all quarters of the Tahsil. He could not properly scrutinise all of them nor could he see that the amounts of loans were actually paid to the borrowers in full and that they were applied to the purposes for which they had been sanctioned. He had naturally to depend upon his subordinates for the performance of these duties. Moreover, the revenue officer could hardly expect to receive any local assistance in ascertaining the legitimate needs of the several applicants and their repaying capacity, which he had to determine for himself. Although the practice of requiring tenants to offer their Zamindars as sureties, saved the cultivators from the clutches of local money-lenders, it often placed the borrowers at the mercy of these very sureties whose favour and goodwill they could not afford to lose. The banks supplied capital required by the agriculturists for short or long periods and both in good and bad years. The impression was, therefore, created in the minds of the people that the State was ever ready

and willing to lend them money and there was little motive and stimulus for them to save in good years so as to be able to tide over bad times. Further, as the agriculturist came more and more to depend on the State for the supply of capital, the spirit of self-help and self-reliance could not grow in him and he tended to become a thriftless and shiftless fatalist. Instances were likewise not wanting in which the Zamindars had taken *benami* loans in the name of their tenants.

12. Displaced by Co-operative Societies.

When these defects in the working of the agricultural banks came to the notice of the State authorities, they felt the necessity of reviewing the whole position. The co-operative movement had been slowly progressing in other parts of India and the Co-operative Societies Act of 1912 in British India had given a fresh stimulus to its growth. The Government in Gwalior State also could render financial assistance to the agricultural population through co-operative societies and could thereby place rural credit on a broader and sounder basis. It was, therefore, decided about the year 1916 to start co-operative societies throughout the State and it was intended to displace the agricultural banks in due course.

In pursuance of this decision, co-operative societies were gradually organised and new banking institutions were started at district and Pargana headquarters to take the place of the agricultural banks which, however, continued to work on parallel lines till the year 1925. In that year, it was decided that the old agricultural banks should be finally closed. Their assets and liabilities were, therefore, transferred to the various new District and Pargana Banks. A sum of Rs. 8,14,461-8-11 representing cash with the agricultural banks and Rs. 5,26,325-0-5 representing loans to individuals advanced by them, which were regarded to be good debts, were also transferred in the year 1925; and a further sum of Rs. 4,80,044-6-0 representing loans given by the agricultural banks to individuals, which were regarded to be bad debts, were similarly transferred in the year 1926. These bad debts were not, however, to constitute the regular liabilities of the new banks, but the institutions were to try their best to recover the loans from the debtors and credit the same to Government if and when the amounts would be realised.

13. Different Forms of Financial Help to Agriculturists.

Before co-operative societies were started, cultivators used to obtain the capital required by them for their current agricultural and other needs either from private money-lenders or from Government, the latter advancing loans through the agri-

cultural banks. Government money was also made available to them in the form of Takavi loans. Such loans are even now given to all agriculturists, both to members of societies and to non-members, in times of distress caused by calamities such as famine, floods, pestilence, etc., when other agencies cannot be expected to run to the rescue of the suffering cultivators. In the case of members, Takavi loans are disbursed through their respective societies by the District or Pargana Banks on the instructions issued by Government. In the case of non-members, however, the loans are given direct through Government agency.

In addition to the ordinary and Takavi loans, referred to above, special loans are given to individuals for carrying out agricultural improvements, financing of which would be beyond the capacity of co-operative societies and the District or Pargana Banks. These loans are given for a longer period and at a very low rate of interest. In the case of members of co-operative societies, they are advanced by the State through their respective banks and societies. But in the case of others, such loans are given directly by the banks out of State funds.

14. Agricultural Banks and Co-operative Societies Compared.

It may be noted that though the agricultural banks were in operation for over 15 years under the direct management and control of revenue officers, they were able to finance about 10 to 15 thousand people annually. From the information given in the following chapters, it will be seen, however, that in the course of an equal number of years, co-operative societies have had five times that number as their members. It is equally worth noting that when the agricultural banks were closed, about 50 per cent of their assets were found to be bad and Government recognised this fact when these amounts were transferred to the various District and Pargana Banks. The bad assets were due, it appears, to the advances which had been made to agriculturists in certain districts with a view to enable them to tide over bad seasons and which were, owing to a succession of unfortunate years, difficult to recover and were not consequently recovered by the summary process. Though the bad assets cannot, therefore, be taken as an indication of the weakness of the machinery of the agricultural banks, it should be borne in mind that co-operative societies which have to face the same difficult situation as the banks had to encounter, deserve similar consideration. It is satisfactory to notice that this view has commended itself to Government which has generously helped co-operative societies and banks to tide over adverse economic conditions. The Bhilsa reorganisation scheme

is a notable instance in point. What distinguishes the co-operative movement from an arrangement of the type of the old agricultural banks, is that unlike the latter, it possesses great potentialities for organising and educating the cultivating classes for their economic, moral and social benefit besides affording them financial assistance. State agency, in whatever form, can never be a fit substitute for co-operative organisation. Co-operative institutions will indeed require a good deal of care and attention to render them capable of yielding substantial results in the shape of public well-being. But it will be trouble and expense worth incurring. The suggestion made in certain quarters that co-operative societies may be displaced with advantage by some Government financial agency, must be strongly deprecated. That kind of attempt was made in British India and elsewhere, as it was made in Gwalior, and it has come to be widely recognised that there is no alternative to co-operation in this sphere of the community's economic life.

CHAPTER III.

BEGINNINGS OF CO-OPERATION.

15. Co-operation in British India.

The Co-operative movement had been started in British India in 1904, before it was introduced in Gwalior State, and the Government of India had enlarged its scope by amending the first Act governing the co-operative societies in 1912. It had also appointed a Committee under the presidentship of Sir E.D. Maclagan to report on the progress of co-operation and to make recommendations with a view to its improvement, and its report had been published in 1915. The progress made by the Co-operative movement in British India was calculated to stimulate similar effort in Gwalior. The authorities there had gained sufficient experience of the working of agricultural banks and they had come to feel that while the State should always be prepared to render financial and other assistance to the agricultural classes, the interest of the latter could be better promoted if they were co-operatively organised and were taught the benefits of self-help and mutual assistance. Financial spoon-feeding on the part of the State represses all initiative and the individual's sense of responsibility to himself and to his fellows while joint effort for the common good is calculated to stimulate thrift, economy and self-improvement. Villagers could form themselves into groups, pool their petty resources and utilise their united strength for achieving economic, social and moral ends which are beyond their strength if pursued singly and separately. The old village and communal organisation was based on this self-same co-operative principle and the Panchayat system has survived to the present day. The Co-operative movement only seeks, in essence, to adjust that organisation to the economic needs of modern times. Here the State plays the part of a friend and guide and gives co-operative associations all the facilities, help and advice necessary for the success of the joint effort of the people. The co-operative principle can be applied to the organisation of artisans, handicraftsmen, factory workers, traders, merchants, public and private employees and people of the middle classes, for the attainment of individual well-being through the pursuit of common good by means of associated effort.

16. Introduced in Gwalior.

Having appreciated the underlying principles of co-operation and recognising the benefits it had the potentialities to confer

on the rural population in the direction of their uplift and welfare, the State passed an Act known as the Co-operative Societies Act, Gwalior, on 26th January, 1918, on the lines of the British India Co-operative Societies Act II of 1912. In the preamble of that Act it was stated that the object of the Act is "the promotion of thrift, self-help and mutual assistance among persons of common economic needs whose means of income are limited, such as agriculturists, artisans, small traders, etc."

17. Two Important Provisions.

Its provisions were almost identical with those of the British India Co-operative Societies Act, Act II of 1912. When the Banks Act was enacted in 1925, the Co-operative Societies Act was amended and two important provisions of the former were incorporated in it. These related to (1) speedy recovery of the dues of a co-operative society through Government Inspectors and (2) special provision of security for the loans granted by a co-operative society to its members. As regards recovery, the Government Inspectors were empowered, on a simple application from the office-bearers of the institutions, to adopt the summary procedure for the attachment of members' movable and immovable property and the sale of the same either by themselves or through Tahsildars as explained below. The society was not required to go to court or to an arbitrator and secure a decree or an award against its defaulting member. It had only to submit an application to the Government Inspector of Co-operative Societies, in charge of the Pargana, requesting him to recover its dues from the member concerned. The Inspector was empowered to attach property belonging to the member and except in the case of Zamindari and Maurusi rights, to sell it and recover through the proceeds, the dues of the co-operative society as if they were arrears of land revenue. The sale of Zamindari and Maurusi rights was effected through Tahsildars. As regards the security for the dues of a society, the Act provided that all the property, both movable and immovable, belonging to a member and recorded in the Asset Register, on a declaration made by him, was regarded as mortgaged to the society even though a specific mortgage bond was not executed by him. By this provision, the societies were fully protected and though a member mortgaged or otherwise disposed of any of his property after it had been recorded in the Asset Register, the society's legal right was not affected. A person purchasing such a property or taking it in mortgage, had to satisfy the claims of the society in full before he could realise his own dues from the property.

18. Comment on Provision about Mortgage Security.

This provision has no doubt imparted strength and stability to co-operative societies by securing their capital with the solid support of the properties of their members. From a narrow business or commercial point of view, such protection may indeed be very helpful in maintaining the credit of co-operative societies, especially those with unlimited liability. It renders the work of the Managing Committee easy and relieves members of responsibility for the liabilities of fellow members. The financing agency is likewise assured of a solid security for its loan to the society. But from the co-operative point of view the provision must be deprecated as positively harmful. Under it, the system of co-operative credit becomes individualistic and is robbed of all moral advantage and educative value. The co-operative principle of joint and collective responsibility and of mutual help is given the go-by and every member, in effect, utilises his own credit for his individual loan. His sureties also do not realise, nor is there any reason for them to realise, what moral responsibility they have undertaken upon themselves by standing sureties. There is no stimulus for members to watch and correct one another for common as well as individual good and the society tends to become a joint stock land mortgage institution. As a matter of fact, the provision in the Act has led members to think that the loans taken from the society have been advanced to them on the specific security of their own properties and that they have not used the credit of their fellow co-operators in any way. They further believe, therefore, that there is no obligation on them to extend any credit of their own to fellow members who have less or little credit.

19. Effect on Rural Credit.

The evil does not stop there. The provision appears to have been often abused, and under its cover rural debtors are tempted to try to escape their burdens and to cheat their creditors of their legitimate dues. When an agriculturist in debt finds that his creditors who have lent him money against his personal credit are likely to realise their dues by proceeding against his property, he immediately joins a society and gets all his property recorded in the Asset Register. This asset of his cannot now be touched by the creditors as long as he continues to be a member of an unlimited liability society. The provision in the Act, therefore, offers him a sanctuary to which he can take refuge to cheat the creditors who may probably have helped him in times of difficulty by advancing him loans in view of the value of his property. There can be no doubt that it had adversely affected the credit of agriculturists as money-lenders hesitate to deal with

them for fear that they may find dues from debtors slip through their fingers at any time. It would be worth while for Government to consider the question of regulating the transactions of money-lenders with their debtors with a view to protect the interests of the latter consistently with the maintenance of rural credit. Such measures have been taken in some British Provinces.

20. Progress of the Movement.

The following statistical information will illustrate the progress of the movement from 1916-17 to 1924-25 :—

Societies.

Year.	Number of registered societies.	Number of financed societies.	Number of members.	Share capital of societies.	Reserve Fund of Societies.
				Rs.	Rs.
1916-17 ..	178	116	2,483	3,071	..
1917-18 ..	430	420	6,531	12,148	..
1918-19 ..	860	851	13,695	28,476	..
1919-20 ..	1,601	1,596	22,389	77,557	..
1920-21 ..	1,827	1,825	28,607	1,15,785	37,026
1921-22 ..	1,877	1,701	30,725	1,62,705	71,255
1922-23 ..	1,926	1,801	32,231	2,21,672	1,37,098
1923-24 ..	2,037	1,916	33,581	2,79,041	2,18,139
1924-25 ..	2,171	1,984	36,554	3,46,238	3,14,481

Central Banks.

Year.	Number of District and Pargana Banks.	PAID-UP CAPITAL OF BANKS.			Reserve Fund of Banks.	Government Capital in the movement.
		Individuals.	Societies.	Total.		
		Rs.	Rs.	Rs.	Rs.	Rs.
1916-17 ..	2	..	..	18,597	1,680	50,517
1917-18 ..	6	..	..	44,364	2,890	2,09,539
1918-19 ..	11	..	..	1,07,548	21,505	4,03,250
1919-20 ..	13	..	..	2,12,833	33,219	8,53,999
1920-21 ..	13	..	..	2,73,888	46,446	12,80,693
1921-22 ..	14	2,30,535	85,542	3,16,077	60,235	14,61,643
1922-23 ..	14	2,56,971	1,03,228	3,60,199	76,645	15,66,276
1923-24 ..	14	2,91,791	1,39,582	4,31,374	1,01,791	16,39,601
1924-25 ..	15	3,12,895	1,61,330	4,74,225	1,28,947	17,26,992

21. Statistics Analysed.

From the above statistics it will be seen that by the end of the third year since the initiation of the movement there were, on 30th June, 1919, 860 societies in the State with a membership of 13,695 who had paid a share capital of about Rs. 28,500. With a view to finance these societies as many as 11 banks were started at District or Pargana Centres, with a paid up share capital of Rs. 1,07,549 and Reserve Fund of Rs. 21,505. Government funds invested in the movement amounted on that day to Rs. 4,03,250. At the end of the second triennium, the number of societies had risen to 1,877 with a membership of about 30,725 and paid up share capital of Rs. 1,62,700, the Reserve Fund of the Societies having gone up to Rs. 71,200. As a sufficient number of District and Pargana Central Banks had already been started in the first three years, their number in the second triennial period increased only by 3 to 14. But there was an all-round growth in their business, with the result that their share capital rose from Rs. 1,07,549 to Rs. 3,16,077 and the Reserve Fund from Rs. 21,505 to Rs. 60,235. The amount of Government Fund invested in the movement on 30th June 1922 was Rs. 14,61,643. At the end of 1924-1925, *i. e.*, on 30th June 1925, the number of societies was 2,171 with a membership of 36,554, paid up share capital of Rs. 3,46,238, and a Reserve Fund of Rs. 2,14,481, the number of Central Banks on that date being 15 with a share capital of Rs. 4,74,225 and a Reserve Fund of Rs. 1,28,947. The total amount of Government Fund invested in the movement on that date was Rs. 17,26,992.

22. Societies Are Too Small.

It should be noted that the average membership of a co-operative society on 30th June 1935 was 17 and its average share capital was Rs. 160. A society with 17 members is too small a unit. Actually some societies have barely 10 members. It is true that in a small group, members can come into more intimate contact with one another and that mutual help and supervision may be more effective. But it is possible to increase the number of members of societies without sacrificing the above advantages and thereby to reduce the cost and trouble of administration and supervision. A society with a membership of 10 to 15 (and there are several such groups) is an uneconomic and unbusiness like unit. Where villages are but hamlets and are scattered, the limited size may be inevitable. But every effort should be made to increase the membership and to combine societies in cases where that is practicable. The aim should be to reach an

average membership of 30. The average working capital of a society on 30th June 1925 was Rs. 1,261 and the average amount of loans due from its members was Rs. 996.

23. Financing Agencies.

With regard to the financing agencies, on an average there were 145 societies within the area of operation of a Central Bank and of this number, 132 received accommodation from it. The average paid up share capital of a Central Bank on 30th June 1925 was Rs. 31,613 of which Rs. 20,857 was collected from individuals and Rs. 10,756 from societies, and the average Reserve Fund on that date was Rs. 8,600 in round figures. The average working capital of a Central Bank on 30th June 1925 was Rs. 1,87,800 and the average amount of loans due from societies and from individuals was respectively Rs. 1,39,957 and Rs. 2,675.

It has been stated in an earlier part of this report that the agricultural banks established under the Act of 1909 used to advance loans to cultivators direct out of State funds. The authorities later on decided that this business should be transferred to Co-operative Societies as they came into existence. It was, however, not possible to start societies in each and every village in the State and some of the persons who could have secured loans from agricultural banks, had these bodies continued their existence, would be deprived of the advantage of this facility unless they become members of co-operative societies. The District and Pargana Banks were to have no dealings with individual cultivators and were to finance only Co-operative Societies affiliated to them. It became necessary, therefore, either to amend the Co-operative Societies Act with a view to enable the Central Banks to grant loans to individuals, who were not members of societies or to whom the societies were not prepared to advance big loans on their collective liability, or to have a special Statute for registering Banks that could deal both with co-operative societies and individuals. The State preferred the latter alternative and an Act known as the Banks Act was passed and it came into effect on 1st October, 1925.

24. The Banks Act.

By that Act the Agricultural Banks Act of 1909 was repealed and the District and Pargana Banks, which were up to that time governed by the Co-operative Societies Act, were brought under the operation of the new Banks Act, the word 'co-operative' appearing in the names of these Banks being dropped. The main object of this Act was to widen the scope

of business of the District and Pargana Central Co-operative Banks so as to include in the range of their functions the business of financing individual cultivators or Zamindars who were not members of co-operative societies and of granting loans for agricultural improvements at specially reduced rates of interest, out of Government funds placed at their disposal. It appears to have been originally contemplated to widen the scope of the business of Central Co-operative Banks so as to include the financing of trade and industries in the State territory. The framers of this Act probably desired that these institutions should develop into big banking organizations in the different Districts and Parganas under liberal Government patronage and that through them State funds might be placed at the disposal of all classes and communities at as low a rate of interest as possible, with a view to the extension and improvement of agriculture, trade and industry. The Banks Act, however, did not actually provide for all these objects. How the development along the desired lines should be brought about has been indicated in a later Chapter of this report.

Under the Act, the Director of Co-operative Societies was given the additional designation of Inspector-General of Banks, and he was made responsible for the general supervision and audit of the Banks. The Banks registered under the new Act were given all the facilities and practically all the concessions that were being enjoyed by co-operative institutions, such as exemption from the payment of stamp duty in respect of dealings with societies, distraint of debtors' property, procedure for the recovery of their dues through Government Inspectors as arrears of land revenue, and prior claim as a definite charge upon all property of debtors, included in the Asset Register even though it might not have been specifically mortgaged. In short, since 1925, the co-operative societies have continued to be governed by the Co-operative Societies Act as before but their financing agencies became joint-stock concerns governed by the Banks Act and financed very largely from Government funds and controlled by State officials.

25. Agricultural Banks Closed.

After the passing of the Banks Act, the agricultural banks were closed and their assets and liabilities were transferred to the various District and Pargana Banks. Before this transfer was effected, an inquiry was made through Government Co-operative Inspectors about their assets, and those which were considered to be good and the cash balance were handed over to the District and Pargana Central Banks in the year 1925-26. The question of the bad assets of the agricultural banks was

under consideration of Government for some time, and it was finally decided that these assets also should be transferred to the Central Banks on the condition that though the Banks would not be held liable for the bad assets, they should try their best to recover the amounts through their staff and repay the same if and when realised. The necessary adjustments were effected in 1926-27 and in the years following.

CHAPTER IV. CENTRAL BANKS.

26. The Banks Act.

The decision to replace the existing official agency by co-operative societies for the purpose of advancing loans to agriculturists, implied the simultaneous establishment of central financing institutions; and provision for organising such bodies was made in the Co-operative Societies Act of 1918. In pursuance of that decision, Central Banks were opened at suitable centres with the object of raising capital by means of shares and deposits and the money was to be employed in financing co-operative societies situated within their areas of operation. Their capital consisted mainly of deposits of State funds, Government having given an undertaking in that behalf for the benefit of primary societies in the Banks' field of operations. These Banks continued to be governed by the Co-operative Societies Act till 1925 and financed only primary societies. Individuals were financed either by societies or by agricultural banks which ran parallel to them. After the passing of the Banks Act of 1925, the agricultural banks were closed and District and Pargana Central Banks, which had been already functioning, became the principal agency for financing agriculturists. Their main business consisted in (1) financing co-operative societies, (2) in advancing loans for ordinary agricultural purposes to individuals not being members of co-operative societies, at the rate of 18 $\frac{3}{4}$ per cent and (3) in giving loans for agricultural improvements to individuals, whether members of co-operative societies or not, at a specially reduced rate of interest. The loans in the third category were given by the Banks as agents of Government out of State funds earmarked for that purpose.

27. Business of the Banks.

Since the passing of the Banks Act, the character of these Central Banks has completely changed. Originally they were governed by the Co-operative Societies Act and their business was limited to the co-operative movement. With a view to give wider scope for their business, they were later permitted to deal with individual agriculturists. The banks thus virtually became joint-stock concerns having co-operative societies as their principal clients. Joint-Stock Banks do not ordinarily undertake agricultural finance for fear of being forced to lock up short-

dated funds in long-dated investments. Central Co-operative Banks are not similarly expected to advance loans to individuals directly, this being the legitimate and proper function of a primary co-operative society. In order to accommodate individuals, however, Government instructed the District and Pargana Banks to advance such loans and the well-recognised principle and practice in this behalf were thus departed from soon after 1925. But it did not take long for the authorities to realise the necessity of revising that policy and in the year 1928 departmental orders were issued prohibiting the banks from advancing loans for current agricultural needs to individuals who were not members of co-operative societies.

28. Area of Operations.

The area of operations of a Central Bank is either a district or a part of a district. Some of the districts are so extensive or the societies financed by the Banks there, are so scattered that it is not practicable for one Bank to cater for their needs adequately and properly. On the other hand, some of the Parganas, for which separate Banks have been started, are so small that the Banks must find it extremely difficult, if not altogether impossible, to develop business enough to make themselves financially self-supporting. The area of some of the Central Banks, therefore, appears to be either too large or too small, though no definite standard can be laid down in this connection. Size and the limits will have to be fixed with a view to make each institution workable, efficient and self-supporting. Some of the small Pargana Banks will, in that case, have to be combined together or merged in the neighbouring Central Banks.

29. Their Present Position.

The present position of the Banks is, therefore, this. They advance loans to members of co-operative societies for their current agricultural needs, ordinary domestic requirements and also occasional purposes such as marriages of children. Loans are granted likewise for agricultural improvements involving large outlay, to be repaid in instalments extending over a number of years. Persons who are not members of co-operative societies receive loans for the latter purpose on the same terms. These loans are known as Special Loans and are advanced out of Government funds specifically placed at the disposal of the Banks. This business is controlled by the Director of Co-operative Societies in his capacity as the Inspector-General of Banks and the Banks receive 10 per cent of the amount of interest recovered from the borrowers as remuneration for the services rendered by them. The amounts of these loans are not included in the general

balance sheets of the Banks and they act merely as agents of Government, managing State funds invested in the special business. Separate books are maintained for recording the transactions and separate balance sheets showing the position of special loans are annually published.

Besides special loans, Takavi loans have also been distributed by the Banks on behalf of Government to members of societies through the co-operative agency on some occasions in the past. The amounts of these loans also are not included in the general balance sheets of the Banks and a separate balance sheet showing the position of these loans is published. It is thus made clear that the Banks are in no way responsible for them. The Banks function simply as agents of Government for the distribution and collection of Takavi loans which are generally known as Famine Loans. They do not receive any commission for doing that business for Government.

As in many provinces of British India, the Central Bank has a mixed constitution, and its membership is open both to individuals and co-operative societies. A member, either an individual or a society, can invest any amount in the share capital of the Bank: The total amount of share capital raised by the Banks from individuals and from societies in 1934-35 and 1935-36 was as under :—

Year.		Number of Central Banks.	Share Capital of Individuals.	Share Capital of Societies.
			Rs.	Rs.
1934-35	.. ..	18	4,66,080	2,88,176
1935-36	.. ..	18	4,69,250	1,38,449

From the above statement it will be seen that in 1935-36 out of the total share capital of Central Banks 77.2 per cent was contributed by individuals as against 22.8 per cent by co-operative societies. The fall in the societies' share in 1935-36 as compared with 1934-35, is due to important adjustments of accounts effected between them and the Banks which is explained in a latter part of the report. It is interesting to note that 2,739 individuals as against 3,962 societies are members of Central Banks. Under the Banks Act, a member, whether a society or an individual, can cast in a general meeting as many votes as the number of shares he holds, up to the limit of 10 and after that, in a definite diminishing proportion. The recent adjustments of

the societies' shares towards the repayment of their overdues to the Banks have almost deprived the societies of their voting power. The result of the above provision is that though the number of individual members is less than that of societies, the number of shares held by the former being larger than that held by societies, the individual members have always a predominating voice in the management of the affairs of these institutions.

30. Constitution of Board of Directors.

According to the Banks Act, the Board of a Central Bank is constituted as under :—

1. The Suba or the Tahsildar as *ex-officio* Chairman (Suba in the case of a District Bank and Tahsildar in the case of a Pargana Bank).
2. The Assistant Mal.
3. Four Directors to be elected by the share-holders from among those who hold 20 or more shares each.
4. Inspector of Co-operative Societies.
5. Deputy Inspector-General of Banks.

In addition to the above, the Inspector-General of Banks has power to nominate as many additional Directors as he may think fit.

Orders have been recently issued by which the Assistant Mal is replaced by the Tahsildar of the Tahsil in which the head office of the Bank is situated. Similarly, the Deputy Inspector-General of Banks has now ceased to work on the Board of a Central Bank.

The maximum number of officials on the Board of a District Central Bank has thus been reduced from 4 to 3 and that in the case of a Pargana Bank from 3 to 2. There is, however, no restriction as to the minimum or maximum number of Directors to be nominated on the Board by the Inspector-General of Banks. The number of such Directors has varied from district to district, the minimum and maximum being 1 and 4. The quorum for a meeting of the Directors is 4 of whom one at least must be an official Director.

Societies as such have no representation on the Board as a matter of right. Their representatives can, of course, stand for election provided they hold 20 or more shares. There are very few societies which hold the requisite number of shares with the result that there is not the least chance for a representative of a

society being elected on the Board of Central Bank. To correct this deficiency the Inspector-General usually nominates some influential members of co-operative societies on the Board.

31. Suggested Improvements.

This constitution is open to criticism from two sides. The individual share-holders, who already have a controlling voice in the general meeting, complain that the Board of Directors is always swamped by the official and nominated element and that they are not free to chalk out any programme for the development of the work of the Bank and to give effect to it. The societies, on the other hand, are entitled to argue that though they provide the chief source from which the profit of a Central Bank is derived, they have no representation on the Board and their proper share in the management of its affairs. This two-fold grievance can be effectively remedied if the societies are, by rule, given representation on the Board as a matter of right through periodical election. By this arrangement the elected elements will have a predominating voice on the Board and the societies will, at the same time, secure their due share in management and control. It is also suggested that the co-operative principle of one man one vote should be adopted so that members will secure equal rights and opportunities and monopoly of power in the hands of a few share-holders will be prevented. To ensure continuity of policy and at the same time afford opportunity to new aspirants, one-third of the Board of Directors should retire by rotation each year. Two-thirds of the members would thus continue in office and one-third would be elected.

The qualification for an elective Director is the holding of the minimum number of 20 shares and there are very few Banks which can count among their share-holders more than 20 persons so qualified. Even out of this small number, some are banking firms, the proprietors of which do not care to offer themselves for election. Naturally the range of choice for the annual election of 4 Directors is so restricted that in many Banks the same set of people have had to be elected year after year even though some of them might not be found helpful as members of the Boards. It is, therefore, suggested that the qualification of holding a minimum number of shares should be done away with so that the scope for choice may be widened and willing and capable co-operators may be able to offer themselves for election. Further, as co-operative institutions are union of individual persons, firms should not be permitted to become members and exercise the right of voting. Co-operative societies will, of course, hold shares and exercise all rights of membership through their accredited representatives.

32. Management.

After the Board is constituted, the Directors have to appoint the Managing Director. They propose the names of two from among themselves to the Director of Societies and Inspector General of Banks, and he selects one out of them. The Joint Managing Director who works as Managing Director in his absence, is similarly chosen and selected. No provision for the appointment of the Managing Director or the Joint Managing Director is made anywhere in the Banks Act nor are the duties of these officers anywhere defined. The Managing Director, however, represents the Board as its executive officer, carries on all important correspondence of the Bank over his signature, issues instructions to the Manager and other staff of the Bank, invests all surplus funds of the Bank with Bankers, etc., and for all practical purposes, works as the spokesman of the Board.

The Board, of which the Suba or the Tahsildar is the Chairman, is, of course, the final controlling authority and is responsible for the management of the affairs of the Bank and its chief executive officer is the Manager. The work of the Directors is, as a rule, honorary, a bonus being paid to them out of profits, when available. Their meetings are generally held once a month. Unlike the Directors of Co-operative Banks in British India, they hardly come in personal contact with members of co-operative societies, though instructions in this behalf have been given to them by the Inspector-General and expenses on that account have been provided for. Nor have they first-hand knowledge of the requirements or the difficulties of their members who are financed by the Banks. The non-official Directors have, in most cases, very little appreciation of the principles of co-operation and no experience of the working of co-operative institutions. As the majority of the elected Directors is drawn from the local money-lending and mercantile classes (and this is inevitable so long as the qualification of holding 20 shares or more for their election remains on the statute book) they try to guard their own interest first as against the interest of cultivators. The incongruity of tacking joint-stock institutions on to co-operative societies, was obviously not perceived when the Banks were established.

33. Staff.

The Manager is a paid officer and is given the necessary paid staff such as accountant, clerks, etc. The Bank also appoints Supervisors for fieldwork, *e. g.*, inspection and supervision of societies financed by it. These Supervisors, though paid by the Bank, are required to work under the direct control of the

Government Inspector of Co-operative Societies. This Inspector occupies a peculiar position. He is a Government servant, paid out of State funds and is statutorily responsible for recommending loans and, in practice, for their recovery. The Board of Directors is relieved by him of one of their primary duties and apathetically and nominally supervises that Officer's work. This system must be changed. The senior staff of the Bank is appointed and transferred by the Director, or Deputy Director of Co-operative Societies. Even the junior staff is at times appointed and transferred by the departmental officers. The staff is not generally trained. Even the Managers, with a few exceptions, are untrained. Nor have they any opportunity of studying the working of the co-operative movement elsewhere in India. The Managers are servants of two masters. They are paid by the Banks but are virtually controlled by the Co-operative Department. In these circumstances, the work of the Managers cannot be expected to be particularly efficient and it is necessary that they should be given proper training and should be made responsible to one master. Suggestions have been made in both these respects elsewhere in this report.

34. Branches.

Most of the District Banks and some Pargana Banks have started Branches at suitable centres within their areas of operation. The Branch Offices are managed by Agents who are provided with the requisite staff. The Branches receive and distribute funds on behalf of the Banks in accordance with the instructions of the Head Office. The societies deal direct with the Branch within whose area they are situated, in the matter of receipt and repayment of loan money. Their loan applications, however, are considered and disposed of by the Head Office. There are no Branch Committees elected or nominated by the Banks to watch and guide the working of the Branches. The various Branches of the several District and Pargana Banks are shown in Chapter VI (Para 70).

35. Capital of Banks.

The sources of the working capital of District and Pargana Banks consists mainly of (1) shares, (2) deposits, (3) Reserve Fund and (4) other Funds and the amounts under each of these heads as on 30th June 1936 were :—

	Rs.
Shares	6,08,000
Deposits	44,89,000
Reserve Fund	4,16,600
Contingency Fund	1,70,700

Share Capital :—The amount of share capital collected from individuals and societies as on 30th June 1936 was :—

	Rs.
Individuals	4,69,250
Societies	1,38,449

The face value of each share is Rs. 50 to be collected in instalments. There are two classes of shares, namely, "Preference" and "Ordinary." The "Preference" shares are issued to individuals and "Ordinary" shares to societies. According to the Banks Act the holder of a preference share is entitled to receive bonus in addition to the dividend if the profits permit it and the Inspector-General sanctions its payment. This is hardly in conformity with the co-operative principle and the provision was probably designed to attract share capital from wealthy individuals and the societies were not expected to be able to make any appreciable contribution to it. There ought to be only one class of shares and the distinction now made between ordinary and preference shares should be done away with. Shares can be held in joint names and can be transferred. A share-holder can nominate a person to whom his share or interest in the Bank may be transferred in the event of his death.

Deposits :— Out of the Rs. 44,89,288 of total deposits at the Banks, the amount of Government funds was Rs. 26,59,336 on 30th June 1936. According to Section 15 of the Banks Act, the State was to provide the Banks with necessary capital in the shape of deposits on such conditions and as such rate of interest as Government might prescribe. In the beginning, the rate of interest was 6 per cent. It was reduced to 4 per cent on 1st July 1933 and again to 3 per cent on 1st July 1935. In the case of certain Banks that were very badly off in the matter of their financial position, the rate was specially brought down to 2½ per cent. No time limit had been fixed for the return of Government deposits, though according to the rules made under the Banks Act, the Banks were to make efforts to raise their own capital and to return the deposits as early as possible. The progress of the Banks in the matter of attracting non-Government deposits has been slow though steady and it may probably take years before they become self-sufficient. The only noticeable instance is that of the Gird Bank which is able to draw local deposits to the full extent of its requirements.

36. Owned Capital and Outside Liabilities.

One striking feature of the Banks' financial position is that they are not required to maintain a certain fixed ratio between

the capital owned by them in the shape of paid-up share capital, reserve fund, etc., and the maximum outside liabilities to be incurred by them. The Banks are permitted to accept any amount of liabilities irrespective of the extent of their owned capital, a practice not permitted to co-operative banks in British India. Since the Banks, in the main, finance agriculture, it is not prudent to allow them the latitude permissible in the case of joint-stock concerns. It is, therefore, necessary that the Banks should be required, by rule, to build up their share capital and reserves in proportion of their outside liabilities. This will provide a substantial safeguard against probable losses and the interest of depositors would be sufficiently protected. It may be pointed out in this connection that before the Banks Act was passed, the extent to which Government funds were deposited in a District or Pargana Co-operative Bank was limited to six times its subscribed capital. But this restriction was removed by the Banks Act, with the result that the Banks could get any amount of Government deposit without proportionately increasing their own capital.

State funds could not be better utilised for public benefit than by being placed at the disposal of Banks for financing agriculture and helping resourceless cultivators. And Government has been very generous in its policy of deposits with Banks with that object in view. But this plentiful flow of money has put a damper on the initiative and activity of the Directors of Banks who are not called upon to exert themselves in securing local capital on the strength of their own credit and to place their business on a self-reliant basis. There will be sufficient room for the employment of State funds with the expansion and improvement of the co-operative movement and the progress of agriculture, trade and industry, as has been shown elsewhere in this report. The Banks should, therefore, be urged and encouraged to attract local deposits on the strength of their own credit and Government may render them all necessary indirect assistance. It is proposed in a later chapter that Government should assist the land mortgage section of the Apex Banks by guaranteeing principal and interest on debentures issued by them. This will emphasise the advantage of Government helping the people to help themselves, inculcating in them the value of thrift and teaching them banking habits.

37. Reserve and Contingency Funds.

Reserve Fund :—The reserve fund built up by the Central Banks up to 30th June 1936 amounted to Rs. 4,16,573. It is invested as deposit with the Krishnaram Baldeo Bank, Ltd.,

Gwalior, the Imperial Bank of India and in the shares of the Investment Company, Ltd., and in gilt-edged securities. There is no statutory obligation on the Banks to set aside a definite proportion of their profits as a Reserve but according to the model by-laws, they are required to contribute not less than 25 per cent of their net profits to the Reserve Fund.

The Fund is regarded as indivisible, that is to say, it cannot be distributed as dividend or bonus or in the shape of shares. It is the collective property of the Bank and is not to be drawn upon without the specific sanction of the Inspector-General of Banks. Though the object of this Fund is not defined in the Act, it appears to be obviously intended to serve as a provision for possible losses and a support for the Banks' credit. While in some of the provinces of British India, the Reserve is allowed to be invested in the Banks' own business, the Banks here are required to invest the Fund outside. Though this practice involves a little loss in interest, since investment of the Reserve in the Banks' own business would give a greater yield, it is, on the whole, a sound system, particularly in the present state of the affairs of the Banks, and a departure from it cannot be recommended. It would be desirable to keep the Fund as a deposit with the Apex Banks, the establishment of which has been recommended in a later chapter of this report. The practice followed by some of the Banks of investing the Contingency, Building and other Funds in part as a deposit with other Central District or Pargana Banks in the State, must be strongly deprecated. The interlocking of funds whose safety has to be secured with the utmost care, which results from this practice, is most dangerous. A rule may, therefore, be made in that behalf requiring the Banks to invest the Reserve and other Funds with the Apex Banks and within the co-operative movement, and, if necessary, in gilt-edged securities.

Contingency Fund:—The amount of Contingency Fund set aside by the Banks up to 30th June 1936 was Rs. 1,70,671. There is no statutory provision for the creation and maintenance of this fund nor are there any rules requiring the Banks to contribute to it a certain percentage out of their profit. This fund is primarily meant to meet losses due to bad debts and other causes but its proportion to profits or to debts has not been laid down. If this fund is at all to fulfil its object, the Banks should be required to scrutinise their assets very closely at least once a year and preferably after their balance sheet is drawn up. They should prepare a list of doubtful and bad debts and keep it on its record which might be regarded as confidential and should be open only to the auditors and officials of the Co-operative De-

partment. After the assets are ascertained, the Directors should be required to provide for the bad debts in full and a certain percentage of the doubtful debts out of the gross profits before the net profits are struck. If the balance of the Contingency Fund is found enough for such provision, the Bank may set apart only a small portion of its net profit, say 5 per cent, towards the Contingency Fund. The bad debts may later on be written off from this Fund with the Inspector-General's sanction, which should be granted only if he is satisfied that the debts cannot be recovered from the principal debtor and from his sureties, if any, so that the risk of partiality or favouritism being shown to any debtor or debtors, will be avoided.

Contingency Funds have been started only recently at the instance of the Inspector-General; and for years together, in the absence of any provision for bad debts and doubtful debts, the balance sheets of Banks have not represented their true financial position and to the extent to which assets may be reduced by bad debts, profits declared by the Banks annually will be fictitious and will, in effect, have been paid out of capital. In one or two Banks, Government Inspectors of Co-operative Societies are reported to have scrutinised the outstandings of societies with their members to ascertain what portion of them was secured and what was unsecured, and supplied this information to the Banks' Boards so that they might form an estimate of their own assets. This procedure, even if it is widely followed, cannot be a substitute for Banks' own scrutiny through their own staff.

38. Loans.

The total working capital of the District and Pargana Banks on 30th June 1936 amounted to Rs. 62,29,000. Out of this, Rs. 33,70,000 represented loans to societies and Rs. 8,41,000 loans to individuals. Short-term and fixed deposits with local bankers or other bankers, amounted to Rs. 11,62,000.

Loans to Societies :—Out of the total outstanding with societies amounting to Rs. 33,70,000, Rs. 24,66,000 were overdue and Rs. 9,04,000 only were due for repayment after 30th June 1936. That is to say, about 75 per cent of the loans granted to societies was overdue. This figure is certainly very high but it appears to be due, in a large measure, to the failure of crops in 1927-28 and 1928-29 and to the world depression which immediately followed. There was then a sudden contraction of credit and the proportion of overdues to outstandings became high.

Applications for loans are submitted by the societies to the Bank through the Supervisors and the Government Inspectors of

Co-operative Societies who pass on the applications with their remarks to the Bank and they are sanctioned by the Board as a matter of course. The Inspector bases his recommendations for loans either on his personal knowledge or on his office record and only in few cases on enquiries made by himself on the spot. Applications are received from the societies as and when their members require loans. Thus in many cases even half a dozen applications are received from a society for one and the same season. This entails a lot of duplication of work and even delay. It is, therefore, necessary to require societies to estimate in advance the requirements of all their members for the following season, to consider them in a general meeting and then to submit their loan applications to the Banks direct. The Bank should have the applications carefully examined by its own supervisors and other staff and the Directors should from their own judgment in the light of the information supplied and opinions expressed. At present the Boards are guided solely by the recommendations of the Government Inspector in the disposal of loan applications. The loans thus recommended have sometimes been arbitrarily reduced by the Boards, the motive presumably being the desire to do something by way of exercising independent judgment. Such alterations, not based on first hand knowledge of the condition and requirements of societies, are undesirable.

39. Changes Suggested.

It is necessary to consider certain objections urged against the suggestion made above, that a society should, before the commencement of every season, submit to its Bank one loan application embodying the credit requirements of all its members with a view to economise the work of the inspecting and other staff. The difficulties pleaded are :—

- (1) Being illiterate, members of societies will not be able to estimate their requirements in advance.
- (2) There will be certain items for which loans may be required but which cannot be foreseen.
- (3) Members may borrow beyond their requirements or repaying capacity.
- (4) Fresh loans cannot be advanced unless members had repaid their overdue loan instalments.

Now, it may be pointed out that cultivators in Gwalior State are not worse off in the matter of illiteracy than those in most other parts of India, where an average member of an agricultural society has been found, as a result of experience, to be quite capable of estimating his requirements in advance. And.

in fact, one of the objects of co-operation is to teach the cultivator to be businesslike in his industry and to be able to forecast his needs. For unforeseen requirements, loans can, of course, be granted at any time during the season. Further, there is no reason to assume that simply because the estimated requirements of a member are noted in the loan application of a society and his loan has been sanctioned, the member will draw the amount even though he may not actually need it. If the Managing Committee of the society is watchful enough and if it finds that the member does not really want the loan, it will refuse his application.

Lastly, when a member is assured that he will get a fresh loan according to his legitimate need if he manages to repay his loan instalment, he generally tries to pay to the society as much as he possibly can out of his agricultural produce. The society is thus likely to recover its dues from members with greater ease if the system recommended above is adopted.

40. Procedure in respect of Loans.

Loans to a society are granted on the basis of the aggregate repaying capacity of members and are expected not to exceed 33 per cent of the value of its total assets. The basis of the capacity is two-fold, *viz.*, the rental value of lands and the movable and immovable property of members. Owing to the recent fall in prices, however, the outstandings of Banks with some of the societies have gone up to the total value of the members' assets or have even exceeded it. As regards the procedure followed, a bond for the amount of the loans is executed by the Panchas on behalf of the society, and the members for whom the amount is sanctioned, receive the money direct from the Bank. This is not desirable from the co-operative point of view. When a loan bond is executed by the Panchas on behalf of the society, it is they who should receive the amount of the loan from the Bank and distribute it to the members in the office of the society. Or, the Panch should credit the amount to the current deposit account of the society and issue cheques on that account in favour of the members to whom amounts of loans are to be paid. The members will, in this way, come to realise that they have borrowed the money from the society and not from the Bank and that they are collectively responsible for the amount borrowed by their society from the Bank.

Loans to Individuals :—The total amount of loans due by individuals to the Banks on 30th June 1936 was Rs. 8,41,000 of which Rs. 8,07,000 was overdue and only a sum of Rs. 34,000 was due for repayment after that date. This item represents

in part the balance of loans given by the agricultural banks in the past and transferred to the District or Pargana Banks after the former were closed in the year 1925. For some years after 1925, these Banks used to advance loans directly to individuals, who were not members of co-operative societies, for their current agricultural needs. Fresh finance having been suddenly stopped in 1928, recoveries became difficult and slow and hence the high figure of overdues. This was, however, subsequently stopped under the orders of the Department in 1928 as mentioned in paragraph 27 above.

These loans were given either on personal security or on the security of immovable property belonging to the principal borrower or to his sureties, if any. According to the provisions of the Banks Act, the property and possessions entered in the Haisiyat Register in the name of agriculturists to whom individual loans are given, shall be deemed to have been taken in mortgage by the lending Bank. No creditor, unless he pays up the loans advanced by a Bank, shall be entitled to recover his own debt by the sale of his debtor's property so entered in the register unless it has been previously mortgaged in favour of the said creditor. Similarly, the crops raised on the lands which have been entered in the Haisiyat Register, are deemed to be held as a security for the Bank's loans. Both Societies and Banks have this special facility given to them by the State that the amount of the balance of loans remaining in arrears, can be recovered from the debtor in the same manner as arrears of land revenue. The Government Inspector of Banks is authorised under the Banks Act to attach and sell the defaulter's property if so requested by the Board of Directors.

41. Need to expand Banks' Business.

Attention may be drawn to one important point here. The District and Pargana Banks are in form and spirit joint-stock concerns with agricultural co-operative societies as their chief clients. It is an accepted principle in British India that Central Co-operative Banks should not ordinarily undertake any outside banking work and should confine themselves to financing primary societies and serving as their balancing centre. In Europe, however, such banks do undertake outside business with a view to accommodate their members and also in order to increase their business and earn profit by means of investments, discounting of bills and other activities of ordinary bankers. It is, therefore, apparent that there should be no serious objection if Central Co-operative Banks are asked to finance individuals and do other kinds of urban banking business if

local circumstances demand and justify it. The co-operative movement in Gwalior State has so far been one-sided, having been restricted only to agricultural finance. No deliberate attempt has been made to organise urban credit and non-credit societies at suitable centres, and it may take some years before such societies come into existence and play their proper part in the economic life of the people. Till then, as has been recommended elsewhere in this report, a Central Bank may be permitted, within well-defined limits, to advance loans directly to individuals whose needs cannot be adequately met by local urban societies, provided that they are members of the Bank concerned.

Out of their total working capital, the Banks have placed Rs. 11,62,000 as fixed deposits with certain Banks or as short term deposits with some bankers or banking firms. This amount is either a portion of the Reserve Fund and other funds of the banks or the surplus lying with them which they cannot invest for a time in their business. As regards the Reserve and other funds, it is desirable to keep them outside the business of the Bank and should be dealt with in the manner recommended in para 37 above.

42. "Short-Term Deposits."

As regards the short-term deposits, it is necessary to explain the situation more clearly since they are likely to cause considerable anxiety to some of the Banks who may have to face a heavy loss on their account. The Banks used to get deposits from Government as and when they required capital for their ordinary business. But the surplus of recoveries from societies could not be returned to Government during the period when the money was not required. This amount used to lie with the Banks for about 4 to 6 months without earning interest till it was reinvested in loans to societies. With a view to enable the Banks to employ this idle amount temporarily at a reasonable rate of interest, the Banks Act allowed them to invest it either as (1) short-term deposit with approved bankers, the amount being returnable at call or at a very short notice or in (2) time bills or Hundis drawn by a respectable party and endorsed by at least one surety.

The procedure to be followed in this kind of business was governed by Section 29 of the Banks Act which runs as follows :—

“A statement of the credit standing of persons with whom surplus funds of the Banks are to be deposited shall be prepared after due enquiry and kept in

the Bank. Such a statement shall be signed by the Directors and the Treasurer of the Bank and its copy shall be forwarded to the office of the Inspector General."

"No sum exceeding one-fourth of the total credit limit shall be deposited with any person. These funds may be invested in the shape of deposits or Hundis."

"This statement shall be verified annually."

"In case of Hundis, endorsement by one surety shall be necessary."

43. The Tragedy of the Working of the System.

The persons with whom surplus funds are deposited are not borrowing clients and the procedure followed in the case of societies, namely, of having their properties recorded in the Haisiyat Register, cannot apply to them. The Banks, therefore, had to make enquiries about the financial standing of these so-called bankers and on being satisfied on that score, negotiated the acceptance of short-term deposits with the persons selected. No person, according to the framers of the Banks Act, could be expected to apply to the Bank for being appointed as its banker. But as a matter of fact, a number of needy persons apply to a Bank requesting to be appointed as its bankers. Some of them would even go a step further and urge to the Bank to raise the limits of its deposits with them. In short, these people are not "Bankers" but applicants for a loan. Several of the bankers so appointed have been themselves Directors of the Banks, and some of them or their firms have been directly related to or connected with some Director on the Boards. The Boards could not, in these circumstances, correctly and impartially judge the financial position and credit standing of such persons, with the result that some of the so-called bankers have turned out to be bad customers, unable to repay sums that should have been returned on short notice. In such cases the deposits have become loans without limit of time and without adequate or any security. Owing to the depression some of these bankers have now lost their business and their financial condition has become precarious. A few have actually gone into insolvency, and the balance due from them will have to be written off. The Banks are trying to save what they can from the wreckage and to obtain whatever security they possibly can. They have to be content with being paid the outstandings in easy instalments. Even those instalments are not, however, being regularly received and the Banks have had to go to the Civil Court for their recovery.

Such is the tragedy of the system of short-term deposits. To mention a few names, Esagarh, Ujjain, Sheopur, Susner and Bhilsa Banks will have to suffer heavy losses in this sorry business. If an appeal for assistance is addressed to Government, as it will be by some Banks, the help may be given only as a part of a scheme of their reorganisation on a sound basis.

44. Treasury Facilities.

It goes without saying that the practice of short-term deposits with bankers should be stopped forthwith. If the Banks really want to finance petty merchants and traders they may be permitted to do that kind of business without any make-belief after taking adequate security for the loans advanced.

The practice was defended on the ground that it enabled the Banks to earn interest on surplus funds which would otherwise remain idle. To leave no ground for this plea and to meet the Banks' convenience in that respect, Government has permitted them to open cash credit accounts with local treasuries. The surplus balances are credited to their accounts from time to time and any amount may be withdrawn when required by them for their legitimate business. The only condition prescribed by Government in respect of these accounts is that the amount to be credited or debited at any one time must not be less than Rs. 5,000. The propriety of this condition is obvious and the absence of such limit is bound to cause some inconvenience and extra work to the local treasury office. But in view of public convenience and of the need of improving banking practice, the limit may be reduced to Rs. 1,000 if not to Rs. 500 and the Banks should not be permitted on any account to deposit funds with local bankers either for a short or a long term. When the Apex Banks are established, as proposed in another chapter of this report, District and Pargana Banks will have all such dealings only with those institutions and the above facilities will be necessary for the remittance of funds between them.

45. Recoveries.

At present the Banks calculate interest on loans to societies every time any payment is received from them. Interest is deducted from the amount and the balance, if any, is credited to principal. This system entails a lot of clerical labour without any material advantage either to the societies or to the Banks themselves. It is, therefore, recommended that this system should be changed. Interest should be charged on the daily debit balance of societies and should be calculated once in the year, viz., on 30th June. Any recoveries made thereafter,

should first be credited to this interest till its full amount is made up and the subsequent recoveries should then be credited to principal. This arrangement is more businesslike and will reduce much clerical labour which is at present practically wasted. In the case of societies, however, the present system may continue. It is the practice of certain Banks to receive payment of their dues direct from members of societies who pay out of the proceeds of the sale of their produce in the market towns. This procedure is convenient both to Banks and agriculturists. The payments thus received, should be credited by the Banks to the accounts of the societies concerned and intimation of the transactions should be given to the latter who will post the accounts of their members accordingly.

46. Prospects Favourable—Boards and Management.

It would be useful in concluding this chapter to make a few general observations regarding the administrative, financial and other aspects of the working of the various Banks in the State. The quality of management and control is not even. In a few Banks the Directors, as a whole, appeared to be keen and progressive and also willing to expand and improve. In some, they were apathetic if not antagonistic to progress; and in some others, one or two members of the boards seemed individually to be appreciative of the need of reform. On the whole, however, if the incubus of the prevailing system, which is not conducive to efficiency, is removed and the Banks are made live co-operative bodies, there is every prospect of their rising to the height of the requirements of the situation and the actual management of their affairs showing decisive improvement in the course of the next few years.

47. Northern Circle.

As regards the economic and financial aspects of the Banks, Malwa Circle appears to offer a more favourable field for the spread of the movement than the Northern Circle. The social and economic conditions of the Districts in the north and the west of the Northern Circle are somewhat different from those in the other Districts in that Circle. The population of the Gird District is more cultured and businesslike as the villagers often come in closer contact with the capital of the State. The people of the District in general and especially those who reside round about the capital, can get some secondary occupation to supplement their income from their lands. The north-eastern District, namely, Bhind, has got irrigation facilities and the lands there are also fertile. The position is somewhat similar in parts of the Tawarghar and the Narwar

Districts. As regards Esagarh and Bhilsa (and particularly the latter) the Districts have only one season and the wheat crop there enjoys a wide reputation. Wheat, though a money crop, is, however, very speculative and agriculturists cannot estimate their income in advance even roughly and regulate their expenditure in accordance with it. The crop is also very sensitive, being exposed to natural calamities like rust and frost. The above two Districts, therefore, though fertile and equipped with very good railway and other communications, have been unfortunately the worst hit because of the bad seasons of 1927-28 and 1928-29 and the general economic depression that followed. Prices of agricultural produce have also had a decisive effect upon the agricultural industry in the two Districts.

48. Malwa and the Bhil Tract.

In Malwa, the lands are, on the whole, fertile and the staple crops there are wheat and cotton. At one time opium was a valuable source of income in this part of the State. But as opium cultivation is now restricted to a small portion of the Mandsaur District, the condition of agriculturists has suffered a setback. There are good rail and road communications in the three Districts of Mandsaur, Ujjain and Shajapur. The fourth District, namely, Amjhera, is mostly hilly, except for a few villages on the bank of the Narmada, and is populated mainly by Bhils. These people are almost primitive and it will take several years and a lot of expenditure to improve their condition. Their social organisation is peculiar and their tillage is of a crude type. Having little credit of their own, they become easy victims of exploitation. Owing to the extremely small size of the Bhil hamlets, which are scattered in the jungle, and the scanty population occupied in agriculture, no co-operative society started for them, is likely to be self-supporting on account of its limited business. Moreover, their societies will require the services of a band of public spirited and self-sacrificing workers for management. The State should, therefore, assist the hill tribes by advancing money for their legitimate needs through co-operative societies to be controlled and managed by the State. Work on these lines is being done in the Dohad Taluka near Bag Pargana and similar measures should be adopted for the uplift of the Bhils in the Amjhera District. They form the major portion of the population of this tract and deserve special assistance and facilities at the hands of Government.

49. Comparative Financial Position of Banks.

Out of the seven Banks in the Northern Circle—all District Banks—the position of Gird, Tawarghar and Bhind Banks is

fairly satisfactory. There is adequate field for the expansion of the movement in these Districts on right lines. Public spirited non-official workers are found to take interest in the affairs of these Banks and if they are given sufficient opportunity and freedom from undue interference from outside, there is every reason to hope that they will develop their institutions efficiently and with a proper sense of responsibility. The Bank in Narwar also is working satisfactorily. A part of this District is hilly and the expansion of the movement there is likely to be slow. As regards the Esagarh and Bhilsa District Banks, their condition is very bad and will improve only if the institutions are handled very carefully for some years to come. The lines on which the Banks will have to be reorganised have been indicated elsewhere in this report. The affairs of the Sheopur Bank cannot be pronounced as satisfactory though they are not as bad as those of Bhilsa and Esagarh Banks. Every effort will have to be made by all concerned to see that its condition steadily improves. Practically half of this District is hilly and not quite fit for cultivation. Hence the need of special care and attention.

50. District Banks in Malwa.

Of the four District Banks in Malwa, Ujjain and Mand-saur are working satisfactorily. They have been fortunate in securing assistance and guidance from zealous and experienced non-official workers. There is much scope for the development of the movement and for the organisation of urban societies in the District and Pargana towns. Shajapur District Bank is practically a Pargana Bank. Its financial condition is not bad though Government had to give full remission of interest on their deposit with it in the years 1931-32 and 1932-33. The non-official Directors ought, however, to show as much concern for the interest of societies and their members as for their dividends. Amjhera District Bank suffers from a lack of good non-official workers. Its financial condition is far from satisfactory, as some of its deposits with local bankers are likely to prove bad. The establishment cost works out at about 3.8 on the District as a whole and that of Bag Pargana, over 10 per cent of the income derived by the Bank from that Pargana as it is almost wholly populated by Bhils.

51. The Pargana Banks.

Out of the remaining Banks which are all Pargana Banks, the area of operation of Gangapur, Jawad, Suvasra and Susner being limited, they would not be able to carry on their business as independent units without disproportionately increasing their

cost on establishment. There is, therefore, no alternative to their being amalgamated with the neighbouring banks. The Shujalpur Bank also will have to be similarly combined. But since it is financially sound and the non-official workers there appear to be very keen on continuing their institution as an independent Bank and on developing its business, it may be allowed to continue as at present on condition that it is made an efficient economic unit in the course of three years. Neemuch is a good centre for co-operation and the Pargana Bank there is working satisfactorily. The same remark holds good in the case of Agar. Definite recommendations regarding amalgamation, etc., are made elsewhere in this report.

CHAPTER V.

PRIMARY SOCIETIES.

52. Extent of Influence.

As financing agencies, the District and Pargana Banks occupy a pivotal in the co-operative machinery. But the primary societies constitute the vital breath of the whole movement and it is necessary to enquire into the constitution and working of these bodies with a view to suggest remedies to improve their position. According to the last census report, the area of Gwalior State is 25,972 square miles. The total population in 1931 was 35,23,700. The State has 10,852 villages and 43 towns. The two cities of Lashkar and Ujjain, whose population exceeds 50,000 each, are included among "towns." The total number of primary societies in the State on 30th June, 1936 was 4,226 with a membership of 75,914 and working capital of Rs. 57,63,000. It will thus be seen that an average society has a membership of 18 with a working capital of Rs. 1,363. A society serves, on the average, an area of about 6.2 square miles, or 2.6 villages. If the average family is taken to consist of 5 persons, it appears that the societies have brought under their influence about 3,79,000 souls, *i. e.*, about 1/10th of the total population of the State.

53. Constitution.

A society is a registered association of individuals with common economic needs, such as agriculturists, artisans and persons of limited means and is formed with the object of improving their economic condition by the promotion of thrift and mutual help, so that they may be able to improve their standard of living by means of better business and better methods of production. A society has a corporate existence, and can sue and be sued against in that capacity. Its membership is generally based on personal knowledge and credit of those who come in intimate contact with one another. The difference between a joint-stock company and a co-operative society is that the former is a combination of capitals organised for the purpose of securing the maximum possible return on the same, while the latter is a union of persons brought together to overcome their economic difficulties by means of mutual support, self-help and thrift.

Societies are formed on two different principles, *viz.*, unlimited and limited liability in respect of the loss, if any, the members may have to make up in case their association is wound up. For agricultural credit societies unlimited liability is insisted on while others may be registered with either limited or unlimited liability. Societies, the membership of which is open to other societies, are registered as limited liability associations. The societies in Gwalior are mainly agricultural credit societies, and though the observations of this chapter refer specifically to them, they apply generally to other types of societies also.

The co-operative societies in the State are governed by the Co-operative Societies Act of 1916, and carry on activities generally in accordance with the model bye-laws framed and published by Government. One society for one village is the ordinary rule, but with the sanction of the Director, one society may serve more than one village. In special conditions one village may have more than one society. No society is generally permitted to admit more than 50 members. The minimum number of members required to form a society is, as in British India, 10. As a matter of fact, however, while the maximum has rarely been exceeded, many societies have been allowed to remain on the register though the number of their members has gone down below 10 for several years. This is undesirable from the point of view both of law and practice and such societies ought either to be wound up or be amalgamated with other societies. In view of the peculiar circumstances of some of the Districts, societies may be allowed to serve two or more villages if they are in close proximity and the members agree to have them grouped in one society.

54. How Organised.

In British India honorary workers in the movement very often organise societies at suitable centres. For want of such people in the State, the duty of organising societies falls to the lot of paid Government officers of the Co-operative Department. The Government Inspector of Co-operative Societies selects suitable villages and carries on propaganda explaining the advantages of a co-operative society. If he finds that conditions are favourable, he advises the people to submit an application to the Director along with the draft bye-laws of the proposed society. If the Director is satisfied that necessary conditions are fulfilled, he registers the society. The propaganda and previous preparation are all-important in the organisation of societies. But as in other parts of India, officers were anxious in the earlier years, to show big results and the

necessary care was not taken before the societies were launched into existence. Needy borrowers signed applications for the registration of societies in the hope of getting loans as a matter of course. Little effort was likewise made to keep up enthusiasm and to educate members after the societies had been formed. The result of all this haste is that very few members realise what responsibility they have taken upon themselves by joining the societies. A careful inquiry is likely to reveal the fact that 10 to 15 per cent of the existing societies will have to be wound up for want of proper persons to run them.

55. Management—Panchas and the Sarpanch.

A registered co-operative society is a body corporate and its supreme authority vests in the general meeting of members. One such meeting is held annually soon after the close of the co-operative year, and in it the annual accounts and the balance sheet of the society are considered and passed. This meeting also elects a Managing Committee and its Sarpanch. The Committee generally consists of five members including the Sarpanch and is the executive authority of the society and remains in power till a fresh one is elected in the next annual general meeting. The general meeting fixes the borrowing limits of each member and determines the maximum liabilities the Managing Committee should incur on behalf of the society. It can also expel a member from the society for misconduct. The Managing Committee sanctions loans to individual members within the limits fixed by the general meeting and is expected to arrange for their recovery. It secures loans from the central financing agency and executes all documents for and on behalf of the society. It carries on all business of the institution in accordance with its bye-laws. For the sake of efficient administration, it is both desirable and necessary that as many of the members of the Committee as possible, and particularly the Sarpanch, should be able to read and write. But as matters stand at present, few Managing Committees have members who can sign their names, and members who can read and write are a rare phenomenon. Committees have, therefore, naturally to depend upon the Secretaries of societies for everything.

56. Secretary and Supervisor.

Since it will take years before the desired improvement can be brought about, it is essential that the agency of the secretaries should be strengthened and be made more efficient. The average working capital of a society is about Rs. 1,500

and this amount is too meagre to enable a paid Secretary being maintained separately for each society. It has, therefore, been found necessary to have one Secretary to manage a group of 10 to 20 societies. The pay of the Secretary is from Rs. 15 to Rs. 20 p. m. He has to tour for about 22 days in the month and for this he is not paid any allowance. Such a low paid servant can hardly be expected to manage 10 to 20 societies efficiently and honestly. The Secretaries are paid by the Banks and are controlled by the Government Inspectors just like the Supervisors. The Secretaries are not trained and are not, in many cases, able to keep accounts properly. They do not regularly visit all societies in their charge and some societies remain unvisited even for two or three months. The accounts of the society are kept by its Secretary. They are written up by him in the village of the society when he visits it, which he generally does once a month. Meetings of the Managing Committee are also held when he is present. During the recovery season, the Secretary visits a society as frequently as he can and hence the accounts are written up so often. The accounts of a business concern must be written up from day to day and this also applies to a society, but owing to the special difficulty experienced in appointing a local Secretary, this becomes impracticable in village societies. The Sarpanch, who receives money from members, may, at times, keep it with himself till it is paid into the Bank. He also keeps a rough account, if he is able to read and write, or he orally communicates it to the Secretary and asks him to write it out in the books.

The work of the Secretary is supervised by the Supervisor who is expected to visit each society at least twice a year. The accounts of the society are audited by the Supervisor himself and are super-audited once in two or three years by the Government Auditor. This state of affairs is far from satisfactory. Every society ought to be audited every year by the Government Auditor in accordance with the provisions of the Act and proper arrangements will have to be made in this regard, so that the Director may be able to discharge his statutory duty properly.

57. Working Capital.

The working capital of a society consists of loans from Central Banks, deposits from members and non-members and of its owned capital, such as share capital, Reserve Fund, and other funds. This capital is employed mainly in loans to

members, the Reserve Fund being invested with Central Banks. The position will be clear from the following table :—

Total Liabilities.			Rs.
Loans	..	..	35,93,299
Interest due	..	..	5,92,031
Reserve Fund	..	..	23,42,904
Share Capital	..	..	6,82,672
Members' Deposits	..	..	1,70,959
Non-Members' Deposits	..	..	489
Miscellaneous	..	..	48,393
Total			74,30,747

Every member joining a society has to purchase at least one share the face value of which is Rs. 10 in the Northern Circle and Rs. 20 in Malwa, to be paid in ten years in suitable instalments. The total amount of share capital collected by all classes of societies on 30th June, 1936, was Rs. 6,82,672. As regards deposits from non-members, the figure is negligible and calls for no remark except this that the general rural public obviously has little knowledge of and takes little interest in the co-operative movement. As for the members' deposits, they have accumulated in an interesting way. At the time of the repayment of his loan to the society, each member has to pay a round sum. Out of the recovery, the Secretary credits the exact amount due and the balance of a few annas out of each transaction, remains with the society as the member's deposit. The aggregate total of these small amounts has now gone up to Rs. 1,70,959. This amount, however, includes Rs. 68,678 compulsorily collected from members by the societies in Shajapur District for a few years. A positive effort should be made to teach members the benefit of saving and they should be made to realise how by observing thrift at every stage, they may try to lay by, year after year, small sums so that their own accumulations may ultimately be enough to serve as capital required for their current agricultural needs.

58. Reserve Funds.

The Reserve Fund is intended to enable the society to meet possible losses. No amount is to be debited to this head without the specific sanction of the Director which is given only if he is satisfied that the loss cannot be made good by the party responsible, namely, the principal debtor or his sureties. In the case of societies with unlimited liability, practically the

whole of the annual net profit is credited to this Fund. As the Fund grows, it indirectly reduces the collective liability of the members of the society. In order that the Fund should remain intact and safe, societies were required to keep it as a deposit with the Central Bank, and this arrangement continued in force till 1935. The system, however, created an anomalous situation. A society could not utilise its own capital locked up in its reserve, to advance loans to members and had to be content with a low rate of interest on the deposit while, at the same time, it had to pay a much higher rate for the amount it borrowed from the Bank. The profits of all societies were adversely affected by this arrangement and their financial position became weaker and weaker. This state of affairs attracted the attention of the present Director of Co-operative Societies and he issued orders to the Banks to the effect that a major portion of the societies' deposits should be credited to their loan account, and the necessary adjustments were effected in 1935-36. All circumstances considered, this was a right step to take and in the midst of a prolonged economic depression, the societies have secured substantial relief by being permitted to utilise their reserve fund in their own business as is done in several Indian Provinces. The reserve fund built up by societies at some sacrifice, made year after year, has been put to its proper use and it is satisfactory that necessary orders in the matter, though rather late, have been issued.

It is worth noting in this connection that the balance sheets of primary societies take into account the amount of interest due but not actually recovered from their members at the close of the year and this practice goes to inflate their profit. It may take several years before the interest is actually recovered from the parties concerned or at times it may have to be written off if the debtors become insolvent or leave the villages. The system of taking unrealised interest to profit may not be objectionable on mere technical grounds where dividends are not declared and distributed, but from the point of view of sound principle, its inclusion under profit is not desirable as it is liable to create a wrong impression as to the size and availability of the reserves. It would be better not to take the unrealised interest into account at all till it is actually recovered and if it is so taken, it should be credited to a separate account such as "interest suspense account" or "accrued interest account." What now happens is this. The reserve of a society consists of two parts. The one representing realised interest is deposited with the financing Bank and

the other is made up of unrealised interest against which interest due from members is taken as an asset. A reserve to be worthy of the name, must be something tangible and must not be based on an asset that may or may not be realisable.

District and Pargana Banks are not, however, permitted to show the amount of interest accrued but not realised on loans in their balance sheets either under profit or under "interest suspense account." It would be convenient if the amount of such interest is credited to the latter account; and when actually recovered, it should be taken to profit by being debited to that account, so that the whole position would be clear at a glance from the Bank's balance sheet.

59. Loans to Members.

The procedure followed in respect of the loans from Banks has been described in the last chapter and the desirability of inviting only one loan application from each society for every season, embodying the needs of its members has been emphasised there. This procedure will prove educative to the members and will also save a lot of duplication of work and delay in the distribution of loans. The amount of loans due to societies from their members on 30th June 1936, was Rs. 47,86,770. This includes also loans from Government funds passed on to the members as special loans. The loans advanced by societies to their members, are ordinarily given for productive purposes such as current agricultural operations and common domestic needs. They also cover requirements such as expenses for marriage and other ceremonies and repayment of petty debts, etc. When a society is expected to satisfy all the legitimate financial needs of its members, subject, of course, to the adequacy of assets and repaying capacity, loans for the latter purposes will be unavoidable. The loans sanctioned are not paid to members directly in the society's office, but the members have to go to the District or Pargana Banks to receive the money. As has been observed in the preceding chapter, this practice is unco-operative. When the members get the impression that they have received loans from the Bank and not from the society, it is very difficult for the Managing Committee to exercise its influence on them in recovering the instalments of loans due.

60. Recoveries.

The procedure of recovery of loans from the members of societies is also somewhat peculiar. The Supervisors and the Secretaries are instructed by the Government Inspectors to move about in their areas at the time of harvest and effect

recovery from the members direct. This ought really to be the main responsibility and business of the Managing Committee and not of the Bank employees or the Government Inspectors. The idea seems to prevail that members of the Managing Committee including the Sarpanch, are mere figure heads, the Bank and Government officers being responsible for advancing loans to and effecting recoveries from the members direct. This state of affairs is far from satisfactory, and as long as it continues, the members of societies will never be self-reliant and self-confident. Vigorous propaganda will have to be carried on to make the members of Managing Committees understand and realise their legitimate duties and responsibilities in the matter of conducting the affairs of the societies and they should be definitely told that Government would render them necessary help and guidance for recovering their dues only from recalcitrant members in accordance with the powers vested in them under the Act and the Rules.

61. Security for Loans.

The loans are generally given to the members on the basis of their repaying capacity, the nature of which has been explained in the last chapter. The assets, both movable and immovable, are recorded in the "Haisyat Register" and according to the special provisions of the Co-operative Societies Act, assets of members which are mentioned in that register are regarded as having been mortgaged by them to their society and as not liable to be sold in execution of the decree of any court unless the creditor first clears off the society's dues payable by the members concerned or unless it is found that the property was specifically mortgaged to the creditor before it was recorded in the Haisyat Register. As this is an important document, forming the basis of the credit to be allowed to members of societies, the register should be compiled with great care and should be maintained up-to-date. The Zamindari system of land tenure is prevalent in the State and the number of persons who possess any specific rights in the lands which they can offer as tangible security for their loans is consequently small. A large number of members of societies cultivate lands as tenants who are classified as Maurusi, Gair-Maurusi and Shikmi, that is, occupancy tenants, tenants at will and sub-tenants.

The Zamindars and Maurusi tenants have landed property to mortgage but the property of other tenants recorded in the Haisyat Register, consists only of their huts and cattle. The huts in the villages are, of course, not worth much, and

as regards cattle, they are liable to die or may be easily disposed of without the knowledge of the society. Thus in spite of the special provision made in the Co-operative Societies Act, which does not find place in British Indian Acts, societies do not secure much protection and have to depend largely upon the personal credit of the borrowing members and their sureties for recovery of their dues. Further few sureties realise the responsibility they have undertaken by signing the loan bonds of the borrowers. The only thing they are aware of is that they are sharers in the joint liability of the society and that they will have to make good any loss that may arise on the liquidation of the society. So far very few occasions have arisen to make sureties realise their legitimate financial responsibility. At present, it is uncertain whether the dues of the societies are fully secured and may be recovered with interest, without any loss even though they are spread over a number of years. It is, therefore, essential that arrangements should be made to ascertain the amount of doubtful and bad debts of each society and adequate provision be made to meet them. According to a rough estimate, this may be in the neighbourhood of 30 per cent of the existing dues. It is understood that the State has adopted certain measures to safeguard the interests of the occupancy (Maurusi) tenants and the question of extending protection to Gair-Maurusi and other tenants in order to make secure their continuous cultivation of land, may be considered in the interest of stable and profitable agriculture. Healthy conditions of rural credit are largely governed by the stability and security of tenure and hence the need of measures of the kind suggested here.

62. Need of Developing Urban and Non-Credit Movement.

The development of the Co-operative movement in the State having been confined almost entirely to agricultural credit, other avenues of co-operative activity have not been explored. On 30th June, 1936, the number of non-agricultural societies was only 43 as against 4,183 of the agricultural class. Out of these 43 societies, 42 were credit societies for salary earners, merchants and other persons residing in urban areas and only one was a Provident Fund society. It is also noteworthy that of the 43 non-agricultural societies, only 2 were in the Northern Circle which has 7 Districts and 41 were in the Malwa Circle consisting of 4 Districts. There is ample scope for the expansion of non-agricultural societies in suitable centres, and unless this side of the movement is sufficiently developed, it will continue to suffer from a lack of

educated people and businessmen to guide, inspire and to strengthen its working. The neglect of the non-credit and non-agricultural co-operation has deprived the movement of much of its potential utility and early steps ought to be taken to remedy this deficiency.

63. Grain Stores.

Mention may be made of a very useful type of society, *viz.*, the grain store, a number of which were started at different places and were registered under the Co-operative Societies Act. It is understood that they still continue on the register and number about 150. From information gathered it appears that these institutions were found very helpful by villagers, particularly because they gave and recovered loans in kind and not in money and the debtors did not feel it burdensome to repay the loans with interest at harvesting time. The rate of interest was as high as 25 per cent but as it was realised in kind, the members could pay it without difficulty and it covered all expenses and left a sufficient margin to form a reserve. In one particular District, owing to the enthusiasm of the Government Inspector and of the local leaders, grain stores were opened in a number of villages and were conducted as registered or unregistered institutions. It was found that they served a badly felt need of their members. Later on, when that particular officer was transferred, his successors did not pay proper attention to these institutions and the movement came to be neglected. All the above grain stores have now ceased working and it has become difficult even to trace the members and the exact quantity of grain due from them. This negligence is to be deplored and the officers responsible for it, should have been called to account. The least that ought to be immediately done is that the stores should be revived and encouraged to carry on their work as before. Further, more grain stores should be started wherever practicable and all assistance, both financial and otherwise, should be extended to them by Government. Special mention of the progress of these and similar institutions should be made in the Annual Report on the working of the Co-operative Department.

64. Godowns to be Constructed by Government.

Godowns are an essential necessity for the development of grain stores and as these societies will not, at least in the initial stages, command the capital required for their buildings, Government should assist them by putting up suitable structures according to local requirements and let them out at

a nominal rent. In order to provide for the Government funds spent on this account and to encourage the proper use of the facilities afforded to agriculturists and petty traders, the store societies should be made to set aside a godown fund out of the annual profits and the cost of the buildings should be recovered in instalments, Government claim in this behalf being the first charge on the assets of the societies.

65. Multi-Purpose Societies.

It is the general practice all over the country for a co-operative society to undertake a particular type of business such as credit, purchase and sale, housing, production and so on. In villages and small towns, due to lack of good workers, even such simple business is not properly managed. At a few selected places, however, where conditions are favourable, a society may be allowed as an experiment, to undertake more than one type of business mentioned above, so that all the needs of the cultivators may be met. People who obtain loans from their credit society, have to resort to money-lenders and traders and it is desirable that their society should be so equipped that it will cater for all their wants. There is no doubt much difficulty and risk in allowing a society to deal in several kinds of business but on account of the peculiar position of the small towns in the State and in view of the scheme of rural reconstruction it is proposed to undertake, it would be worthwhile trying the experiment and if it is successful, the system could be extended. In order to stimulate the development of urban credit societies, these institutions should be supplied with necessary credit by the Central and Apex Banks against their fixed deposits with them or on simple promissory notes supported by the collateral security of the loan bonds taken by the societies from their solvent members.

66. Housing and Sale Societies.

Co-operative Housing Societies could be started in towns like Gwalior, Ujjain, Mandsaur, etc., and they should be financed by the Apex Banks. These societies always require long-term loans. With a view to secure this amount at as low a rate as possible, the Apex Banks should be permitted to issue necessary debentures which should be guaranteed by Government as regards both principal and interest.

Societies may also be started at different centres with the object of financing cottage and other small-scale industries. These societies will have to be given special facilities by the Apex and the Central Banks in the matter of interest and the period of repayment. Government should earmark a special

fund to be lent at a nominal rate of interest and it should be placed at the disposal of the Apex Banks for being advanced to deserving Industrial Societies. At Mandsaur there is a credit society of blanket weavers who need advances against their finished articles for a short period till they are sold. In the case of producers' societies some provision has to be made in their bye-laws for giving advances to the members against their finished goods provided they are not perishable and are easily salable in the market. Such societies deserve all possible encouragement. There is much scope for organising sale societies at places like Mandsaur, Ujjain, Morena, Bhind, etc., and they are likely to develop soon if enthusiastic non-official workers can be secured to run them. In order to prepare the ground for this kind of co-operative activity, Central Banks should be permitted for some years to advance loans on agricultural produce, and when this business is sufficiently developed, efforts should be made to organise purchase and sale societies to whom it should be transferred. The Central and Apex Banks should then finance these societies instead of individual constituents.

67. Rates of Interest.

One of the beneficial efforts expected to result from the working of the co-operative societies is the relief obtained by borrowers through a substantial reduction in the rate of interest payable on loans. The Co-operative movement has everywhere succeeded in bringing about this relief not only in respect of members of societies, the rate of interest generally charged to their debtors by village money-lenders has gone down. This has been the experience in Gwalior State also. Members of agricultural societies in the State had, in the past, to pay a very high rate of interest for their loans as compared with their brethren in certain Provinces of British India. The average rate of interest in the State used to be 15 per cent and it is worth noting that it has recently been brought down to 9 per cent. Every effort must hereafter be made by all concerned to see that this rate does not rise on any account. Experience has shown that agriculture leaves a very small margin of profit to the average cultivator even in good years, and if his costs are not kept down as low as practicable, it is hardly to be expected that he will improve his economic condition or get out of his present financial difficulties.

Attention may, in passing, be drawn to the fact that there is no provision in the model bye-laws of agricultural societies prescribing the maximum limit of the loan which may be

granted to a member for his current agricultural and domestic needs; nor do the bye-laws lay down the maximum liability a member may incur in the capacity of a surety. It is very necessary that such limits should be fixed by the bye-laws. Any loan beyond the limit may be sanctioned in exceptional cases provided previous sanction of the Director of Co-operative Societies is secured for the same.

With the view that societies' reserves should remain safe and intact, these funds have been placed in deposit with the Banks; and it so happens that while a low rate of interest is obtained on these amounts, the societies have to pay a higher rate on their borrowings at the same time. In order to give some relief to the members of societies in these days of depression, the Director of Co-operative Societies issued orders in 1935 permitting them to utilise their Reserve Fund in their own business. Members were likewise allowed to transfer their shares beyond the necessary minimum and also their deposits with the societies to their loan accounts. By this adjustment the societies and their members were enabled to reduce their burden of interest to a certain extent and also the overdue loan balances standing against their names. Though belated, this was a step in the right direction. The orders were, however, interpreted in different ways in different circles, with the result that there was a good deal of confusion and that some societies went into losses for no fault of theirs while certain Central Banks made extraordinary profits which they distributed as dividend to their shareholders. It is satisfactory to note that fresh orders have been recently issued with a view to rectify the mistakes that had been committed.

68. Supplementary Scheme for Agricultural Credit.

There are numerous villages in which there is no co-operative society but in which cultivators need finance for their current agricultural operations. It is satisfactory to note that the State proposes to launch a scheme to meet this requirement. It is understood that the State has set apart a sum of Rs. 25 lacs which will serve as a nucleus for financing agriculturists in places where there are no co-operative societies at present. Loans from that fund will, it is further understood, be granted by the Revenue Department to persons who are not members of a co-operative society on the joint responsibility of three or more persons resident in a particular village. These small groups will form the basis of future co-operative societies and the arrangement will serve a very

useful purpose in as much as it will fill a gap that is now left in the rural credit superstructure. Care is being taken to see that this arrangement does not compete with the Co-operative movement and it may be presumed that as soon as the number of borrowers in villages exceeds 10, they will be organised as a society and will be dealt with in that capacity. A scrutiny of the draft of the proposed legislation and rules to be made under it, shows that the scheme is well-conceived and sound. It is hoped that the experience of similar arrangements made in the past, will be availed of as a guide in working out the scheme.

69. Supervision.

This chapter will be closed with the discussion of a topic of great importance to societies. For the proper and efficient working of these bodies constant supervision and guidance are essential and this is particularly so in the case of village societies. The ideal arrangement in the Co-operative movement is for societies to unite themselves into groups for the discharge of functions which are of common interest and cannot be performed by them individually. Unions are thus formed for carrying out the audit and supervision of the member societies and the work is done economically and efficiently through a competent staff paid out of a common fund to which affiliated members have to contribute. Supervision includes watching the working of societies, giving them guidance in preparing estimates of the financial requirements of members, helping them in making recoveries and generally in looking after their efficient management. In many British Indian Provinces the work of supervision of societies is done either by the Supervising Unions or through the staff of the Central financing institutions which are equally interested in the well-being of societies. Supervising Unions are federations of societies situated within a limited area, say a Pargana or a part of a Pargana, according to the number of institutions that have to be served. The Unions are links between the societies on the one hand and the Central Bank and the Co-operative Department on the other. A number of them may be further federated into a higher group so as to form a stronger and more efficient organisation. The expenses of these bodies are met out of subscriptions levied on the affiliated societies and their funds are supplemented by grants from the Central financing agency and Government to the extent necessary. Supervising Unions have been working in various British Indian Provinces for the last several years. Before they were started, supervision was carried on mainly

by the Central Banks and partly by Government officers and honorary workers. Experience in many parts of the country has, however, shown that the Supervising Unions do not function as usefully as they were expected to do. Ignorant and illiterate cultivators can hardly manage the affairs of these representative and democratic institutions and control the staff when they are not able to look after their own small societies whose affairs have, in any case, to be supervised by the financing Banks and the officers of the Department. Opinion in co-operative circles which was, at one time, almost unanimous in favour of Unions, is now divided and it is widely felt that it would be wise to revert to the old arrangement and entrust the supervision of societies to the Central Banks. The condition of the Co-operative movement in the Gwalior State is not favourable to the organisation of Supervising Unions and they cannot, therefore, be recommended. Central Banks would be the proper bodies to undertake the work. This arrangement is appropriate in view of the peculiar position which the Banks occupy in the Co-operative movement. They have the staff and the funds necessary for the efficient discharge of the function of supervision. The mutual relations of societies and Banks are and have to be intimate and nothing is calculated to strengthen these ties better than supervision carried on by the latter. The staff of supervisors and the funds for its maintenance are there and when the men receive proper training and the Banks take the necessary work out of them, the system of supervision promises to prove efficient.

CHAPTER VI.

AUDIT.

70. Territorial Distribution of Banks.

There are in all eighteen Banks and out of these, eleven are District Banks and the remaining seven are Pargana Banks. Ordinarily a District Bank would be expected to have the whole District as the area of its operation and the Parganas should be served by its branches or by Banks subordinate to it. But as a matter of fact, Pargana Banks are independent bodies though their jurisdiction is restricted to the area of the Pargana. Conditions in the Northern and the Southern Circle are different in this regard. In the Northern Circle, which includes Esagarh and Bhilsa, there are seven District Banks and no Pargana Banks, while in the Malwa Circle, there are only four District Banks and the rest seven are Pargana Banks. Shajapur and Mandsaur are District Banks and they are so called because they are located in the District Towns; and Parganas in those Districts have banks of their own, *e. g.*, Shujalpur. These Banks have branches of their own in the Parganas. The position will be clear from the following statement:—

Districts and Parganas in the Gwalior State.

District and Pargana Banks.

I

S. No.	Name of the District.	Name of Pargana.
Northern Circle.		
1	Gird (District Bank) ..	1. Gird. 2. Pichhore. 3. Mastura. 4. Bhandar.
2	Bhind (District Bank) ..	1. Bhind. 2. Mehgaon. 3. Lahar. 4. Gohad.
3	Tawarghar (District Bank) ..	1. Jaura. 2. Ambah. 3. Nurabad. 4. Sabalgarh.

S. No.	Name of the District.	Name of Pargana.
4	Sheopur (District Bank) ..	1. Sheopur. 2. Bijeypur.
5	Narwar (District Bank) ..	1. Shivpuri. 2. Kolaras. 3. Kaçera. 4. Pichhore.
6	Esagarh (District Bank) ..	1. Pachhar. 2. Mungaoli. 3. Bajrangarh. 4. Kumbharaj.
7	Bhilsa (District Bank) ..	1. Bhilsa. 2. Basoda.
8	Malwa Circle. Ujjain (District Bank) ..	1. Ujjain. 2. Khachraud. 3. Badnagar. 4. Sonkach.
9	Shajapur (District Bank) ..	1. Shajapur. 2. Shujalpur (Pargana Bank). 3. Agar (Pargana Bank). 4. Susner (Pargana Bank).
10	Mandsaur (District Bank) ..	1. Mandsaur. 2. Suvasra (Pargana Bank). 3. Neemuch (Pargana Bank). 4. Gangapur (Pargana Bank).
11	Amjhera (District Bank) ..	5. Jawad (Pargana Bank). 1. Amjhera. 2. Bakaner.

II

District and Pargana Banks and their Branches.

S. No.	Name of the Bank with its headquarters.	Name of branch.
	Northern Circle District Banks.	
1	Gird (Lashkar)	1. Bhandar. 2. Dabra.
2	Bhind (Bhind)	1. Lahar. 2. Gohad. 3. Mehgaon.

Nos.	Name of the Bank with its headquarters	Name of branch.
3	Tawarghar (Morena)	1. Ambah. 2. Jaura. 3. Sabalgarh.
4	Sheopur (Sheopur)	1. Bijeypur.
5	Narwar (Shivpuri)	1. Kolaras. 2. Karera. 3. Pichhore.
6	Esagarh (Pachhar)	1. Chachoda. 2. Mungaoli. 3. Guna.
7	Bhilsa (Bhilsa)	1. Basoda.
Malwa Circle District Banks.		
8	Ujjain (Ujjain)	1. Badnagar. 2. Sonkach. 3. Unhel. 4. Khachraud.
9	Shajapur (Shajapur).. ..	..
10	Mandsaur (Mandsaur) .. ..	..
11	Amjhera (Sardarpur)	1. Bag. 2. Manawar.
Pargana Banks.		
12	Shujalpur .. ..	..
13	Agar	1. Barod.
14	Susner .. ..	..
15	Suvasra .. ..	..
16	Neemuch .. ..	..
17	Jawad .. ..	..
18	Gangapur .. ..	..

71. Arrangement for Audit.

The present arrangement for the audit of Banks and societies is as follows: It is the statutory duty of the Director of Co-operative Societies who is also the Inspector-General of Banks, to arrange for the annual audit of all the 18 Banks and 4,226 Co-operative Societies but, in fact, this duty does not seem to have been fulfilled in respect of societies mainly on account of the very limited number of Auditors. There are only seven Auditors and it is not possible for the Director to arrange for the annual audit of all the societies with the help of an inadequate staff.

The financial year closes on 30th June. The Banks take about a month and a half in preparing their annual accounts. The programme for audit of Banks is issued to the Auditors (Gwalior is the headquarter of all the Auditors) by the end of August, and the audit is, in normal conditions, completed by the end of December or by the middle of January. They are then given the programme for societies' audit which is expected to be finished by the end of June.

The practice so far has been to get the accounts of the Banks audited annually in the early months of the official year and to devote the remaining period of the year to the audit of societies. The number of Auditors being very limited and it being impracticable to audit all the societies in the course of any single year, societies are taken up one after another until all of them are audited. Each society can be audited, under this system, only once in every two or three years. In absolutely normal conditions this arrangement works on smoothly, *i. e.*, if all the Auditors remain busy with their audit programme throughout the year. If, however, even a single Auditor is deputed on some special duty or goes on leave or is otherwise unable to do his allotted work, the whole programme is upset. The deficiency caused in this manner during one year, cannot be easily made good even during the following year and as a result, societies have remained unaudited even for four or five years.

72. Audit of Banks.

There is no specific form of audit prescribed for the Auditors to fill in, though there are some definite instructions to guide them. These instructions relate particularly to the information required by the Department regarding the working of the institutions audited. After the completion of the audit of a Bank, the Auditor has to write an objection statement referring mainly to petty irregularities and omissions found in the course of the scrutiny of account books and vouchers of the Bank and such other matters as have to be brought to the notice of the management. This objection statement is submitted to the Bank separately after the completion of the audit. The statements are sent to the Chief Auditor by the Bank with the necessary explanations of those concerned, through the Deputy Director of the Circle to which the Bank appertains, and that officer passes them on to the Director's office with his remarks, if any.

Apart from these objection statements, the Auditors are required to write a detailed general note (on the lines suggested

by the Department in the instructions above referred to) with regard to the working of the Banks audited. This note is meant for the information of the Department only so that action on any matter may be taken whenever desirable. A copy of this note is not sent to the Bank concerned and the managers and directors of that institution are not given an opportunity to know what the Auditors think about their policy and administration. It would be a great advantage to those who are responsible for the management of a Bank to know their defects and mistakes and to discuss with the Auditor important questions arising from his scrutiny of the accounts and the financial position of the Bank. These discussions are often suggestive and result in substantial improvement. The absence of a specific form of audit likewise renders the position of Auditors very difficult. They probably do not know what to say and what to leave unsaid and run the risk of being found wanting for errors both of commission and omission.

73. Mistaken Policy.

It appears that there was at first no regular staff of Auditors in the Department of the Director of Co-operative Societies and audit was probably conducted by Government Inspectors themselves. When in the year 1930, the Director of the Co-operative Department became the Member-in-Charge of the portfolio of Finance, the budget of that Department was split up into two sections, *viz.*, the General Section and the Audit Section, and the control of the latter was taken over direct by the Member-in-Charge. The reason why control of audit was not retained in the hands of the head of the Co-operative Department, can only be conjectured. The Member-in-Charge who had himself been responsible for the control of Co-operative Societies and Banks for several years, perhaps wished to keep a watch over the administration of the Department while under the management of his successor and thought that the Auditors were a convenient channel through which necessary information could be attained. But the device was bound to prove destructive of smooth working and discipline in the Department. It was very natural for the Auditors under that system to set themselves up as independent judges and critics of the administration and they submitted reports on the working of societies to the Member-in-Charge over the head and without the knowledge of the Director. The intervention of the Deputy and Assistant Directors in the working of institutions was confusing enough and the inter-

position of the Auditors only added to the confusion and created embarrassment.

74. Correct Practice.

This objectionable system has recently been abandoned and the Auditors are now under the control of the Director. No Auditors of the Department can have parallel or superior jurisdiction in relation to its head, though it is necessary to point out that independence, impartiality and freedom of judgment constitute the essence of the utility of audit and that occasions for conflict between Auditors and executive officers of the Department, particularly the Deputy Directors, should be avoided. These officers still control the working of the Banks and societies and are likely to look askance at Auditors. Most of this disharmony and conflict will vanish if the recommendations made in other chapters of this report with regard to re-organization are adopted. As it is, the exact scope and nature of audit and the duties and responsibilities of the Auditors have nowhere been defined and there is also no departmental manual to guide them in matters of the duties, powers, functions, etc., of the Deputy Directors, the Boards of Directors, the Managing Directors and other officers of the Department and the Banks. Now that on a representation from the Director in 1935, the Audit Section has been transferred from the control of the Member-in-Charge to his own, the path is open for further essential improvements suggested here. An Annual Conference of all Auditors should be convened and the Director should discuss with them important questions relating to their work. A similar conference of the District Officers recommended elsewhere in this report should be held for the same purpose and these two sets of officers should have a joint meeting for mutual consultation.

75. Suggested Improvements.

It has been stated above that the Auditors are required to prepare two reports on the audit of Banks: (i) The objection statement containing account irregularities and (ii) a general note containing remarks on the working of Banks. The objection statement is sent to the Bank concerned while the general audit note is directly submitted to the Department for information and necessary action. It is not to be supposed that Auditor's views must always prevail and that all their suggestions must be given effect to. It is nevertheless necessary that they should be carefully considered and discussed, if need be, with the Auditors themselves with a view to their being acted upon. At present, Auditors have no means of

knowing what has been done with reference to their criticism and recommendations. Their duty ends with the submission of a report to the Department and objection statements to Banks and societies. If the recommendations made in this and other chapters of this report are given effect to, it will come to be realised that the Auditors' work is not of a purely technical and routine character, that they must interest themselves in questions relating to the working and policies of Banks and societies and that they should call for necessary information from and discuss important matters with the officers of the institutions audited. This is the proper and correct responsibility of Auditors.

In the distribution of the work of the Auditors made by the Department at the beginning of each year, the same Bank is not generally allotted to an Auditor continuously for two or three years. The Auditor cannot, therefore, inquire and satisfy himself as to whether his remarks have been attended to by the managers and directors of Banks. While carrying out their audit, Auditors can and do ascertain whether any suggestions contained in the objection statements submitted by their predecessors, have been considered and adopted by the Banks and societies or not, and then they record in their notes whether and to what extent, the directions given have been complied with. In this way, the objection statements which are left by the Auditors at the Banks on the termination of their audit, are seen by their successors in the following year, but the general audit report which is submitted for the information of the Department, is seldom available to the Auditors though this is an important document which throws light on the financial and administrative methods and policy followed by the institution concerned.

76. Audit of Societies.

The audit of societies is relegated to the latter part of the year and owing to the paucity of Auditors, cannot be regularly and satisfactorily carried out. As financing agencies, Banks no doubt occupy a pivotal position in the Co-operative movement and it is well that each one of them is audited every year and that that position is given due recognition by the Department. All the same, the audit of societies suffers by the concentration of Auditors' attention on the Banks. As there are altogether more than four thousand societies, the average share of each Auditor is 300 to 400 and the audit has to be completed within four months, March to June. That is why some societies have to be left unaudited even for four or five years. In the circumstances, the audit is not also as thorough as it

should be and members of societies do not derive from it the benefit which is expected from it. In fact, it has little educative value.

The Auditors are supposed to check the entries in the books and make local enquiries as regards the relations obtaining between the members of societies themselves, between the members and the Panchayat and between the societies and the Bank and its staff. They may also verify from the members the amount repaid or borrowed by them and also the entries in the Haisiyat Register from their oral statements. The Auditor does not, however, submit a separate audit note for each society nor does he certify the balance sheet. The audit of societies conducted by the Departmental Auditors has, therefore, come to be treated as super-audit while the Supervisors have now been made responsible for the annual audit of the accounts of societies in their group. After completing the audit of societies in a Pargana, the Auditors have to write an objection statement with regard to all the societies in that area. These objection statements are submitted to the Inspector concerned and points to which his special attention is to be drawn, are specifically noted. The Inspectors, on their part, pass on the audit reports to the Deputy Director with remarks of their own. The group Secretary who is the last link in the official chain, keeps the accounts of societies and the Supervisors inspect them and see that they are properly maintained and themselves draw up the balance sheets. The audit of societies is, therefore, apt to be regarded as a matter of little importance, the routine book-keeping having been already glanced through by the Supervisors.

77. Recommendations.

The following recommendations, if they are given effect to, will go a long way to make the audit of Banks and societies more effective and its machinery more efficient: (1) In the first place, the present number of Auditors which is utterly inadequate, should be immediately increased to 19. As has been proposed in the re-organization scheme explained elsewhere in this report, this increase should be brought about by selecting from among the present staff of Inspectors, persons who have had sufficient experience or are otherwise qualified. (2) Secondly, the recruitment of accountants, agents, managers, supervisors, inspectors and Government staff should be made, as a rule, from among qualified and trained persons. (For this purpose training and refresher classes have been recom-

mended elsewhere in this report.) Recruitment of unqualified, untrained and inexperienced men in the past has proved harmful to the progress of the movement. (3) Thirdly, a system of continuous audit, that is to say, the audit of the same institutions by a particular officer for a series of years, should be introduced by posting Auditors in different Districts for a fixed period of at least three years. The increase in their number will give the Auditors more time and latitude for their work and the appointment of qualified and trained men will secure efficient audit. The Auditors should be encouraged to carry out their duties in such a way that they may exercise a moral check on the staff and management of the Banks. They may gather local information and utilise it for a correct appreciation of the position of Banks and societies. The Auditors will then be better informed and will be placed in a stronger position to verify the correctness of balance sheets and form an opinion about the soundness of the business of the institutions dealt with. They should also be enabled to see whether their suggestions are being given effect to or not. The most important thing about good audit is that it should be as impartial and independent as possible, and those responsible for the management and administration of co-operative institutions, should look upon them as guides and friends rather than as mere fault-finders. Once a good Auditor has been selected and appointed, the Department should repose complete confidence in him and if there is a difference of opinion on any point, the subject should be thoroughly discussed with him and a definite conclusion should be arrived at in consultation with him. And when this is done, the Auditors should be backed and fully supported by the authorities. In the Bye-Laws of the Banks provision should be made requiring them to give effect to suggestions made by Auditors except in cases where it is decided otherwise as a result of discussion with the Auditors and the head of the Department. It is likewise necessary that the scope of audit and the powers and duties of Auditors should be clearly defined by the Department. (4) Fourthly, a model audit form should be introduced (see Appendix to this chapter) and the audit report should be prepared in two parts as follows :—

1. *Audit Form No. 1*—should record mistakes and errors of commissions and omissions noticed during the course of the scrutiny of vouchers, books of accounts, investments, etc., and also such other matters as may have to be brought to the notice of the management.

2. *Audit Form No. II*—should embody observations of a general character bearing on the working of the Banks, their business policy, problems of internal administration and management, their financial position, the safety of investments, adequacy of provision for bad and doubtful debts, &c., &c.

Copies of the audit report No. 2 should be supplied by the Banks to their share-holders and should be read in the annual general meetings so that the latter may be posted with the state of affairs, and the defects, if any, in the working of their Banks, may be brought to their notice. In order that improvement may be stimulated in societies and their progress or degeneration may be watched, Auditors should classify institutions as A, B, C and D according to the quality of the management, the size of overdues, etc. This classification should be shown in the Annual Report of the Co-operative Department.

78. Responsibility of Directors.

People connected with the management of the Banks are inclined to believe that the joint and several liability of the members of societies and the virtual mortgage of all their property recorded in the Haisiyat Register, provide an adequate safeguard against the loans to those bodies turning out bad and involving them in any loss. This presumption has made the Banks careless, both in advancing loans to societies and in making proper provisions for bad debts. They have, no doubt, recently created contingency funds at the instance of the Director to meet losses due to bad debts. But these funds are far from adequate considering the amount of overdues and the length of time during which they have remained unpaid. Very seldom has a genuine effort been made by the Banks to ascertain the amounts of probable loss due to bad and doubtful debts, and where it has been made, the Bank has contented itself with figures supplied by Inspectors. The Banks themselves have never tried to obtain this information by making their own enquiries.

Attention must be drawn to two points in this connection :—(1) Since, in accordance with the prevailing system, Banks rely on Government Inspectors in the advancing of loans and their realisations, they have neither motive nor opportunity to come into direct and close contact with societies and their members, the agriculturists. (2) The allocation of the profits of Banks is determined by the Director of

Co-operative Societies and so the people concerned in the management and control of Banks do not care how the allocation is made so long as they get the coveted dividend and bonus.

Apparently for no fault of theirs, the directors and shareholders of the Banks have been driven into a position which is not very enviable. They are victims of the Banks Act. They have neither initiative nor control and their affairs are managed for them from above and below. A sense of responsibility to the public and to their principal clients, the societies and the cultivating classes, is utterly lacking in the Banks which have come to regard themselves as mere agencies for the distribution and collection of loans of Government money through Government Inspectors. Directors of Banks do not feel called upon to visit societies and inquire about the actual condition of villagers. One result of this apathy is the continuous mounting up of overdue loans year by year. Bhilsa, Esagarh and Shepur Banks are typical instances of this tendency.

The working of these Banks is more or less of the joint-stock pattern. The Banks are not co-operative either in form or in spirit and they have been dealing not only with co-operative societies and their share-holders but with individual Sahukars who may be non-members. Even purely Joint Stock Banks do not neglect the interests of their clients and keep a watch on their business activities. District and Pargana Banks have no need even to do this. The hybrid character of the Banks is due to the present Banks Act under which they are taken to have been registered while the societies which are their chief clients, are registered under the Co-operative Societies Act.

79. Special Audit Carried out for this Inquiry.

With a view to obtain first-hand knowledge of the financial position and management of Banks and societies arrangements were made to carry out fresh audit of all Banks, the original audit of a few selected typical societies and the test audit of a larger number similarly selected. Besides all Banks, 25 typical societies were directly audited in detail. Three experienced departmental Auditors, Messrs. Om Prakash, Chandorkar and Phalke, whose services had been made available for this enquiry, were asked specially to audit 57 societies. The selection of the societies was made on the basis of their being good and bad and the societies so chosen were, therefore, thoroughly representative in respect of quality and

APPENDIX TO CHAPTER VI.

Audit Memo (Credit Societies).

Serial Number of Audit Memo _____ Classification Letter _____
 Date of Registration of Society _____ Name of Society _____
 Registration Number _____ Pargana _____
 Date on which Audit was completed _____ District _____
 Number of Members _____ Area of operation _____
 Maximum number allowed under its bye-law _____

1. From what date up to what date has the audit now been made ?

2. Have any important points in the last memo been neglected by the Society ?

3. Does the Society possess a copy of the Act, the Rules and its own bye-laws ?

4. Is the Society affiliated to any Central Bank ?

5. (1) Have new members been duly admitted and enrolled ? Are their written applications in order ?

(2) Does the Cash-book show that all members have paid their entrance fees ? How many defaulters are there ?

(3) Are resignations in order ?

Are any due to dissatisfaction with Society ?

6. (1) Do all entries in the Deposit Account correspond with the Cash-book ?

Have withdrawals been duly acknowledged ?

Are repayments of outside borrowings made punctually ?

(2) Verify the calculation of interest on amount shown in the Deposit Account in at least ten cases. Do the payments shown in the Interest Account correspond with the Cash-book ? What are the borrowing Rates of Interest ?

7. What is the limit fixed in the bye-laws for the Society's borrowings? Has it been exceeded?

8. (1) Compare the amounts of loans shown in the Register of Loans with the entries in the Cash-book. Has the limit for loans prescribed in the bye-laws been exceeded in any case?

(2) (a) What is the total amount of the maximum normal credit fixed by the Society for its current needs?

(b) Has the credit been operated properly and loans advanced strictly in accordance with the statement finally approved?

(3) What is the total amount loaned out to members of the Managing Committee?

	Name.	Amount loaned out. Rs.	Of which overdue Rs.
1.			
2.			
3.			
4.			
5.			
6.			
7.			

(4) Name of the Secretary.

His pay.

Whether he is a member.

Whether he has borrowed.

If so, amount and how much overdue.

(5) What is the total amount loaned for periods in excess of one year?

(6) Are all unpaid bonds in order, and registered where necessary, and do they correspond with the Register of Loans? Are the sureties alive?

(7) Are loans used for the purposes for which they are granted? Test ten cases.

(8) Are repayments punctual? When extensions are given, are they granted for valid reasons after proper enquiry?

9. Examine the Register of Loans and prepare a list showing outstanding debts overdue for more than one month, without permission of the Managing Committee (*vide* Appendix I).

10. (1) Does the Loan Account correspond with the entries in the Cash-book?

(2) Is the Interest and Penal Interest shown in the Loan Account correctly calculated? Test at least ten per cent. What are the lending Rates of Interest and Penal Interest?

11. Count the cash in hand and sign the Cash-book. Are daily balances correctly struck? Is the Cash-book signed regularly by the Chairman? Has an unduly large balance been kept on hand for an unnecessarily long period? If so, what is the explanation of the Managing Committee?

12. What is the total profit earned in the previous year?

How was it distributed between	Rs.
(1) Reserve Funds
(2) Bonus to Office-holders
(3) Dividends
(4) Bonus to Customers
(5) Contribution to Charitable Purposes.	
(6) Carried forward
Total ..	_____

13. Compare the Expenses Account with the Cash-book and the vouchers. Note any objectionable items and the authority for them.

14. Where the Pass-books are in use, compare ten of them with the Share Register, the Loan Account, the Deposit Account and the Interest Account. Are they in order? The verification of all Pass-books should be made during the course of three audits in the case of Agricultural Societies. Give names of members whose Pass-books were not verified for three continuous years. Are counterfoil or carbon receipts in use and are they in order?

15. See that any securities or scrip held by the Society are in order and its Bank Pass-book is up-to-date.

16. (1) Has any breach of the law, rules or bye-laws occurred?

Have any amendments been made without due sanction?

(2) What is the date of the last Annual General Meeting and Special Meeting?

(3) How many Committee Meetings have been held since the last audit and are minutes duly recorded?

17. In cases of debt redemption, has the model bye-law in this respect been observed?

Are the cancelled bonds of the Sowkar forthcoming on the Society's record?

18. Is the Assets Register prepared and maintained up-to-date? When was it prepared and last verified and by whom? What is the amount of the total assets?

19. Has due depreciation been allowed on dead-stock articles, and other property owned by the Society?

Supplementary Questions for Share Societies Only.

20. (1) Do the receipts of shares and debentures shown in the Share and Debenture Registers correspond to the entries in the Cash-book?

(2) Have certificates been issued for all shares and debentures subscribed?

(3) What rate of dividend was last declared?

(4) What is the total amount of unpaid dividends—

(a) for previous years,

(b) for current year?

What action is being taken to reduce (a) above and give reasons for the delay?

(5) Is a General Ledger maintained? Are all necessary accounts kept therein?

(6) Are any instalments from shares or debenture-holders overdue for payment? What action is being taken?

21. General remarks and suggestions by the Auditor.

RECEIPTS.

Description.	From date of last audit to 30th June.			From 1st July to date of present audit.		
	Rs.	a.	p.	Rs.	a.	p.
Opening Balance.—						
1. Sale of Shares						
2. Loans and Deposits borrowed—						
(a) from members						
(b) from non-members						
(c) from other societies						
(d) from Government						
(e) from Central Banks						
3. Repayment of Loans—						
(a) by members—						
Short Term						
Long Term						
(b) by Societies or Banks—						
Short Term						
Long Term						
4. Interest received by Society..						
5. Miscellaneous Income—						
(a) Entrance fees and donations ..						
(b) Other items						
Total ..						

EXPENDITURE.		
Description.	From date of last audit to 30th June.	From 1st July to date of pre- sent audit.
	Rs. a. p.	Rs. a. p.
1. Shares surrendered or withdrawn ..		
2. Deposits withdrawn		
3. Loans repaid to—		
(a) Government		
(b) Central Banks		
(c) Others		
4. Loans advanced to—		
(a) Members—		
Short Term		
Long Term		
(b) Banks and Societies—		
Short Term		
Long Term		
5. Interest paid on—		
(a) Loans		
(b) Deposits		
6. Dividend paid on Shares		
7. Bonus distributed among members ..		
8. Stock bought—		
(a) Members' Produce		
(b) Other Stock		
9. Salaries, Contingencies, etc. ..		
10 Other Items—		
(a) Charitable Purposes		
(b) Refunds		
(c) Miscellaneous		
11. Carried to Reserve from profit of previous year.		
12. Closing Balance		
Total ..		

Balance Sheet as on _____ 193 .

Liabilities.				
				Rs. a. p.
1. Loans and Deposits held from—				
(a) Members	..	..	..
(b) Non-members	..	..	..
(c) Societies	..	..	..
(d) Apex or Central Banks	..	..	..
(e) Government	..	..	..
2. Paid-up Share Capital				..
3. Reserve Fund				..
4. Unpaid Salaries				..
5. Other Items—				
(a) Interest payable	..	..	..
(b) Do.	..	..	..
(c) Do.	..	..	..
(d) Do.	..	..	..
			Total	..
Assets.				
				Rs. a. p.
1. Cash in hand or Bank				..
2. Value of Investments				..
3. Loans due from Individuals—				
(a) from Members—				
Short Term	..	..	..
Long Term	..	..	..
(b) from Banks and Societies—				
Short Term	..	..	..
Long Term	..	..	..
4. Estimated value of stock in hand				..
5. Estimated value of dead-stock				..
6. Other Items—				
(a) Interest receivable	..	..	..
(b) Do.	..	..	..
(c) Do.	..	..	..
(d) Do.	..	..	..
			Total	..

No. of 193 .

Camp.....193 .

Respectfully submitted to the Registrar, Co-operative Societies, Gwalior, through

2. Special attention is invited to paragraphs.....

3. After the audit of Society, a Managing Committee meeting was arranged and held by me. The audit memo was read and discrepancies explained to the members.

4. Vernacular copy of the audit memo has been sent to the Society on193 .

AUDITOR,
Co-operative Societies,
.....*District.*

APPENDIX TO AUDIT MEMO.

No. II.

Purposes of Loan.

Statement showing amounts advanced by Co-operative Societies during the year ending 30th June 193 .

S No.	Object.	No. of loans.	Amount.	
			Rs.	a. p.
1	2	3	4	
1	Purchase of Cattle			
2	Purchase of Fodder			
3	Purchase of Seed.. ..			
4	Land Revenue			
5	Takavi Loan			
6	Rent			
7	Trade			
8	Marriage			
9	Household Expenses, Agricultural Operations.			
10	Repayment of Debt			
11	Miscellaneous			
12	Improvement of Land			
13	Redemption of Land			
14	Building			
15	Purchase of Land			
16	Purchase of Food			
17	Purchase of Bullocks			
18	Purchase of Cart.. ..			
19	Reclamation of Land			
20	Litigation			
21	Ceremonial			
	Total			

Deputy Directors is in charge of the whole of the Northern Circle except the Districts of Esagarh and Bhilsa and has his headquarters at Lashkar and the other is in charge of the whole of Malwa Circle with headquarters at Ujjain. The Assistant Director is in charge of Bhilsa and Esagarh Districts with his headquarter at Bhilsa. This territorial distribution of the Director's powers and functions among highly paid officers has been proved by experience to be unsuitable and unnecessary and it is recommended that the appointment of an Inspector for each District will be of greater practical utility. The area of a District is a convenient unit for one such officer to look after and he will be able to exercise close supervision over co-operative institutions in that tract. The present Deputy and Assistant Directors either exercise most of the powers of the Director or act merely as post offices. In the former case, there is no uniformity in the policy followed, as each one of them is apt to use his individual judgment and in the latter case, they prove superfluous. The present enquiry has revealed instances of undue interference on the part of some of these officers in the work of Banks as regards loans and short-term deposits. These cases are being brought to the notice of the Director and Inspector-General for such action as may be deemed necessary. On grounds both of administrative efficiency and economy, these posts ought, therefore, to be discontinued and District Inspectors should be appointed, as recommended. In the selection of these officers, capacity and efficiency should count rather than seniority and pay. The officers should be listed as Gazetted Officers.

85. The Inspector.

There are at present 43 Inspectors, one for each Pargana and the remaining as relieving Inspectors. At present, the Inspector is responsible to the Director or the Deputy or Assistant Director for the working of co-operative institutions in his charge and is expected to keep himself in close touch with societies, supervise them and give them advice and guidance by means of occasional visits.

All loan applications from societies as also all important communications from them such as applications for extension of time to repay instalments of loans, amendment of bye-laws, etc., are submitted to the proper authorities through the Inspector who has to offer his remarks on each of them. He is virtually responsible for effecting recoveries from the members of societies either by himself or through the field staff, namely, the Supervisors and the Secretaries who work under

his direct control. Under the Co-operative Societies Act and the Banks Act, the Inspector is empowered to effect attachment and sale of properties of defaulters. The Inspector also works as a Director of a Central Bank if there is one at his headquarters. He has to carry on propaganda and to organise societies at suitable places. He is also expected to train the Supervisors, the Secretaries and members of Managing Committees and the Sarpanchas. The Inspector has to inspect as many societies in his charge as he can manage and he must inspect every six months the Bank or the branch of the Bank if there be one at his headquarters. In short, he is a link between the societies on the one side and the Central Bank and the Department on the other and is virtually regarded as a recovery and a propaganda officer.

An officer who has to discharge such heavy and responsible duties ought to be properly qualified and sufficiently trained in all lines of co-operative activities. He must possess adequate knowledge both of English and Hindi so that he can study and keep himself in touch with co-operative developments elsewhere. Discussions with the present holders of the Inspector's office, revealed the fact that very few of them were up to the mark. Some of them betrayed woeful ignorance of even the elementary principles of co-operation. It is not surprising, therefore, that co-operative societies and their members are in a backward condition.

86. His Functions.

It is recommended that hereafter there should be only one Inspector for each District instead of one for each Pargana. This District Officer, who should be a capable and trained man, should be given the necessary staff to assist him in the discharge of his duties as a representative of the Department in the District. He should be relieved of his present duty of recommending loans to societies and recovering the same from the members and it should be entrusted to the Bank officials and the Secretaries. The Inspector will, of course, assist them in effecting recoveries from recalcitrant debtors whose cases will be referred to him in accordance with the provisions of the Act. At present the Suba is the Chairman of the Bank and the Inspector has a seat in the Board as a Director. The Suba is, however, empowered by a special order to punish and fine an Inspector and the latter in his capacity as a Director, must find it difficult to express his views freely if he has reason to believe that they will not be palatable to the Suba. This power of punishment and fine should,

therefore, be vested in the Director and not the Suba. In the case of the Banks, their Boards will deal with their own staff in this matter. Appeals against the orders of Inspectors, wherever provided for, should be with the Director, those against the orders issued by Sub-Inspectors in relation to attachment, etc., being preferred to the Inspectors.

87. Head Office Staff.

The Director has, at present, the following senior staff under him:—

1. Personal Assistant.
2. Chief Auditor.
3. Inspecting Officer.
4. Head Clerk.
5. Accountant.

It is very necessary that the Director should undertake intensive touring work with a view to come in intimate and direct contact with the Banks and societies. In order to permit this, the post of the Personal Assistant should be continued and filled by a person thoroughly acquainted with all the technicalities of the working of the various types of co-operative institutions. He should also have sufficient local knowledge of all the Districts. This Officer should be confined to the Head Office and should discharge all duties of a routine character pertaining to all sections such as audit, registration, arbitration, accounts, budget, etc.

The post of the Chief Auditor can be conveniently abolished, and the present incumbent may be transferred to the audit staff. The duties which the Chief Auditor at present performs, can be looked after by the Personal Assistant. The post of the Inspecting Officer should be retained and he should assist the Director in work connected with land mortgage business, liquidation of societies, scrutiny of diaries of departmental officers and so on. The Head Clerk and the Accountant should continue to perform their present duties.

88. Auditors.

At present there are 7 Auditors excluding the Chief Auditor. It has been shown in the chapter on Audit, that this number is utterly inadequate for the annual audit of all the societies and hence the Director is unable to discharge his duty regarding audit as required by the law. It is, therefore, proposed that there should be at least 19 Auditors including the Chief

Auditor to be transferred to this section, and they should be required to audit thoroughly all societies each year.

The audit of Banks requires special knowledge and it is recommended that two suitable and fully qualified persons should be entrusted with the audit of Banks alone and they should be designated as Special Auditors, one for each Circle, their headquarters being Lashkar and Ujjain, respectively. One of these two Auditors should be the present incumbent holding the Chief Auditor's post. The remaining 17 Auditors should be entrusted with the audit of societies. Their headquarters should be the District or Pargana town as the case may be. This arrangement has been suggested to save the time, energy and money now spent in travelling. The Special Auditors should be given one clerk each to help them. Though the proposed increase in the number of Auditors will not fully meet requirements, it will be enough to begin with immediately and will keep expenditure for audit within limits of the budget of the Co-operative Department.

89. Audit Reports.

The following procedure is recommended with regard to the submission of Auditor's reports :—

In the case of Banks the Auditors should prepare two copies of his Audit Report (to be in two parts), one of which he should send direct to the Bank concerned and the other to the Director of Co-operative Societies through the District Inspector, who should pass it on to the Director after keeping a copy of the same for his record. While forwarding it, the Inspector may offer any remarks he may have to make and send a copy of the same to the Auditor for his information. Within one month from the receipt of the Audit Report, the Bank should submit its explanation and replies in duplicate to the Auditor who should forward one copy of the same to the Director through the Inspector, with his remarks, if any. The Inspector should forward that copy to the Director with his own remarks, if any. The Director should pass his orders on this memo and communicate them to the Auditor and to the Bank through the Inspector. The Bank should print part II of the audit memo together with its replies and the orders of the Director, if any, and send it to all its share-holders along with the Annual Report. Part I may, however, be read in the General Meeting itself. In the case of societies, the audit memo need not be split up into two parts and should include general remarks along with comments on errors and irregularities in the accounts. The procedure to be followed

by the Auditor in this case should be the same as in connection with Banks. While forwarding audit reports or their replies to the Director, Inspectors should draw his special attention to matters of importance, particularly those on which special orders or instructions from him are necessary.

90. Banks' Staff.

There is no provision in the Act for the appointment of the Managing Director and the Joint Managing Director of Banks. As suggested elsewhere in this report, in addition to the Suba who will be the President of the Bank, the Board of Directors should have its own chairman. The posts of the Managing Director and of the Joint Managing Director are superfluous and both of them may be abolished.

According to the bye-laws of the Banks, the Boards can appoint their own staff but in the cases of Managers, Agents and Accountants their appointments require the approval of the Director. This provision should be strictly followed. There are instances, however, in which Managers were appointed by the Department. Managers and Accountants were also transferred by the Department from one Bank to another direct even though the pay of the new incumbent exceeded the budgetted scale. This practice should be stopped as it is apt to make the Boards irresponsible and indifferent to their duties.

91. Managers.

The functions of the Manager, amongst others, should be :—

- (1) To maintain accounts of the Bank and generally to supervise its working.
- (2) To receive and disburse money on behalf of the Bank.
- (3) To carry on correspondence on behalf of the Bank.
- (4) To summon general meetings and Board meetings.
- (5) To inspect or arrange for the inspection of societies affiliated to the Bank and supervise their working.
- (6) To receive and dispose of loan applications from societies in accordance with the Board's instructions.

In order to be able to discharge such important duties efficiently, the Manager must be well-versed in accounts and must have a thorough knowledge of banking and of the principles and practice of co-operation. Some of the Managers

appeared to fall below the standard. None of them had ever apparently visited a single society. As a matter of fact, it ought to be the business of the Bank itself to get the loan applications from societies duly scrutinised by the Manager and his assistants and also to see that the loans are properly secured and recovered in good time. The present system under which the Directors and officers of the Bank are apt to look upon themselves merely as intermediaries, distributing Government funds among societies, indifferent as to what happens to the members of the latter, must be abandoned and they must directly and actively interest themselves in the daily lives and affairs of the rural people.

92. Supervisors.

There are at present 58 Supervisors who are all paid by the Banks. Their pay is between Rs. 20 and Rs. 30 and they get a fixed travelling allowance of Rs. 5 to Rs. 7 per month. Each Supervisor has to look after 50 to 75 societies. He is, for all practical purposes, controlled by the Government Inspector though he is a servant of the Bank.

His duties, amongst others, should be :—

- (1) To supervise the work of the Managing Committees, Members and Secretaries.
- (2) To see that the accounts are written properly and that the loans are applied to the proper purpose.
- (3) To visit each society at least twice a year.
- (4) To inspect the accounts of the societies and to get them completed where necessary.
- (5) To submit inspection reports to the Inspector and also to the Bank.

It is undesirable that the Supervisor should be a servant of two masters. It is, therefore, necessary that he should be under the control of one of them. The institution that pays him is the proper authority under whose sole direction he should work.

The inspection and supervision of societies should be completely transferred to the Bank's staff so that full responsibility for their own duties may be effectively brought home to them and they may be made to take their legitimate work seriously. The divided responsibility which characterises the prevailing

system is hardly conducive to good management. The Supervisors should, therefore, be required to work under the guidance and control of the Manager of the Bank. The supervision of 75 societies is rather too much work for one man. It is, therefore, recommended that each Supervisor should be placed in charge of 50 to 60 societies. Thus the total number of Supervisors will be about 80. With a view to give them better pay than at present, there should be two grades of Supervisors, namely, of Rs. 25- $\frac{1}{2}$ -30 and of Rs. 30- $\frac{1}{2}$ -35-1-40. Half the number of Supervisors should be in the lower grade and the other half in the upper grade. They should be given a fixed travelling allowance of Rs. 8. p. m. They should be given one peon each on Rs. 8 p. m. The whole cost of the Supervisors and their peons should be borne entirely by the Bank.

Most of the Supervisors are untrained. Arrangements will have to be made to train them and for this the Department should conduct training schools at suitable centres and unless they are so trained they should not be confirmed in the upper grade.

93. Secretaries.

The ideal arrangement is to have one Secretary for each society and that he should preferably be a local man. The villages in the State are, however, generally very small and there is almost none among the inhabitants who can read and write and keep accounts properly. It is, therefore, not practicable to have a local man to work as a Secretary. The average number of members and the amount of working capital are too small to permit a paid Secretary to be recruited from outside for each society. The present arrangement, though not very satisfactory, must therefore continue. Most of the Secretaries know how to read and write but they have very little knowledge of accounts. They have, therefore, to depend very largely on the Supervisors. The Secretaries should be given training in their work and an attempt in that direction should be made by starting training classes at convenient centres, as recommended elsewhere in this report. The duties of a Secretary should be :—

- (1) To summon and attend all general and Managing Committee meetings and to record the proceedings of such meetings.
- (2) To keep accounts and all registers and books and prepare annual returns.

- (3) To conduct correspondence on behalf of the society.
- (4) To keep himself in close touch with all members and to give them guidance.

94. Committee to Control Appointments and Transfers.

The Secretaries' salaries are at present paid by the Banks out of their own funds though a small contribution is levied on each society for the purpose. The Secretaries work under the guidance and control of the Government Inspector like the Supervisors.

There are altogether 269 Secretaries to look after 4,226 societies. Each Secretary, therefore, has to manage, on an average, 16 societies. This figure is rather high. A Secretary cannot conveniently manage more than 10 or 12 societies. On this basis, the total number of Secretaries ought to be 320. The Secretary at present gets Rs. 15 to Rs. 20 per month. It would be well to have two grades for Secretaries—one of Rs. 15- $\frac{1}{2}$ -18 and the other of Rs. 18- $\frac{1}{2}$ -22. One hundred and twenty Secretaries should be in the upper grade and 200 in the lower.

The Secretaries should be paid out of the fund to be collected from societies at the rate of 1 $\frac{1}{2}$ per cent per year on the amount of ordinary loans due from their members. The difference between this fund and the actual expenditure incurred estimated to amount to between Rs. 10,000 to Rs. 20,000 should be met out of the normal budget of the Co-operative Department on which no additional burden will be thrown on this score. When this arrangement will be given effect to the appointments, transfers, etc., of the Secretaries and of the Supervisors should be entrusted to a Central Committee of officials and non-officials, the latter being representatives of societies and Banks. The jurisdiction of the Committee should be the Circle or the District, as may be found convenient. This arrangement will not only facilitate the transfers and appointments of the above officers but will have a beneficent educative effect, in that it will bring representative co-operators together for discussing and deciding questions of common interest.

The societies will receive full value for the charge of 1 $\frac{1}{2}$ per cent levied on them. In Provinces in British India, societies have to pay fees for supervision, affiliation to the Central Institute or Union and in some instances, also for audit. Co-operative institutions are expected to meet, out of their own funds, expenditure incurred for common benefit. In the present instance, the societies will be called upon to contribute

only a small fraction of the total expenditure of the Co-operative movement and they will, of course, enjoy all the facilities and concessions extended to them already, and such as will be granted to them in the future.

95. Changes in Designations Proposed.

The designations at present employed for the holders of various offices in the movement are apt to be confusing and the following suggestions have, therefore, been made in that behalf.

The Head of the Co-operative Department should be designated the "Registrar of Co-operative Societies" instead of the "Director of Co-operative Societies." Banks which have their own directors will be organised as societies and that officers will be expected to ensure the observance of rules and bye-laws by co-operative institutions. Moreover, heads of co-operative departments are designated "Registrars" in all the British Indian Provinces, and the proposed change will secure uniformity of nomenclature. The District Officer looking after co-operative societies should be designated "Inspector of Co-operative Societies" of a District, and his Assistant should be "Sub-Inspector of Co-operative Societies" of a Pargana.

The Head of the Advisory Council of a Bank should be its "President" and it should be one of his duties to preside over the general meetings of the Bank.

The Head of the Board of Directors of a Bank should be "Chairman" and the other members of the Board should be "Directors" of the Bank. The "Chairman" should, in the absence of the "President," preside over the general meetings of the Bank.

The Head of the Staff of a Bank should be the "Manager" and the officer in charge of a Branch of a Bank should be "Agent."

The Bank officials who will be entrusted with the duty of supervision over societies should be called "Supervisors." If a Bank finds it necessary to appoint a special officer to co-ordinate the work of the various "Supervisors," such officer should be called "Senior Supervisor."

96. Budget in the Light of Recommendations.

When the various recommendations made in this report are carried out, the budget of the Co-operative Department,

which will have to be modified from time to time as the movement develops, will be as under for the first year :—

Details.	Amount.
	Rs.
Director	700
Personal Assistant	200
Assistant to the Director	150
2 Special Auditors	300
1 × 200	
1 × 100	
17 Auditors	1,260
3 × 100	
8 × 75	
6 × 60	
11 District Inspectors	1,450
3 × 150	
8 × 125	
11 Pargana and Reserve Inspectors	705
3 × 75	
8 × 60	
(One Pargana Inspector should be given to each of the 8 big Districts).	
2 Urban Inspectors	200
2 × 100	
2 Propaganda Inspectors	200
2 × 100	
Head Clerk	100
Accountant	60
Clerk to the Accountant	40
13 Clerks	485
3 × 50	
3 × 40	
1 × 35	
6 × 30	
11 Clerks to District Inspectors	275
11 × 25	
11 Kurk Amins (one for each District)	275
11 × 25	
Jamadar	10
70 Chaprasis at Rs. 8 each	560
16 Khallasis at Rs. 8 each	128
Total monthly expenditure ..	7,098
Total annual expenditure on salaries will, therefore, be Rs. 7,098 × 12	85,176

If additional Kurk Amins will have to be employed in any tract to cope with the increasing work, expenditure on account may be met by the Director out of a levy to be charged on the parties concerned.

Annual Expenditure on items other than salaries will be :—

Details.	Amount.
	Rs.
Postage	1,500
Stationery and Forms	3,500
Contingency	3,990
Travelling Allowance	16,000
Office Rent	776
Hot Weather	600
Pension Contribution	1,703
Miscellaneous	1,915
Library	200
Telephone	540
Government subsidy and expenditure for propa- ganda and for meeting the difference between the salaries of Secretaries and the contribution collected from societies for secretarial work.	19,000
Total ..	49,724
The Annual Budget of the Co-operative Depart- ment will, therefore, amount to :—	
Salaries	Rs. 85,176
Other expenditure	Rs. 49,724
Total	Rs. 1,34,900

It will be seen that this total does not exceed the normal budget of the Department and has been carefully adjusted to it. The expenditure that will have to be incurred on training of the Government staff and the Bank staff has not, however, been taken into account in framing the above budget. Special classes will have to be held for training co-operative officers and staff and provision in that behalf will have to be made in the proposed scheme of rural reconstruction. Co-operation should be one of the compulsory subjects in the curriculum and it should also include elements of banking, book-keeping, principles and practice of co-operation, and co-operative law. As has been explained in the next chapter, rural reconstruction and co-operation will have to go hand in hand. It is, therefore, recommended that the expenditure for

the special training classes should be met out of the fund earmarked for rural reconstruction. Moreover, by this arrangement an army of officers and non-official workers possessing training in all the subjects which are of vital importance for the uplift of the masses, as a whole, will be made available.

CHAPTER VIII.

LINES OF FUTURE DEVELOPMENT.

97. Co-operation the only Remedy for Improvement of Masses.

The belief is widely entertained that the Co-operative movement in this country, has failed to achieve the results originally expected and actually attained in Europe. It is thought that whatever success may have attended the effort of co-operators elsewhere, the genius of the people of India and the conditions in the midst of which they live, are illustrated to the healthy growth of the movement here. If this view is taken to be correct, what will be the alternative solution to the problem of the poverty and the backwardness of the Indian masses? Co-operation enables the poor and resourceless classes in the community to secure their own material and moral welfare by collective effort and replaces their futile individual struggle for existence. Failing it, the alternative remedies would lie in either leaving the economically and socially weak and the submerged sections of the population to the tender mercies of the money-lender, the petty trader, the middleman, the absentee landlord, the self-centred Zamindar and the greedy capitalist or in expecting an autocratic and paternal Government to regulate, control and manage their affairs for them, without any scope being allowed to personal freedom of thought and action and to individual initiative and endeavour for self-improvement.

Though it would be useless to pretend that there is absolutely no truth in the adverse comments commonly made about the success of the Co-operative movement in India, it can be demonstrated that this attitude is the result of a lack of correct information and of an imperfect understanding of the whole problem. It will have to be admitted that since neither unrestricted individualism nor complete State control of the economic life of the community, will appeal to most thinking people as desirable, it is reasonable to conclude that co-operation is the only method available to the mass of the people to secure their moral and material progress by organised and united action based on self-help and mutual assistance. This is as true of India as of other countries in the world and there is no valid reason why co-operation should fail to achieve satisfactory results in this country.

98. Origins of Co-operation.

Persons possessed of economic power and social influence can afford and find it profitable to carry on their business activities on the basis of individual self-interest and independent endeavour in the midst of unrestricted competition and a severe struggle for existence and their very self-interest often drives them to combine their capital to earn maximum profits. But for the large majority of people, agriculturists, artisans, workers, employees and the like, this is not possible. They lack the means with which their labour can be made fruitful and are cheated at every turn out of the legitimate reward for their toil and skill. They are handicapped by difficulties in respect of the supply of capital and of the purchase and sale of commodities and are the helpless victims of the greed of money-lenders, capitalists, traders and middlemen. It was, however, discovered that what these resourceless people failed to achieve individually, singly and in isolation, could be effectively secured if they combined their petty resources and helped one another to gain their common economic object. Thus was the idea of co-operation born of sheer economic necessity and helplessness. The precarious infant life of co-operative organisation would, however, have scarcely survived if it had not been fostered by sympathetic and selfless souls who felt deeply for the poor, the depressed and the weak. Under the inspiring leadership of philanthropic pioneers and selfless workers, societies of factory workers, peasants and craftsmen were thus started in England and Germany generations ago. These people were associated together for securing capital for agriculture and village industries, and joint management of purchase, sale and credit was made the basis of their business activities. The idea gradually spread till European countries were covered with a network of co-operative societies catering for almost every want of farmers, artisans and workers.

99. In India.

After years of this progress in Europe, the British Government felt that the co-operative weapon could be used in this country with similar beneficial effects to combat the evils of chronic poverty, indebtedness and usury which appeared to have resisted all previous effort at the amelioration of the economic condition of the peasantry. Unlike the movement in Europe, Indian Co-operation was initiated and promoted under the auspices and the patronage of Government. As often happens in the case of bureaucratic management, however, quantity rather than quality became the objective in the

expansion and multiplication of societies. Inspiration, education and discipline were lacking and societies and financing agencies became mere substitutes for money-lenders. The Indian movement was first more or less restricted to organisation of credit, and other branches of co-operation were not promoted. The drawbacks of this one-sided development were, however, soon perceived and attempts have been and are being successfully made to remedy them.

Co-operative organisation in India is no longer restricted to credit and agriculture. Non-credit and non-agricultural societies have been steadily growing in number and in the scope and variety of their activity. Urban and land mortgage credit, sale and purchase of produce, housing, consolidation of holdings, life insurance, protection of crops, promotion of small and cottage industries, thrift and better living, are objects which are being tackled in the process of expansion. Illiteracy and the chronic poverty of the vast mass of the population, the decadence of the countryside and the lack of inspiring leadership and of sustained, organised and disciplined effort at progress, have been the serious handicaps in the path of the progress of the Co-operative movement in India. Some of its most serious difficulties are due to the general weakness of the nation's economic position and can be tackled very largely by its Government alone while there are others which can be removed by the earnest, sustained endeavour of the people themselves. The progress of the Indian movement will, therefore, depend on the success with which the two types of handicaps are surmounted. Having initiated the movement, Government in British India has kept up its sympathy for the cause and has been assisting it with concessions and facilities as well as by administrative control and guidance. But the spirit of self-reliance is still very feeble in the movement. While State assistance is welcome up to a point, official guidance and control carried beyond certain limits, become a disadvantage. They tend to discourage self-help on the part of the people and to rob the movement of its educative value. The movement in India presents striking contrast in this vital respect with the co-operative organisation and activities of western countries. The movement did, however, steadily advance till the economic depression came to delay improvement and to retard progress. Provinces and States have been taking stock of the situation and adjusting it to the changed conditions.

100. In Gwalior.

The brief review of the growth of co-operation in Gwalior which has been given in the preceding chapters, will have shown

that the movement in the State, as might have been expected, is confronted with difficulties and problems more or less similar to those other parts of the country have had to face. A few prominent features may be noted. A definite departmenta policy and continuous effort to give effect to have been wanting from 1926 until recently. Unsuitability of the machinery set up to look after the working of co-operative associations, in spite of the large funds generously placed at their disposal by the State, may be cited as another feature. The absence of non-official workers, whose influence would have gone a long way, as in some of the British Provinces, to place the movement on a sound, moral and material footing, has likewise proved a serious handicap. Inadequate and untrained staff and a lack of proper co-ordination of their functions, have also led to considerable friction and inefficiency. The directors and staff of the Banks have not been placed in a position in which they could appreciate their responsibilities to societies, and the members of the latter have not been educated in the principles and practice of co-operative institutions and their own responsibilities and duties in relation to them. These topics will be dealt with below with a view to show how the defects and deficiencies should be removed and appropriate measures of reform should be adopted.

101. Past Mistakes.

It is not generally recognised that a society whose members have not been made thoroughly to grasp the basic principles of co-operation and have not been brought to understand the business aspect of its working, has little chance of success. And it is, therefore, insisted by protagonists of true co-operation that education of members in its material and moral aspects should preferably precede and should at least immediately succeed the organisation of a society. That the importance of the necessity of such education was not altogether ignore by the pioneers of co-operative societies in Gwalior, is evidenced by the elaborate rules and instructions issued to persons who were entrusted with the work of spreading the movement in the countryside. But in the rush and the hurry of the adventure, the necessary precautions and care were ignored and results of organisation work were estimated almost wholly in terms of quantity. Hasty expansion and ill-regulated development of the Co-operative movement without previous preparation and persistent education and training was a common mistake committed throughout India, which has cost the country very dear. Society after society was started and members were attracted to its fold with the tempting

prospect of securing loans without much trouble. The sense of collective responsibility was not inculcated in their minds and they became passive tools in the hands of those who worked and controlled the credit machinery.

It is imperative, therefore, to correct the mistakes of the past, to re-organise and improve societies and to make their members live co-operators, conscious of their collective obligations and of the moral and material advantages of their activities. The educative process is bound to be slow but what matters is determined and persistent endeavour. The problem will, of course, have to be attacked on all fronts at once. Revolutionary changes being undesirable, the method of suitable adjustment ought to be adopted. In two preceding chapters the lines on which central banks and societies should be dealt with, have been indicated in detail. The programme of re-organisation, expansion and improvement may now be briefly sketched.

102. The Banks.

To begin with the Banks, these bodies must be made efficient and strong and must be thoroughly imbued with the co-operative spirit. It is sometimes stated (see report of the Reserve Bank of India on Rural Credit) that small banks are preferable to large central banks and that their constituent elements should be societies alone. Concensus of opinion based on practical experience does not, however, favour this view. And the position of Banks and societies in Gwalior, in particular, renders the suggestion wholly unacceptable. A Central Bank must have resources large enough to be able to engage the services of competent and trained managers, accountants and supervisors which a small institution cannot be expected to do so. Further, the petty size and limited resources of a small Bank will make it impossible for it to extend to member societies the same facilities and assistance as a larger institution. A strong Central Bank, with branches conveniently situated in its area of operation, will decidedly serve societies and cultivators' interests much better. As regards composition, there can be no question that the mixed type which is common in most parts of India, is the most suitable, enabling as it does, the business experience of commercial people and the healthy influence of other urban classes to be brought to bear on the working of the Bank to the great advantage of co-operative societies which have their due share of representation on the board of management. Whatever purpose the Banks Act might have served in the beginning, there is no

need to retain it on the statute book. The existing Banks should be registered under the Co-operative Societies Act and suitable rules and bye-laws should be framed to regulate their working. As experience in the other parts of India and abroad shows, every type of banking and business activity can be covered by co-operative organisation and the finance of wholesale and retail trade can be undertaken by Central Banks to the great convenience of local merchants.

103. Their Relation to Societies.

It is not entirely or even predominantly the fault of the share-holders of the present Central Banks in Gwalior that their position has become anomalous *vis a vis* the societies, the State and the general public though they cannot be altogether freed from blame for mismanagement and apathy which have caused some of the Banks heavy losses. The share-holders were attracted to the Banks by the assurance of secure dividends without attendant responsibility and nearly all of them were people instinctively inclined to make the most of every bargain. This was quite a natural result. In the course of discussions with the Banks' representatives it was put to them that since Government had placed large funds at the Banks' disposal with a view to help the poor cultivating classes, they were unquestionably expected to pass on the advantage of cheap credit to members of societies and were jointly and severally liable for their loans, with the mortgage of all their assets. Banks could not advance the plea that they would repay Government deposit and grant the societies loans out of their own funds and charge such rates of interest as they found suitable. Though the financial self-reliance of the Banks would be welcome, there would be little propriety in tying unlimited liability societies to the chariot wheels of capitalist Banks and the *raison d' être* for their existence would disappear. The directors generally appreciate the force of these arguments and are prepared to have their boards re-organised and their working adjusted to the requirements of the situation. They realise the importance and the utility of allowing the societies elective representation on the boards of management and of establishing intimate contact with the rural population. They are prepared to shoulder their legitimate responsibility to societies by substituting their own staff in the place of the Government Inspectors. They are ready to collect more capital and to dispense with short-term deposits with bankers. Some of them propose to find for their surplus funds in the financing of trade.

104. Constitution of Boards.

This is very encouraging and freedom from departmental control may be allowed to the Banks if they are prepared to shoulder their legitimate obligations towards societies. Their boards should have 7 to 11 members according to the extent of area and size of business and the directors should be elected partly by individual share-holders and partly by societies, conveniently grouped, and there should be two to three Government nominees. The close association of the Subas with the working of the Banks is essential. Their intimate knowledge of the condition and needs of the rural population will always prove helpful to the boards of the Banks and their sympathy and advice will facilitate the solution of difficulties which crop up from time to time. But these high revenue officials have their departmental duties to discharge and it would be hardship to add to the burden of their work by being called upon to take active interest in the routine business of the Banks in their charge. During the process of transition to the stabilisation of the system recommended in this report, the Subas may, however, continue to be presidents of Banks but not of the Boards of Directors which will have elected Chairmen.

105. Advisory Council.

In order to relieve them of the burden of supervision of the day-to-day administration of the Banks' affairs, it is proposed that an Advisory Council of three to five members should be created of which the Suba will be the President. Other members will be official and non-official nominees of Government with one or two representatives elected by the share-holders of the Bank. This Council will keep an eye on the working of the Bank, will tender advice to the board of management and hear complaints and appeals. It will be available to the board for consultation or guidance and it may ask the board to re-consider its decisions or to take certain matters into consideration. Conventions will grow up which will regulate the smooth and beneficent working of this arrangement. In the case of Pargana Banks, the place of the Suba will be taken by the Tahsildar.

106. The Three Sick Banks. ✓

Since the Bhilsa, Esagarh and Sheopur Banks are on the sick list, they require special treatment while in hospital. A re-organisation scheme proposed for the societies in Bhilsa has received the sanction of the Darbar and is now in operation; and a similar scheme will have to be prepared for Esagarh

and Sheopur. Both these Banks have an unsatisfactory record in the matter of the efficiency of management, and Government has had to rescue them from disaster by giving them financial help. Their share capital and reserves have been almost wiped out and their rehabilitation depends entirely on the reorganisation and recovery of the societies affiliated to them. On what principles and by which methods the work of reorganisation should be conducted, is fully explained in a Note submitted to and sanctioned by the Darbar and special attention to it is drawn here. (The Note is appended to this chapter.) Further reference to this subject will be made in later paragraphs. Suffice it to say in this place that until the above three Banks are on their feet again, their management should be placed under Government control and the Managers and the Directors should be nominated by Government. The question of investing them with the regular elective constitution and normal authority and functions, should be considered in the light of a few years' experience.

107. Economic Unit for Banks.

To be able to run successfully a Bank has to be an economic unit, that is to say, it must have business enough to cover cost of administration and leave a moderate profit out of which allocation for reserve and dividend can be made without difficulty in normal years. This is the criterion that must be applied in judging of the correct size of all District and Pargana Banks. The District Banks in the Northern Circle, excepting the three dealt with above, appear to have potentialities to satisfy the test, provided they expand their business by taking to new lines, *e. g.*, Hundi business, advances against the pledge of goods and so on. In the Southern Circle, the District Banks may also be placed in this category, but the same cannot be said about the Pargana Banks which are to-day decidedly below the standard laid down above. A small Bank enjoys one advantage over a large one, *viz.*, it can establish closer contact with clients and can carry on supervision with greater ease. But its petty size militates against the possibility of proving a business proposition. A few of the Pargana Banks such, for instance, as those of Gangapur, Suvasra, Jawad and Susner must, therefore, amalgamate with their bigger neighbours. Banks do not very naturally like to lose their identity and to merge themselves into other bodies. This is not, however, a question of prestige or honour but one of capacity to live and to live to some purpose. Refusal to be amalgamated will, for the inherently weak Banks, mean winding up and dissolution.

108. Apex Banks.

It will be convenient to the State and to the Banks if an Apex Bank were established in each of the two Circles, one in Lashkar and the other at Ujjain. All the Banks in each Circle will be affiliated to the Apex and keep their reserves with it. The Apex Bank will have both individuals and Banks and societies as share-holders and will serve as a balancing centre for its area. All State funds concerned in the Co-operative movement, will pass through it and Government will not have to deal with individual institutions. It will finance new co-operative developments and enterprises such as housing, stores and other urban societies and may, at least in the beginning, include a land mortgage banking section. To-day, the reserves of the Banks have to be invested outside, while deposits are received direct from the Government. Funds will be economised and profitably employed within the Co-operative movement if the above suggestion is carried out.

109. Land Mortgage Credit.

A word or two about land mortgage credit will not be inappropriate in this place. This form of credit is long-term credit, based on the mortgage of land and is intended to be used for agricultural improvement, investment in which take years to fruitify. It is also used in the repayment of long-standing debts of landholders to money-lenders, enabling them to secure relief in the way of low rate of interest and repayment in a number of moderate instalments. The ordinary co-operative society advances loans to its members only for seasonal agricultural operations and on personal security and on the pledge of annual crops. It is, as a rule, short-term credit and even when it is intermediate credit and is granted for bullocks and like purposes, the loans are recoverable in three years. This leaves the long-term requirements of the landholder unsatisfied and special arrangements have to be made to meet them. Land mortgage banks and societies are established for this purpose and they have long-term capital at their disposal, usually raised by means of debentures supported by the mortgage of the lands of the ultimate borrowers. A good deal of experience of the working of land mortgage credit institutions in British Provinces is now available. Co-operative land mortgage banks and societies are receiving substantial assistance and support from Provincial Governments who have guaranteed the principal and interest in the case of the debentures issued by those bodies.

110. Apex Banks and Land Mortgage Credit.

Long-term loans on easy terms for land improvement have been regularly given by the Government in Gwalior for years together and the Takavi system adopted for this purpose, has proved beneficial. If the liquidation of old indebtedness is added to the objects for which State funds are loaned to landholders on the mortgage of their immovable properties and if this specialised business is entrusted to the Apex Banks as suggested above, the whole system of land mortgage-credit will be placed on a sound footing. As the business expands, and practical experience is gained, a separate land mortgage Bank for the whole State or for each Circle may be established and the possibility of organising primary land mortgage Banks and societies in the Districts may be explored in the future. A beginning may, however, be immediately made by transferring the existing State loans made to individuals for land improvements to the land mortgage section of the Apex Banks. As has been indicated above, these two Banks will have at their disposal State funds now invested in the Co-operative movement and will be managed by strong boards consisting of officials and nominated members and representatives of affiliated Banks and societies. For a few years, in the beginning, the chairmen and the managers of the Banks should be officers of Government and State control should be strict and continuous. This arrangement is in consonance with the practice adopted in some Provinces in British India and is indispensable in Gwalior where the movement of co-operative land mortgage credit will be in an experimental state. Big loans made by societies to individual members, which are out of all proportion to their total working capital, may also be transferred to the land mortgage section of the Apex Banks, provided the assets are adequate to support the loans. This will help to rectify the position of societies and place the big loans on a proper footing.

111. Rectification of Credit Societies.

The economic depression of the past few years has done considerable damage to co-operative credit societies all over the country. The collapse of prices having reduced the earnings of the cultivators and impaired their repaying capacity, debts of members to their societies have remained unpaid, interest has accumulated and fresh finance has become difficult, with the result that several societies are to-day in a stagnant condition. To meet this contingency, measures have been taken in almost all Provinces of British India to rectify and consolidate the societies. Bhilsa District is a typical large-

scale example of what has to be done in this direction in Gwalior. But though such wholesale revival and rectification is not called for in other tracts, except in Esagarh and Sheo-pur, there are individual societies and groups of societies elsewhere which will have to be dealt with on the same principles.

(1) The condition of each member of each such stagnant or sick society will have to be carefully scrutinised, (2) arrears of interest will have to be substantially reduced or written off altogether in special cases, (3) the overdue principal will have to be recovered in the case of several members by easy instalments, (4) in the meanwhile fresh finance on a moderate scale will have to be allowed to members for productive purposes, (5) the general rate of interest will have to be reduced and in special cases, interest will have to be excused altogether for a few years, (6) wilful defaulters should not be treated with undue leniency, (7) those who are in a position to repay their dues, should be made to discharge their obligations to the full, concession being given only in deserving cases, (8) the significance of this effort at rectification will have to be brought home to the minds of members of societies dealt with, so that they may realise their responsibility and the value of economy and thrift, (9) the loss that will be entailed by this procedure, will be shared by all the members of the society, that will be made good, in the first instance, out of the society's reserve and the members' collective liability will, likewise, be brought home to them, (10) the balance of the loss, if any, must be borne by the funds of the financing agency, and (11) the Government should tender assistance in the last resort if at all necessary and to the extent that may be found necessary.

Societies that are judged to be beyond cure, will have, at once, to be wound up. Wherever possible, membership of societies should be increased by means of propaganda and constructive effort so as to place those bodies on a better financial footing; and the amalgamation of adjoining societies may be brought about wherever feasible and desirable. New societies may also be started in places where conditions are favourable and there is a real demand. The rectification and consolidation have to be carried out with the clear object of overhauling the whole system of rural co-operative credit and the financing agencies must be closely associated with this cleansing process so that they may realise their proper responsibility in the matter. The officers of the Co-operative Department will, of course, take the lead in the work and special arrangements will have to be made in that regard. Capable and zealous officers will have to be deputed

for this duty and the scheme must be spread over a period of three to five years.

112. Diversification and Expansion.

Side by side with rectification and consolidation, must be carried on the work of diversification and expansion. The importance of organising non-credit and non-agricultural societies has been already emphasised in a preceding chapter and as lines of useful activity, the instances of the blanket makers' society and of seed stores have been quoted. There is very wide field for the establishment of purchase and sale societies at suitable centres. To give the cultivator the credit he needs for carrying on agricultural operations is important. But equally important is the necessity to make proper arrangements for the sale of his produce. It is desirable to organise, on a co-operative basis, the sale of the produce of cultivators at different centres in the State. It is notorious how agriculturists are forced to part with their cotton and wheat at such prices as middlemen think it fit to pay them and how in the matter of weight and payment for produce they are made helpless victims of the self-interest of middlemen and traders. Joint sale and joint purchase have not received the same attention as joint credit and it will be to the advantage of cultivators, their societies and also of their Banks if arrangements are made for the co-operative holding and sale of agricultural produce. Now that an effort will be made to infuse new life and vigour into the whole movement for the promotion of rural welfare, it will be necessary to devote special attention to this field of co-operative activity. The importance of developing the urban section of the Co-operative movement has been already emphasised in this and the preceding chapters. It has also been shown how the business of traders and dealers in towns can be brought into the ambit of the Central and Apex Banks. It is necessary to make a passing reference, in this place, to the system of advances of State funds through the Treasuries to bankers and traders which has been in existence in Gwalior for several years. Government here has evinced its readiness to help the commercial classes with short-term advances on Hundis and facilities for the remittance of their funds from one centre to another. Rules for regulating these transactions were framed and published long ago. Now, it is possible for urban co-operative Banks to make similar advances to traders and merchants under proper safeguards and District and Pargana Banks can do this business with advantage till other and appropriate co-operative institutions are established and take it over. It will be worthwhile for

Government to consider the whole problem of short-term Treasury advances for the finance of trade and the Director of Co-operative Societies can put forward concrete suggestions for co-ordinating these transactions with the business of the Apex, Central and Urban Banks. As the urban movement expands, it will be possible for the Government to utilise the machinery of Banks for assisting the finance of trade in commercial centres in the State.

113. * Non-Credit Co-operation.

Co-operation is not a panacea for all economic and social ills nor does its utility lie chiefly in its being instrumental in the supply of cheap capital. Restricted to credit alone, co-operation is only partially effective and yields meagre results. It has, therefore, to be used to strengthen the whole economic position of the cultivator and the artisan. In fact, facile credit is a danger rather than an advantage and co-operative organisation must be adapted to all their business needs and activities, *e. g.*, production, exchange, distribution and consumption. The value of co-operation in these fields is often denied or is minimised owing to the poor results which appear to have been attained in those directions. But the fault is really not due to the principle or organisation of co-operation. The defect lies in an inadequate understanding of the essence of co-operation and in a lack of persistence in pursuing correct methods to make it successful. The educative and ameliorative value of co-operation cannot be too repeatedly emphasised and the prejudice against it results mostly from a want of faith in the possibilities of progress in the lower strata of the community through the adoption of its methods.

114. Subsidiary Occupations.

Those who care for social progress, and particularly the Government, must render every help in teaching and enabling these people to help themselves. The lives of the vast masses in rural areas, the real backbone of the community, must be closely studied in order that they may be made to understand and may be organised to solve their own economic and social problems. It has now been ascertained that large numbers of cultivators find it difficult to eke out a living with such produce as their labours in the fields yield, and that occupations subsidiary and supplementary to agriculture have to be found for them. Even a superficial survey indicates the nature of the problems and possibilities of the different parts of the territories of the State in this regard. Conditions in the various districts of Gwalior are, of course, not uniform. The natural

and other advantages and difficulties of these areas will have to be carefully examined to find out what action may be taken there to improve the economic condition of the people. In the congested north, for instance, where farms are very much sub-divided, supplementary occupations appear to be an urgent necessity. In Bhilsa, where extensive cultivation seems to be the rule and people have mostly to depend on a single crop, the supply of fodder and good cattle is a serious problem. The provision of pastures calls for enquiry generally in the southern districts and in Bhind and Tawarghar Districts in the north. Unless the earnings of the average cultivator are increased, he cannot hope to improve his condition and his income will depend on what his normal occupation will yield to him. It is not enough for him to secure cheap credit, he must be given an opportunity to earn a sufficient income and to spend it judiciously, economically and wisely. The Departments of Agriculture, Industry and Revenue will have to put their heads together to explore the possibilities of occupations subsidiary and supplementary to agriculture. Cattle breeding is one such important occupation. It is possible to organise it on a profitable footing in certain parts of the State territory. And the Co-operative Department should be asked to give advice as to how its machinery may be utilised for the organisation of the cattle breeding industry. Dairying is another occupation that may be organised in different parts of the State and the assistance of the Co-operative movement will be valuable in that direction. The supply of pure milk and ghee is an urgent public necessity and the dairy industry, if it is systematically developed, will contribute to the satisfaction of a primary want of the community while, at the same time, it will provide agriculturists with badly needed supplementary occupations. Spinning, weaving, rope-making, oil-pressing, curing of hides and skins and tanning are other rural industries that may be mentioned.

115. Economic Survey Necessary.

It may appear as if this subject, important as it is, does not strictly fall within the purview of the present enquiry. This is, however, not a correct position to take for a two-fold reason. In the first place, as has been pointed out above, the Co-operative movement cannot be expected to show tangible results unless its scope is widened and in the second, many of the desired improvements in the life of the population cannot be brought about unless they are worked out within the co-operative fold. It is, therefore, essential in the interest of the progress of the Co-operative movement as also of the promotion

of rural welfare in general that the two should be considered in close relation to each other. How the problem of providing subsidiary occupations for the rural population should be tackled, has been briefly indicated in the above paragraph. A detailed survey of the natural and social conditions of the different parts of the territories of the State and of the special requirements of the population inhabiting them is, however, best calculated to suggest the measures that need to be adopted to overcome difficulties that are experienced and to pave the way for economic development and progress. In order to ascertain the possible directions in which this work may be attempted, the Deputy Director of Agriculture, Malwa Division, was requested to offer his views on the subject and to furnish relevant information regarding the tract in his charge. A Note which Mr. G. K. Lele specially wrote in response to this request, is printed as Appendix to this report. His brief economic survey of the Malwa Division embodies an interesting account of the natural features of that part of State territory and a number of practical and useful hints as to how they should be dealt with in order to improve the lot of the agricultural population. The information supplied and the suggestions thrown out by Mr. Lele lend general support to the views advanced and recommendations made in this chapter and there can be no doubt that a similar conclusion will follow an enquiry into the conditions prevailing in the other parts of the State.

116. Rural Reconstruction and Co-operation.

The subject merits attention for one more important reason. It has been announced that the Government proposes to undertake rural reconstruction in the State and that a fund of Rs. one crore will be set aside for this purpose. It has been also declared that experts will be asked to investigate the possibilities of rural uplift and to frame a practical scheme that may be taken in hand at once. This is a welcome move. Whatever shape the scheme may take, it is necessary to point out that it will be operated to the best advantage if its execution is co-ordinated with the activities of the Co-operative movement wherever possible. Spade work in the organisation of the rural population for its improvement has been and will be done by co-operative institutions and its object fully coincides with that of the proposed rural reconstruction scheme. There are no less than four thousand societies in the State and nearly one-tenth of its population has been brought within the reach of its direct and indirect influence.

If the recommendations of this report are given effect to, the efficiency and the dimensions of co-operative activities will vastly increase. Men trained in co-operative work will prove extremely useful in the carrying out of the plans of rural reconstruction, and the position of co-operative institutions will be strengthened if the two sets of activities are co-ordinated. Considerable duplication of the expenditure of money and energy will also be saved thereby. No scheme of rural improvement is likely to succeed unless it is carried out in an atmosphere of self-help and mutual assistance, which is fundamental in co-operation. This view is shared by many workers who have had experience of co-operation as well as of village uplift work. Rural improvement to be real, should not be a gift made from outside, nor should it be imposed from above by authority. It should be based on a desire for betterment on the part of the people and they have to be assisted and taught to help themselves by uniting for the attainment of a common object. The Royal Commission on Agriculture in India has drawn pointed attention to this matter and it will be well if the lessons of experience are taken into account before any concrete scheme or schemes of rural reconstruction are put into operation.

117. The Essential Principle.

The essential principle for guidance in this connection is that the State should initiate and carry out schemes of economic and social development in such a way that the people will be inspired, trained and assisted to organise rural life for the promotion of their own well-being. The scheme of the reorganisation of co-operative societies in Bhilsa District is based on this self-same principle. So are also the other proposals of this report regarding the reconstruction of the Central Banks, the establishment of Apex Banks and the creation of the latter's land mortgage credit sections. The partial non-success of co-operative societies, it has been already explained, is due to the fact that their working was not based on the sense of individual and collective responsibility of members and that the true co-operative spirit was lacking in the movement as a whole. Government in Gwalior has consistently pursued a generous policy in providing capital to agriculturists and that is as it should be. In particular, long-term capital required for land improvement, digging of wells, etc., cannot be easily obtained except through Government sources, and the State has been supplying it. But it would be better if the Apex Banks raised capital needed for their mortgage business by means of debentures, the principal and

interest in connection with which may be guaranteed by the State just as it has been done in Provinces in British India. This will encourage among the people the habit of saving and investment and money will circulate in the community. It is hoped that the Banks will be able to attract share capital and deposits sufficient for their ordinary business and if there is a gap, it may be filled with the advance of State funds or a State guarantee for debentures according to the requirements of the situation and on terms and conditions that may be found desirable. The point is that while Government should be willing and ready to help economic enterprise, it should insist upon its funds being employed in a businesslike and responsible manner. Concessions, exemptions and remissions will, of course, have to be allowed but that should be in exceptional cases of genuine difficulty, hardship and misfortune. Grants should likewise be liberally given for useful economic objects on condition of efficient management and self-help on the part of the recipients.

118. Spirit of Social Service.

However well-meaning, sympathetic and active official agency may be, the work of economic and social amelioration cannot be achieved by it without the willing co-operation of public-spirited citizens. A strong body of honorary workers and voluntary assistants and supporters is a great asset to a movement. Those members of the community who are well-placed in the matter of wealth, social status and education, ought to regard it as their duty to devote some of their time, energy and money to the amelioration of the condition of their less fortunate brethren. It should not be difficult, if an effort is made, to secure a steadily increasing number of helpers in the towns of the State and to induce the general urban public to interest themselves in the cause of social service. Zamindars, merchants and men in the different professions can conveniently take up this work and lead, guide and assist ameliorative activities of various kinds. The Co-operative movement offers a large field for this work of social usefulness and service. Schemes of rural reconstruction will likewise need the support of numerous men and women, imbued with a spirit of self-sacrifice and public duty. Co-operative institutions will derive immense benefit by the introduction of the leaven of public-spirited, intelligent and business leadership.

119. Co-operation for the Middle Classes.

What are known as the middle and lower middle classes, have need to organise themselves co-operatively as much as

the masses at the bottom of the social scale. It has been already remarked that the Co-operative movement has developed in Gwalior State in a one-sided fashion, the general impression being that it was for Government to look after the improvement of the condition of cultivators and that share-holders of the Banks were only expected to distribute public funds among members of societies and secure dividends for themselves out of the simple transaction. But thrift and provision for the future of their children are important for intelligent and the educated classes as also for State and other employees. These classes have started co-operative institutions for themselves in British India, and thrift and credit societies, stores, housing societies and insurance associations are being run by them for mutual benefit. Middle class families would like to have dwellings of their own and for them co-operative housing societies will prove extremely useful. A housing society advances money for the construction of residence for its members and the loan is repaid in convenient instalments or it may construct houses itself and let them out to members who become their owners after the payment of a fixed number of instalments. Life insurance on a co-operative basis, has likewise considerable possibilities and they ought to be exploited by middle class families.

The Government in Gwalior at present grants loans to its officers and servants. It is worth while considering whether its employees may not, with advantage, be induced to form their own credit societies with a view to encourage thrift and habits of saving and investment among them. Government officers and employees should not be deprived of the benefit of gratuities and other help which they and their families receive from State funds under the existing practice. The question is whether it will not be more beneficial for the people and the Government that State funds should be employed not directly but indirectly through the organisations of people combining for mutual advantage. Social progress is governed by growing consciousness of people that they must manage their affairs with foresight and in a businesslike manner and must set up suitable popular associations for this purpose. It should be clearly understood that Government will render every reasonable help to all good causes provided this principle is followed by the public. Social stagnation and intellectual apathy will be removed and the path of improvement and progress will be made clear once this fundamental idea is widely appreciated and action begins to be taken in accordance with it.

120. Provision for Propaganda.

Systematic and sustained propaganda and training will be required to attain the object in view. Two qualified officers should be deputed for this duty. They will move among people of different classes and occupations and explore the avenues of varied types of co-operative organisation among them. They will explain the advantages of co-operative institutions and get the public to start them. Their advice and guidance will be indispensable in the initial stages and the movement will steadily advance as its benefits come to be appreciated. Similarly, two special officers should be told off to carry on propaganda in rural areas. It will be their business to educate the people as regards the benefits and the correct methods of co-operation. The budget proposals made in the previous chapter include provision for expenditure on account of these four propaganda officers who will work in urban and rural areas. Every officer connected with the Co-operative movement, whether Auditor, Inspector or Supervisor, must regard it as his important duty to meet members of societies, discuss questions of interest with them and try to keep them up to a high level of efficiency and organised activity. As co-operative officers of all grades will be given training and refresher classes will be conducted for them, this propaganda, on their part, is expected to grow in effectiveness and utility.

121. Co-operative Training and Education.

Training and education are essential factors in the progress of co-operation in particular and rural improvement in general. Their vital importance is very often not appreciated and in Gwalior it appears to have been entirely neglected. Inefficiency and stagnation have been the result. It is, therefore, imperative to make up the deficiency and immediately to launch a scheme for the training of officers, employees and workers in the Co-operative movement. It has been the practice in British India to hold regular classes from time to time for the training and education of bank officers, inspectors, supervisors, secretaries, Panchas, members of societies and honorary workers. It is significant in this connection that Provincial Governments in British India are utilising grants made to them by the Government of India for the benefit of the Co-operative movement, for holding training classes and getting their officers trained in them by turn. Now that it is proposed to launch a scheme of rural reconstruction in Gwalior State, it will be necessary and convenient that classes should be started in which arrangements should be made for

giving practical lessons in agriculture, accounts, sanitation, principles and practice of co-operation and other subjects which will be useful to persons who are expected to work for the improvement of the rural population. Co-operative workers will benefit by this general training as others will profit by a knowledge of the Co-operative movement. Arrangements can be made for training in special subjects according to the requirements of the persons to be trained and the courses may be adjusted to the needs of the different classes of officers, employees and workers.

122. The Procedure about Training.

The very first step to be taken will be to get a few officers thoroughly trained and these trained men should be asked to conduct the regular classes later on. The training of teachers should be entrusted to co-operative experts from outside the State and should be carried out at a suitable place in British India where facilities for observing and studying the actual working of various types of co-operative institutions, will be easily available. It will not be difficult to make proper arrangements for this purpose in places like Bombay and Poona, for instance, under practical guidance and reliable control. Officers in the Co-operative movement such as Auditors, Inspectors and Managers should be trained at the hands of above experts in batches in a similar manner. And the training of the other and subordinate staff should be entrusted to select officers thus trained and the classes for them may be held at convenient centres in the State territories. A suitable curriculum should be framed and practical training ought also to be provided. All employees in the Co-operative movement should be asked to go through courses taught at the classes that will be conducted for them and in five years' time every one of them should have acquired the necessary qualification. A certificate of having done satisfactory work in the classes should be insisted on from every employee, whether engaged in the Banks or in the Director's Office or working in connection with societies, both promotion and appointment being made dependent on the possession of the required qualification. The Rural Reconstruction Scheme should include this training as an important feature and it should be co-ordinated with the arrangements proposed above. This will save duplication of training machinery and expenditure to be incurred on it. As a matter of fact, the proposed training classes should be a common preparation for work in the Co-operative movement and in the sphere of rural reconstruction. The workers in the two movements will have to be common and there will

be considerable wastage if the two movements, particularly in the matter of training and propaganda, are allowed to run parallel and perhaps as rivals to each other.

123. The Goal and the Path.

The ultimate aim should be to make the Co-operative movement absolutely popular, the affairs of all co-operative institutions being managed, controlled and guided by their own leaders, the head of the Co-operative Department only watching the proper observance by them of the provisions of the Act, the Rules and the Bye-laws and restricting himself to the discharge of such functions as are essential for the continuity, integrity and safety of the movement. This goal will take long to reach and the process of education, training and organisation will have to be patiently carried on. During the period of transition, the Director and the staff of his Department, from top to bottom, will have to do a great deal more than the performance of mere official and routine work. They will have not only to be guides, friends and philosophers of the movement, but will have to exercise considerable control, to be provided by the Act, Rules and the Bye-laws, over the management of the affairs of societies. They should, however, perform their duties and exercise their control in such a way that the people may be steadily taken towards their goal, year after year. As the movement has not so far been developed and promoted along these lines and as the members of societies are uneducated, untrained and backward, their uplift will be an uphill task; but no disappointments and no difficulties ought to deter the Department in its task of raising the institutions and their members to the desired pitch of organisation, intelligent understanding and efficiency. State funds could not be better employed than on this process of popular education which will raise the intellectual and moral and material level of the mass of the citizens. The annual report on the working of the Co-operative movement is, at present, very meagre. It should be a concise but an informative and instructive piece of work, dealing with all the important aspects of the movement so that the Government and the public may be able to follow developments as they take place and those closely associated with Banks and societies, may derive practical benefit therefrom.

124. Advisory Council.

The progress of the Co-operative movement may be fairly judged by its ability to throw up non-official and voluntary leaders and workers. Each village must produce its leaders

who will take up the task of economic and social amelioration in a spirit of duty and service, and bigger cultivators and landlords who can exercise moral influence upon their brethren, should feel inspired to assume such rural leadership. It is possible, with their guidance, to explore the extensive avenues of betterment which co-operative effort offers, and Government officers should endeavour to find and encourage such people. Example counts a great deal in these matters and villagers understand and are accustomed to leadership. The field for the recruitment of voluntary and public-spirited workers is much wider in urban areas and the attitude of several Directors of Banks is hopeful in this respect. They appeared willing to play their part in the scheme of co-operative organisation recommended. To begin with, representative Advisory Council of leading co-operators should be immediately constituted. The Director should select as members of this Council persons, who, in his opinion, would be able to give practical advice and who are in close touch with the working of co-operative institutions. The Council should meet once or twice each year and thresh out problems of co-operative interest. The advantages of this arrangement will be these: The Director will know first-hand the difficulties and the problems which confront workers; leading co-operators will come into close contact with one another; and general interest in the progress of the movement will be maintained among the people. A conference, representative of all co-operative institutions, should be occasionally and if possible annually held with the same object in view, under the auspices of the Department. Its session may be held alternately at Gwalior and Ujjain.

125. Nucleus for Development.

Though the Government has not spared itself in placing funds at its disposal and in rendering it special help in times of difficulty, the Co-operative movement as such has not had a fair trial. The economic, the social and the moral aims of the movement were not clearly appreciated by those in control and the correct methods were not followed by them in its development. Co-operative societies were allowed to degenerate into paper institutions, convenient for account purposes and as channels for the distribution and recovery of Government funds passing through the hands of Banks. Members of societies have had no education in the management of their own affairs and the conscientiousness of individual and collective responsibility has not been fostered in them. The Banks are purely capitalist concerns foisted on a weak Co-operative super-

structure. What wonder that the co-operative movement in rural areas has not been the success it should have been? The business education and the uplift of the masses sunk in ignorance and conservative in the extreme, is always a very difficult task and in the circumstances described, co-operation could not reasonably be expected to achieve any solid results. But it would be wrong to suppose that co-operative societies in Gwalior have done no good at all or that they are incapable of substantial improvement.

126. Government Pronouncement on this Report.

With its four thousand societies and eighteen Banks, an efficient and progressive Co-operative movement may be built up in the State if lessons of past experience are taken to heart and such material as ready at hand is utilised to the best advantage. Government cannot, of course, have a clean slate to write on. It cannot go back to the so-called agricultural banks, that is, the system of advancing State funds through revenue officers, nor can it leave cultivators to seek credit where they can. In spite of their drawbacks, the co-operative societies in the State have brought together thousands of cultivators for the common object of obtaining finance for their agricultural operations and the State territory is covered with a network of Banks. What is now needed is the development of societies and Banks along the correct path towards the goal of their co-operative organisation. The movement is capable of improvement and expansion and this very inquiry is calculated to work as a stimulant. It would be in the fitness of things for the Government formally to declare its determination to do all that is necessary to place the movement on a sound footing and to promote its healthy growth. Such an authoritative pronouncement will inspire confidence in the public mind and will urge officials and non-officials to exert themselves to contribute to the successful working out of Government's plans. An assurance of the kind will be in perfect accord with the declared aims and wishes of His Highness the Maharaja Sahib whose solicitude for the welfare of his subjects is known to every one.

I would suggest that soon after this report has received consideration at the hands of the Darbar and Government has formulated its decision with regard to the recommendations made in it, a conference of officials and non-officials connected with and interested in the Co-operative movement and rural welfare, should be called and the programme of work to be taken in hand should be placed before it. The conference should discuss the ways and means of carrying it out and thus

a start should be given to the work that will have to be done in a number of directions. This conference, held under the auspices of Government and with its blessings, will rouse general public interest and will be the forerunner of similar gatherings in the future to be periodically convened for the discussion of business problems affecting the co-operative and rural uplift movements.

APPENDIX TO CHAPTER VIII.

A Note on the Scheme for the Reconstruction of Co-operative
Institutions in Bhilsa District

BY

PROF. V. G. KALE.

I have been asked to examine the scheme, which the Director of Co-operative Societies, Gwalior State, has framed with a view to save co-operative institutions in Bhilsa District from an impending disaster and to provide for their steady recovery from the almost hopelessly stagnant condition into which they are sunk.

I welcome this opportunity to express my views on the scheme. A review of the position of the Co-operative movement in Bhilsa and my recommendations regarding the measures for its rehabilitation will, no doubt, form part of my comprehensive report which is expected to be ready some months hence. But delay in adopting remedial measures is often calculated to prove dangerous and the cure may come too late to save the patient. In the case of co-operative societies whose overdues from members and to their financing Banks have mounted to inordinate heights and which find recoveries and fresh finance impossible, the earlier they are taken in hand for treatment the better. For, they being on the brink of collapse, recovery in any measure is hopeless after a certain stage in the development of bad economic conditions has been passed.

Esagarh and Bhilsa were the first Districts which claimed my attention. Economic condition in that part of the State's territories were peculiar for various reasons into which it is unnecessary to enter here. They had been already investigated by officers and a Committee of Enquiry, who had made certain suggestions for the improvement of the situation as they found it. (See Report by Mr. Ibne Abbas Abbasi, Suba of Bhilsa, dated 12th March, 1936, Joint Report by the Director of Co-operative Societies and the Suba of Bhilsa District, dated May, 1936, and the Director's Report on the rectification of co-operative institutions in Esagarh District, dated 12th May, 1936.)

The continuance of the unsatisfactory state of affairs in these Districts, the steady growth of agricultural indebted-

ness, the large amounts of societies' overdues to the Banks, the latter's inability and unwillingness to provide fresh finance in the face of general stagnation, the losses which the Banks had to suffer owing to the impossibility of collecting due and overdue interest, all these facts stared the inquirers in the face. It was the legacy of several years of misfortunes and mismanagement. Rackless generosity in financing societies and individuals in the earlier years, a succession of bad seasons and the general economic depression that followed, brought the movement to a stand-still. Societies became pools of stagnant water and were allowed to lie stinking. Heroic cures are apt, in such desperate cases, to be suggested as short-cuts to a final solution. The State may be asked to take upon itself the whole burden of the Banks' and the societies' obligations, and with a clean slate thus provided, everybody is expected to be happy. At the other end of the scale, it may be proposed that nothing should be done at all and that the Banks and the societies should be left to suffer for their sins or their misfortunes. The latter is no remedy: it is a counsel in favour of suicide or death due to deliberate neglect. No Government can, of course, stand by unconcerned and allow the collapse of the credit of whole district. The former suggestion is, however, equally unacceptable in as much as it misconceives and ignores the fundamental nature of social and economic ills and of their effective cure. Gifts made by the State, while they do credit to its generosity and its consciousness of its own obligation of duty towards the people, often prove demoralising to the receivers. Generous State assistance is indeed indispensable in times of economic stress and difficulty, but it must be judiciously given and must be employed with a due sense of individual and collective responsibility. I find that the Gwalior State has been consistently liberal in granting relief to the people, but this generosity must be carefully dispensed so that it may help agriculturists to their feet without destroying their morale. Government help should rouse and attend on self-help. Remedial measures to bring about economic recovery on correct lines, must be based on the following principles:—

- (1) A new hope has to be infused into the hearts of societies and the prevailing stagnation has to be put an end to.
- (2) To stimulate recovery, societies have to be kept going and fresh finance on a conservative and moderate scale, wherever justified, is essential.

- (3) No wholesale measures of refinance or 'writing off' of dues or liquidation can be pursued.
- (4) The financial position of each society and each member of every society must be carefully scrutinised and their repaying capacity must be estimated.
- (5) The dues of members, who have left the village and have no assets left, must be written off forthwith.
- (6) The repayment of dues of other members must be spread over a number of years according to their capacity to pay. Instalments will thus vary from member to member and society to society.
- (7) Arrears of interest should be written off in the case of members who cannot be put on their feet unless this concession is given.
- (8) Members must be exempted from the payment of interest or be charged very low rate of interest in accordance with their economic condition.
- (9) Wilful defaulters must be proceeded against at once and their dues must be realised by all possible means.
- (10) Drastic measures should be taken against large borrowers whose recalcitrancy and powerful influence have spoiled the position of their society.
- (11) Concessions should be so designed as to induce payment of overdue principal in reasonable amounts distributed over a series of years.
- (12) Societies, which are hopelessly bad, should be wound up and liquidated and new societies may be formed to accommodate good people wherever this is practicable.
- (13) The sacrifice of interest and principal involved in re-organisation will, of course, mean the reduction or disappearance of the reserves of the societies. Full contribution towards losses should be taken from the reserves which constitute the first line of defence. This action is in full consonance with the co-operative principle of mutual and joint responsibility.

- (14) Next comes the financing Bank which must contribute on the same co-operative principle, a reasonable share out of its own contingency and other reserves to meet the losses.
- (15) The balance of the loss should be met by the State by foregoing interest on its deposits with Banks and by writing off the necessary amount from the principal of its deposit.
- (16) The State will thus be a helper of the societies and Banks in the last resort, and its assistance will be given when and as it is required to stimulate and supplement the efforts of the people to help themselves.

I visited Esagarh and Bhilsa Districts and had discussions with members of societies, Directors of the Banks at Pachhar and Bhilsa and officers and workers in the Co-operative movement, before taking up the Director's scheme for scrutiny. I tried to ascertain first-hand the view of every one concerned and to collect all relevant information. I found that not only had the economic conditions in Bhilsa been already thoroughly investigated, as stated above, but at the instance of the Director, Co-operative Societies, and under his personal supervision, a few officers of his Department had made a detailed study of the condition of each society and of every one of its members. This laborious work had been intelligently done and the mass of statistics resulting from it, has been systematically arranged.

The position that had to be faced in Bhilsa District, will be clear from the following figures showing for a series of years, loans advanced to societies, the total outstandings, the repayments and the loans overdue at the end of each year :—

Year.			Loans advanced.	Balance of loan.	Recoveries.	Overdue.
			Rs.	Rs.	Rs.	Rs.
1924-25	..	..	2,47,365	4,31,949	2,15,721	2,24,513
1925-26	..	..	3,51,755	4,93,902	2,63,002	1,76,050
1926-27	..	..	4,46,072	6,45,374	2,72,941	1,77,471
1927-28	..	..	2,76,065	7,97,059	28,991	5,91,029
1928-29	..	..	3,184	7,75,124	25,119	7,64,104
1929-30	..	..	2,830	7,68,618	12,524	7,63,287
1930-31	..	..	1,980	7,65,305	28,353	7,62,641
1931-32	..	..	10,182	7,53,465	21,482	7,50,682
1932-33	..	..	4,825	7,32,366	25,915	7,10,831
1933-34	..	..	3,287	7,26,329	10,289	7,29,021
1934-35	..	..	31,552	7,23,417	36,994	7,00,101

It is a general tendency observed in other parts of India and elsewhere that in good years, people are tempted to borrow and spend on a generous scale and to forget that prosperity is ever followed by lean years and that, therefore, provision has to be made, in time, for natural calamities and adverse economic conditions. The following figures will show how, in the earlier years, loans were distributed to societies with an almost lavish hand :—

Year.				No. of societies financed.	Fresh loans distributed.	Average loan per society.
					Rs.	Rs.
1923	..	..	..	381	1,91,735	267
1924	..	..	..	354	1,85,556	524
1925	..	..	..	141	2,67,365	1,660
1926	..	..	..	174	3,27,935	1,884
1927	..	..	..	204	4,21,415	2,065

The amount of fresh loans in 1926-27 was nearly Rs. 4,50,000 as against Rs. 2,50,000 in 1924-25 and Rs. 3,50,000 in 1925-26. The total amount of loans outstanding at the end of 1927-28 was nearly Rs. 8,00,000 as against Rs. 4,31,000 in 1924-25. The years 1927-29 were years of bad crops. To help the people in these famine times, Government advanced, in the form of Takavi, Rs. 4,36,000 through Co-operative Societies, in the course of three years. This amount does not naturally figure in the usual accounts of the Banks and societies. Then came the general economic depression, which holds the world in its grip even to-day. This disaster coming on the top of the calamity of the famine, demoralised the Co-operative movement. Fresh finance was stopped, recoveries fell off, outstandings mounted up and complete stagnation ensued. During the seven years from 1928-29 to 1934-35, the total advances of loans amounted to about Rs. 57,840 only, *i. e.*, an average of Rs. 8,230 per year. This compares with the annual average of fresh loans of Rs. 3,30,000 for the previous four years. The overdues which amounted to Rs. 2,35,000 in 1924-25, to Rs. 1,75,000 in 1925-26 and to nearly the same figure in 1926-27, rose to about Rs. 6,00,000 in 1927-28 and Rs. 7,50,000 during the next four years. The overdues have remained in the neighbourhood of Rs. 7,00,000 since then. This stagnation has made the position progressively worse and the choice lay between complete ruination and slow but steady revival.

The fact cannot be disguised that this condition means nothing less than the bankruptcy of the districts. The State

has already run to the rescue of the people by lightening their burdens by granting them important concessions. The rate of interest on Government deposits was reduced from 6% to 4% in 1933 and it was further reduced to $2\frac{1}{2}$ % in 1935, in both districts. Government likewise granted to Bhilsa Bank, Ltd., a remission of Rs. 1,76,000 in interest on its deposits up to 30th June, 1932. Esagarh Bank, Ltd., received from Government a remission of Rs. 75,000 on account of accrued interest up to the same date. Government also ordered in 1932, that all recoveries from members who had taken famine loans, as well as loans from societies, should first be credited to the ordinary loan account so as to facilitate the improvement of the financial position of co-operative institutions. Severe and wide-spread economic depression still dogging the footsteps of the agricultural community, the Government will have to see the districts through the unprecedented catastrophe and will no doubt do it. But the question is, how will it proceed to achieve the inevitable objective? The answer is that the State should grant all the help that is required to lift societies and their members out of the slough of despond, consistently with the spirit of self-help and organised betterment on the part of the people. The scheme of rectification should provide for the lopping off of all the dead wood, putting fresh sap into trees that promise to survive the deadly disease, which has been eating into their vitals and for creating conditions round them that will assist their convalescence and healthy growth. Government should whole-heartedly support a scheme of this character which is based upon a systematic investigation of the economic conditions obtaining in the two districts.

Judged by the tests I have laid down above, the scheme for the rectification of co-operative institutions in the Bhilsa District now before me, I am glad to observe, satisfies all the essential conditions. There are altogether 380 societies in this district. The loans due from members to societies on 30th June, 1936, amounted to Rs. 8,37,000 out of which Rs. 7,73,000 were overdue. The societies owed to the Bank on the above date Rs. 6,52,000 of which Rs. 6,00,000 were overdue. In the scheme, the position of each member of each society was examined and his dues were adjusted according to his assets and repaying capacity. The number of members who were well off and required no relief, was negligible. Members, who had a fairly moderate repaying capacity, are given instalments varying from 2 to 22 years in which loans were to be repaid. Overdue interest has been practically left out of account altogether, and the amount of fresh finance to be allowed is

fixed. The number in this group is about 75 per cent of the total number of members of living societies. Members of the third class, who have very small assets and repaying capacity, have been exempted from the future payment of interest for a varying number of years and in certain cases, the principal due has been partly written off and instalments have been fixed in respect of the balance. Fresh credit has been allowed to some of the members. Members in this third class constitute about 15 per cent of the total membership. Members of the fourth and the last class, who constitute about 10 per cent of the total number of members, are persons who have either left their village or have little or no assets, though living in the village. All the dues of such people have been altogether written off.

The scheme framed by the Director, Co-operative Societies, is based on the figures as on 30th June, 1936. The amount due from the members to their societies on that date was Rs. 8,26,800 as principal and Rs. 3,28,300 as interest. Out of this, the amount of principal due from members of the fourth class mentioned above, came to Rs. 1,01,500 and that of interest to Rs. 93,900. Both these amounts are proposed to be written off in full. Out of this total of Rs. 1,95,400 to be written off, the societies would be able to find Rs. 89,300 from their Reserve Funds and Deposits and Share Money of their members, and the balance, *viz.*, Rs. 1,06,100 (Rs. 75,300 as principal and Rs. 30,800 as interest) will have to come from some other source.

Examination of the Bank's position reveals the fact that it has to meet an aggregate loss of Rs. 1,08,700 consisting of Rs. 75,300 on account of principal due from societies (which has been referred to above), Rs. 25,000 the estimated 'Bad Debts' due from individual borrowers, and Rs. 8,400 representing un-realizable assets in the shape of interest due from Bankers and from societies and miscellaneous items. It is proposed that Rs. 37,500 from the 'Contingency' and 'Bad Debts' reserves of the Bank, should be contributed towards the above-mentioned loss of Rs. 1,08,700, and that the balance of Rs. 71,000 in round figures should be found by Government by adjusting that amount against its Deposit with the Bank. For providing fresh finance to societies, Government is requested to increase its Deposits by Rs. 80,000. It is also requested that Government should not charge interest on its Deposits with the Bank for a period of three years.

The above proposals of the Director, which have been supported by the Bank, appear to be quite reasonable and

should be sanctioned by the Government without delay. Since the scheme was formulated on the basis of figures available in 1935, the Bank has sustained a further loss of Rs. 13,000 owing to the non-receipt of interest due from societies. I recommend that this should not be allowed to disturb the frame-work of the scheme as submitted by the Director and that the amount of Rs. 13,000 should be debited to the Bank's Reserve and should be recovered from societies in the course of five years, the whole position being reviewed at the end of that period. I am impressed by the Director's argument in favour of keeping the Bank's General Reserve intact (except for the adjustment of Rs. 13,000 proposed above). The Bank must have a margin for unexpected contingencies and for the non-fulfilment of certain hopes on which the scheme of re-construction is based. It is a delicately balanced scheme and it would be wise to leave some margin for certain things not coming up to expectations.

In conclusion, I need not again emphasise the urgency of putting the above scheme into immediate operation. Every week's delay increases the difficulty of the situation and the burden that Government will have ultimately to bear will steadily increase with the lapse of time.

In view of the thoroughness of the investigation carried out in the Bhilsa District and of the soundness of the scheme of re-construction formulated for the co-operative institutions in that District, I recommend that similar work should be done in Esagarh and other districts and that the same principles and policy should be adopted with reference to them. The staff that has gained valuable experience and training in Bhilsa, may, with advantage, be entrusted with this task.

GWALIOR,
15th March, 1937. }

V. G. KALE.

To

The Director of Co-operative Societies,
Gwalior State.

CHAPTER IX.

A FIVE-YEAR PLAN.

127. Preparatory Measures.

The various recommendations made in the foregoing chapters for the improvement and expansion of the Co-operative movement, cannot be put into effect all at once and will have to be spread over a period of time. This is necessary as well as inevitable. A beginning can indeed be made without delay in the work of re-organisation and development along the lines indicated. Most of the improvements are naturally inter-dependent and the tackling of one problem will mean dealing with several others at the same time. Some measures can, however, be put through immediately and for others, preliminary arrangements will have to be taken in hand so that in due time they will be ready for adoption. It will, therefore, be useful if a kind of programme is indicated here for being carried out in the course of the next five years. It cannot, of course, be anything but a rough plan and its actual fulfilment will depend upon a number of factors proving favourable. Certain difficulties are also likely to present themselves at different stages and will have to be overcome as they arise. Some changes may likewise be found necessary in respect of particular items in the programme. The Director will require the assistance of qualified men to carry out the plan. The following programme has, therefore, been sketched with all the above considerations in view and it is expected that if it is pursued with faith and determination, success will attend the effort.

Certain administrative reforms recommended can be taken in hand by the Director at once and the financial adjustments necessary to enable him to do so have been provided for in the budget of his Department for the current year. A suitable redistribution of budget provisions was recommended by me in advance and in anticipation of the chief recommendations of this report and it is satisfactory to learn that those proposals have been sanctioned by the Darbar. This is a good augury and may be taken as an earnest of the determination of Government to render all the assistance necessary for placing the Co-operative movement on a firm and sound footing. The Banks will likewise be expected immediately to put their

hands to many changes in which they are directly concerned and they must carry out their part of the programme of re-organisation in complete co-operation with the Department. The problem of recruitment and selection of the personnel and the training of the managerial and the field staff is very important and will have to be solved with care and patience. These observations are intended to constitute a suggestive introduction to the five-year plan sketched below.

128. First Year.

In the first year, the Co-operative Department will have to concentrate its attention on making preliminary arrangements for carrying out the suggestions for the improvement of primary societies and the Banks. Amendment of the Co-operative Societies Act should be taken in hand immediately and its scope should be widened so as to provide for the organisation and working of the Apex Banks, and the varied types of societies which have been recommended. The Banks Act should be repealed at the same time. Care will, however, have to be taken to incorporate into the Co-operative Societies Act certain essential sections in the other Act which do not, at present, find place in it. In brief, the Act will have to cover various branches and phases of the Co-operative movement as it is expected to develop and the necessary provisions in this behalf will have to be inserted into it at once. The Rules under the Co-operative Societies Act as they stand to-day are not as exhaustive as they should be. It is, therefore, very necessary to frame a new set of Rules on the lines of those found in various British Indian Provinces.

The model bye-laws of Central Banks and of agricultural societies will have to be amended in various respects and may perhaps have to be re-drafted in view of the recommendations embodied in this report. The amendments will have reference to matters like the constitution of the boards of the Banks, the system of election, the profits and reserves of the institutions and so on. Appropriate amendments and additions will have similarly to be made in the bye-laws of societies so as to suit the different types of these institutions. The other measures to be immediately adopted will be the abolition of the posts of the Deputy and Assistant Directors and the selection and appointment of additional Auditors, Propaganda Inspectors for urban and rural areas, and of District Inspectors. In view of the transfer of supervision of societies from the Government Inspectors to the staff of the Banks, necessary instructions should be issued explaining to the latter the new responsibility that will fall on their shoulders.

Secretaries of societies are hereafter to be paid out of the contribution from societies and Government subsidy. A Central Committee should be constituted for each Circle or District who will look to the appointments, transfers, etc., of the Secretaries and of the Supervisors.

The Department should issue instructions to Banks and societies to bring about the several improvements which have been suggested at various places in the report. The question of rectifying and consolidating societies should be taken in hand.

Necessary orders should be issued to the Auditors in respect of their work and the form and the procedure of their reports.

Steps should be taken to effect the amalgamation of Gangapur, Jawad, Suvasra and Susner Pargana Banks with the neighbouring Banks.

Arrangements should be made for the establishment of Apex Banks at Lashkar and Ujjain.

By way of preparation for classes for the training of Managers of Banks and other employees and also honorary workers, arrangements should be made to depute a batch of efficient men to undergo training for six months. On the completion of their training they should be asked to conduct regular training classes.

Every effort should be made to secure the co-operation of non-official workers and with their help, new societies of different types should be organised at suitable centres. Dormant but useful societies like the grain stores should be rejuvenated.

An Advisory Council of earnest and active workers and of representatives of co-operative institutions in the various Districts, should be established. The Director should consult this Council and take it into his confidence in respect of measures to be adopted for the development and progress of the movement. A meeting of this Council should be held as soon as it is formed. A co-operative conference representative of various sections of the movement should be held at an early date under the auspices of Government in which an authoritative declaration should be made of their determination to give all the necessary assistance to the Co-operative movement with a view to place it on a sound footing and to promote its healthy growth.

In the next annual report on the working of the co-operative societies, a brief account should be given of the progress made in the working out of the plan during the period covered and the programme of work to be done in the second year should be indicated.

129. Second Year.

In the second year, special attention should first be paid to the items of the plan that could not be completed according to schedule during the first year and every effort ought to be made by all concerned to get through the arrears in as short a time as possible.

This year the training of as many officers, *i. e.*, Inspectors, Auditors and Managers of Banks, as possible should be undertaken. A few of the Agents of Branches and Senior Supervisors may also be trained during the year.

After weeding out bad and defunct societies which deserve to be liquidated and ascertaining the bad and doubtful debts of societies, schemes for re-organising stagnant but hopeful societies should be taken in hand. Re-organisations should be completed at least in the Districts of Esagarh and Sheopur. A scheme should also be drawn up for helping the Bhils in the Amjhera District through specially controlled co-operative societies and should be submitted to Government for their final orders. And if sanction is received in good time, a beginning with the scheme may be made at some selected centres in the Bag Pargana.

Side by side with the cancellation and amalgamation of old societies in circumstances described in the report, new societies should be organised wherever conditions are favourable. Special attention should be devoted to the organisation of urban societies particularly in the Malwa Circle. Morena, Bhind, Ujjain, Mandsaur and other selected Banks should be permitted to advance loans to individual share-holders against the pledge of agricultural produce.

Apex Banks should begin to function in the course of the second year. They should explore new avenues of business and should go ahead with the land mortgage section and the financing of housing societies. These societies may be organised at Gwalior and Ujjain where it appears there is sufficient scope for this kind of activity.

One or two meetings of the Central Advisory Council will be possible in the course of the year.

A review of the second year's progress with the plan of the programme for the third year, should appear in the Director's Annual Report for the year.

130. Third Year.

In the third year, the training classes should continue their work as in the second year. By the close of the third year, all the Inspectors, Sub-Inspectors and Auditors as also the Bank Managers and Senior Supervisors will have undergone the course of training. Agents of Branches of the Banks and a number of Supervisors would likewise have by then gone through the appropriate courses.

The Apex Banks will have, by this time, been in full swing. Re-organisation of societies in Districts other than Bhilsa, Esagarh and Sheopur should by now be completed. A sufficient number of urban and agricultural non-credit societies should have been organised. All District and Pargana Banks will have fully adjusted themselves to the new system. Particular attention should be paid to Neemuch, Agar and Shujalpur (especially the last). These Banks will have to develop their business so as to make themselves self-sufficient units. The question of handing over the management of Bhilsa Bank to the representatives of share-holders and of societies assisted by a few officials, should be considered at the close of the year and unless the condition of the societies financed by it has improved by that time, its decision should be postponed to the fourth or the fifth year of this plan.

Meetings of the Director's Advisory Council will be held as usual. Similarly a Co-operative Conference for the State should be held at Gwalior and Ujjain in alternate years if an annual session is not found to be practicable. The Director should give the conference an account of the progress that may have been made in the working out of the Five-Year Plan.

By the end of the third year, the Director should submit a special report to Government regarding the action taken by his Department on this report and the progress made by the movement in accordance with the programme chalked out in the Five-Year Plan. Government should then have the whole position thoroughly reviewed in the light of that report and take such action on it as may be found necessary.

131. Last Two Years.

The fourth and fifth years should be devoted to the training of the remainder of the junior staff of the Banks and the

Secretaries. By the end of the fifth year, practically every paid worker in the movement should have been trained. Education of Panchas and non-official workers will, likewise, have made good progress by this time.

Greater attention should be paid to the problem of expanding the movement in urban areas. Purchase and sale societies should be organised at convenient centres in view of the experience that might have been gained by the Banks in their dealing in that kind of business.

Conditions in Esagarh and Sheopur may probably be ripe for the return of the management of their affairs to the control of elected directors, the societies in those tracts having shown sufficient improvement. During the fourth year and the fifth year, appreciable results should be apparent as regards (i) rectification and consolidation of agricultural credit societies, (ii) the establishment and development of non-agricultural and non-credit societies of different types, (iii) progressive working of land mortgage and other sections of the Apex Banks, (iv) expansion of the urban side of the movement, (v) efficient administration of the affairs of the District and Pargana Banks, and (vi) increasing association of non-official workers and leaders with the various branches of the co-operative organisation.

Meetings of the Advisory Council and the biennial or annual co-operative conference will have become an established practice.

In his Annual Report, the Director should continue to devote a separate section to an account of the operation of the Five-Year Plan. At the end of the fifth year, the Director should submit to Government a special report reviewing the progress of the movement in all its branches and aspects. On this report Government should take such action as the circumstances may demand.

CHAPTER X.
SUMMARY OF RECOMMENDATIONS.

132. Central Banks.

1. Size and area of operations of each Bank should be so fixed as to make it an efficient and self-supporting unit.

2. Societies should be given due representation on the Boards as a matter of right.

3. Every member, whether an individual or a representative of a society, should have only one vote, irrespective of the number of shares held.

4. The election of Directors should be by rotation. One-third of the Directors should retire annually.

5. The qualification for being elected as a Director, which at present is the holding of 20 or more shares, should be done away with in order to widen the scope of selection.

6. Shares should not be held in the names of unregistered institutions or firms.

7. Posts of Managing Directors and Joint Managing Directors are unnecessary. Managers of Banks should be well-versed in accounts and trained in banking practice and they should be responsible to the Boards and not to the Co-operative Department. The Suba should be President of the District Bank and of its Advisory Council, the Board electing its own chairman.

8. Shares should be only of one class, *viz.*, the "ordinary" and no other class of shares should be permitted.

9. Banks should be required to build up their owned capital by way of different reserves in proportion to their outside liabilities. Suitable proportions should be prescribed for this purpose.

10. Principal and interest of debentures issued by the land mortgage section of the Apex Banks should be guaranteed by Government.

11. Reserve and other Funds of the Banks should be invested only with the Apex Banks and, if necessary, in gilt-edged securities.

12. Bad and doubtful loans should be ascertained by the Banks annually, the lists showing these loans being regarded as confidential.

13. The Contingency Fund should be in proportion to the ascertained bad and doubtful loans.

14. At least 5 per cent of the net profit of a Bank should be credited to the Contingency Fund every year.

15. Bad debts should be written off from the Contingency Fund with the previous sanction of the Inspector-General of Banks.

16. A society should ordinarily submit only one loan application every season, and it should embody therein all the requirements of all its members.

17. Applications for loans or for extension of time for repayment, should be scrutinised by the staff of the Bank and not of Government and they should be disposed of by the Boards according to their judgment and discretion.

18. Loans to members must be paid (either in cash or by cheques) in the office of the society and not directly by the Bank.

19. Central Banks should be allowed to grant loans direct to individual members whose needs cannot be met by local urban societies or urban banks.

20. Banks should be prohibited from keeping their surplus funds with local bankers.

21. Government Treasuries should accept a minimum of Rs. 1,000 at a time in the cash credit accounts of the Banks.

22. All surplus funds of Banks must be kept only with the Apex Banks.

23. Government should grant special facilities for the remittance of funds of Central and Apex Banks from one treasury to another.

24. Interest should be charged to societies on daily debit balances and it should be calculated only once in the year on 30th June.

25. Government should assist the Bhils in the Amjhera District through a special type of co-operative society to be managed under official control.

26. The District Banks of Bhilsa, Esagarh and Sheopur should be managed under the control of Government for a few years.

27. Special effort should be made to organise urban societies. There is considerable scope for this activity in the Malwa Circle.

28. Gangapur, Jawad, Suvasra and Susner Banks should be amalgamated with the neighbouring Banks.

133. Primary Societies.

29. Societies with a membership of less than 10 persons should be liquidated or amalgamated with other societies.

30. One society may, in special cases, be allowed to serve two or more villages.

31. Societies should not be permitted to function in villages, where persons competent to run them are not available.

32. Panchas, and especially the Sar Panch should, as far as possible, be elected from among those who can read and write.

33. Every society must be audited annually in order to enable the Director to discharge his statutory responsibility.

34. Members should be taught the benefit of saving and they should be induced to practise thrift at every stage.

35. Societies should be allowed to utilise the Reserve Fund in their own business.

36. Societies should not take into account and credit to the Reserve Fund the amount of unrealised interest due from their members.

37. Central Banks should be required to show in their Balance Sheets the amount of accrued interest due from their members and societies and to show it under an "interest suspense account" till it is actually realised.

38. Recovery of loans from members should be the business and the responsibility of the Managing Committee and not of the officers of the Bank or of Government.

39. The "Haisiyat Register," being an important document, should be compiled with great care and be maintained up-to-date.

40. Arrangements should be made to ascertain the amount of bad and doubtful loans of each society and adequate provision should be made to meet the same.

41. Suitable measures should be adopted to safeguard the interests of non-occupancy tenants in order to secure stability and continuity in the cultivation of land.

42. Steps should be taken to organise non-agricultural societies at suitable centres and through them to secure educated people and businessmen to guide, inspire and strengthen the Co-operative movement.

43. The grain stores that have ceased working, should be revived and encouraged to carry on their work as before. Such stores should be started wherever practicable.

44. Special mention of grain stores and similar societies should be made in the annual report on the working of the Co-operative Department.

45. Godowns for the use of grain stores should be constructed by Government and should be leased to societies. The latter should set aside a special reserve against the expenditure of State funds on the godowns.

46. Urban societies should be given credit by Central and Apex Banks against their Fixed Deposit Receipts or the loan bonds taken by them from their members.

47. Housing and sale societies should be started at suitable centres.

48. Debentures issued by Apex Banks to finance Housing Societies should be guaranteed by Government.

49. Societies for financing cottage and other small scale industries should be started. These societies should be financed by Apex and Central Banks under certain restrictions and reservations.

50. The bye-laws of producers' societies should provide for the making of advances to their members against the latter's non-perishable finished goods.

51. Central Banks should be permitted to advance loans against goods till urban societies in their areas are able to take up that business.

52. At a few selected centres multi-purpose societies may be organised as an experiment.

53. Care should be taken by all concerned to keep, as low as practicable, the rate of interest charged to members of societies. This rate has now been reduced to 9 per cent while it was as high as 15 per cent in the past.

54. Provision should be made in the bye-laws of agricultural societies for fixing the maximum amount of the loan to be granted to a member for his current agricultural and domestic requirements.

55. Arrangements proposed for financing agriculturists in villages where there are no societies, on joint responsibility, out of the amount of Rs. 25 lacs Government intend to set apart for the purpose, are welcome.

56. When the number of such agriculturists in a village reaches 10, they should be organised in a co-operative society.

57. The rate of interest on these loans should not be such as will lead to the competition of the system with co-operative societies.

58. The supervision of societies should be carried out by the staff of the Banks. The formation of supervising unions cannot be recommended.

134. Audit.

59. A specific form should be prescribed for the audit report.

60. The Auditors should be responsible to the Head of the Co-operative Department.

61. Separate conferences of Auditors and Inspectors and a joint meeting of the two should be held annually for the discussion of problems relating to their work.

62. An Auditor should be in charge of a particular tract at least for three years so as to ensure continuity of audit.

63. All Banks must be audited every year.

64. Every society should, as far as possible, be audited annually.

65. There should be a separate audit report for each society audited.

66. The number of Auditors should be increased immediately.

67. Only trained and qualified persons should be appointed as Auditors.

68. Special arrangements should be made for the training of Auditors.

69. Bye-laws of Banks should provide for effect being given to the suggestions of the Auditors.

70. The duties of the Auditors should be defined.

71. The audit report of Banks should be in two parts (1) dealing with technical mistakes, etc., and (2) general remarks.

72. Part II of the audit report should be supplied by the Banks to their share-holders.

73. All institutions audited should be classified as A, B, C and D according to their quality of management and size of overdues. This classification should be shown in the Annual Report of the Department.

74. Banks should come in direct and close contact with affiliated societies and their members.

75. Banks should allocate profits after providing for various reserves including one for expected bad and doubtful debts. The Head of the Department may give advice but should not determine the amount of the dividend.

135. Administration.

76. The holder of the post of Director should possess, besides administrative experience and organising capacity, sympathetic understanding of the rural classes. He should not be saddled with other duties.

77. The posts of Deputy and Assistant Directors should be abolished as they are superfluous.

78. One Inspector of Co-operative Societies should be appointed for each District and he should be responsible for the proper working of co-operative institutions in that area.

79. Select capable men should be appointed as District Inspectors, merit alone and not seniority in service or pay being the deciding factor in the selection.

80. The District Inspector should be a gazetted officer.

81. The Inspector ought to be a properly qualified officer, trained in all lines of co-operative activities and must possess adequate knowledge of English and Hindi.

82. The power to punish and fine an Inspector should vest in the Director of Co-operative Societies and not in the Suba, as at present.

83. The Boards of Banks should deal with their own staff in the matter of punishment, etc.

84. Appeals against the orders of Inspectors should lie with the Director and those against the orders of Sub-Inspectors with the Inspectors.

85. The Director should undertake intensive touring in the Districts.

86. The post of the Personal Assistant should be continued and should be filled by a person conversant with the technicalities of the working of the various types of societies and equipped with local knowledge of all the Districts in the State.

87. The post of the Chief Auditor should be abolished as it is redundant and the present incumbent should be posted as Special Auditor.

88. The post of the Inspecting Officer should be converted into that of the Assistant to the Director and he should be asked to look after land mortgage business, liquidation of societies, scrutiny of diaries of officers, etc.

89. The number of Auditors should be increased at once to 19.

90. Two Special Auditors should be appointed to audit Banks, one for each Circle. Their headquarters should be at Lashkar and Ujjain.

91. The Special Auditors should be given one clerk each.

92. The headquarters of other Auditors should be the District or Pargana town as the case may be.

93. Copies of Audit Reports should be sent to the institutions concerned and to the Director through the District Inspector.

94. Replies of Banks to audit reports should be sent to the Auditor concerned and to the Director through the District Inspector.

95. Managers and Accountants of Banks should be appointed by their Boards and not by the Director who should accord his approval to such appointments.

96. Supervisors should be controlled by the Banks and should work under the Manager's control.

97. A Supervisor should be in charge of 50 to 60 societies. His pay should be Rs. 25- $\frac{1}{2}$ -30 for the lower grade and Rs. 30- $\frac{1}{2}$ -35-1-40 for the upper grade. He should be paid Rs. 8 p. m. as fixed travelling allowance and should be given one peon.

98. The cost of the Supervisors and their peons should be borne entirely by the Banks.

99. Arrangements be made for the training of supervisors.

100. Unless a Supervisor has had proper training he should not be confirmed in the upper grade.

101. Arrangements should be made to train Secretaries.

102. A Secretary should be required to manage 10 to 12 societies.

103. His pay should be Rs. 15- $\frac{1}{2}$ -18 in the lower grade and Rs. 18- $\frac{1}{2}$ -22 in the upper grade.

104. The Secretaries should be paid by Government out of a fund to be annually collected from societies at 1 $\frac{1}{2}$ per cent on the amount of ordinary loans due from their members, to be supplemented by a Government subsidy.

105. The appointments, transfers, etc., of Secretaries and Supervisors should be entrusted to a Central Committee for each District or Circle as may be found convenient. The Committee should consist of officials and non-officials, the latter being representatives of societies and Banks.

106. The extra expenditure entailed by the training of Government and Bank Staff, should be met out of the funds earmarked for rural reconstruction.

107. To avoid confusion, the designations of the various officers should be changed. The Director of Co-operative Societies should be styled as Registrar. The District Officer should be an Inspector and his subordinate a Sub-Inspector. The Suba should be President of the District Bank and its Board should have a Chairman. Its supervising officer should be a Supervisor and a superior officer in this line should be a Senior Supervisor.

136. Lines of Future Development.

108. The Banks must be made strong and self-sufficient and their composition should be of a mixed type.

109. The Banks Act should be repealed.

110. The Banks should be governed by the Co-operative Societies Act to be suitably amended.

111. The Boards of Banks should have 7 to 11 Directors of whom a part should be elected by individual share-holders and a part by societies, one to three being Government nominees.

112. The Subas should be the Presidents of Banks but not of the Boards.

113. The Boards should have elected Chairman.

114. There should be an Advisory Council of 3 to 5 members for each Bank with the Suba as its President. The other members should be official and non-official nominees

of Government and elected representatives of share-holders. In the case of Pargana Banks the place of the Suba should be taken by the Tahsildar.

115. Societies and the Central Banks in Esagarh and Sheopur Districts should be re-organised on the lines of those in the Bhilsa District.

116. Two Apex Banks should be established, one at Lashkar and the other at Ujjain. Their composition should be of a mixed type. All District and Pargana Banks should be affiliated to them. They should keep their reserve and other funds with the Apex Banks. All State funds in the Co-operative movement should pass through the Apex Banks.

117. Arrangements for long-term credit, supported by the mortgage of landed property, will have to be made by organising Land Mortgage Banks. But before conditions are ripe for the establishment of such Banks, this business should be managed by the Apex Banks through a special department.

118. The Boards of the Apex Banks should consist of officials, nominated members and representatives of affiliated Banks and societies.

119. For the first few years, the Chairman and the Manager of each Apex Bank should be officers of Government.

120. The existing State loans made to individuals for land improvement should be transferred to the land mortgage sections of the Apex Banks. Big loans made by societies to individual members should also be similarly transferred.

121. Individual societies or groups of societies, where conditions require it, should be re-organised on the lines of societies in Bhilsa District.

122. Societies beyond cure should be wound up at once and new societies should be started where prospects are favourable.

123. Advances of loans out of State funds for the convenience of trade through Hundi Committees, constitute a useful facility and they should be continued and co-ordinated with the business of the Apex, Central and Urban Banks.

124. Occupations subsidiary to agriculture will have to be found to supplement the poor earnings of cultivators and the Departments of Agriculture, Industries and Revenue should devise measures in this behalf.

125. Public-spirited non-officials should be induced to interest themselves in the Co-operative movement.

126. Co-operation and Rural Re-constructon are intimately connected. They should not be considered apart from each other.

127. Economic surveys of the different parts of the State should be carried out with a view to undertake a programme of rural improvement.

128. Officers and servants of the State should be induced to organise themselves in co-operative societies, and loans out of Government funds may be given to them not directly as at present but through their respective societies.

129. Propaganda should be carried on through qualified officers among the people of different classes in urban areas and they should be induced to organise various types of societies.

130. Two special officers should be appointed to carry on propaganda in rural areas and they should educate the people and explain to them the benefits of the Co-operative movements

131. Training classes should be conducted for the training of officers and workers in the movement. Arrangements should first be made to get a batch of teachers trained for the purpose.

132. A batch of officers should be deputed to suitable centres like Bombay or Poona for being trained as teachers.

133. The ultimate aim is that the affairs of all co-operative institutions should be guided and controlled by their own representatives and that the Government Department should only ensure the proper observance of the provisions of the Act, the Rules and the Bye-laws.

134. Government officers should find out and encourage non-official workers.

135. An Advisory Council of active workers and representatives of institutions in the various Districts, should be established. The Director should consult and take into his confidence this Council in respect of measures to be adopted for the development and progress of the movement. The Council should meet once or twice a year to discuss problems of co-operative interest.

136. A conference of representatives of co-operative institutions should be held periodically under the auspices of the Department.

137. The Annual Report of the Co-operative Department should be more exhaustive and should deal with important questions in relation to the progress of the movement.

138. Government should formally declare its determination to do all that is necessary to place the movement on a sound footing and to promote its healthy growth.

139. Soon after this report is considered by Government, a conference of officials and non-officials connected with and interested in the Co-operative movement, should be called and the programme of work to be taken in hand should be placed before it.

137. Five-Year Plan.

140. All the recommendations of this report cannot be put into operation at once. But some of them can and should be given effect to immediately. In connection with the others, the necessary preliminaries should be taken in hand without delay.

141. Measures for improvement being inter-dependent, a beginning will have to be made all along the front.

142. A rough plan of the work to be done is sketched. It is intended to be completed in the course of five years.

143. As the plan is being carried out, difficulties may arise and changes may have to be made. These questions will have to be solved when they crop up.

144. Amendment of the Co-operative Act, repeal of the Banks Act, framing of Rules and amendment and making of Bye-laws will have to be taken up immediately.

145. Re-arrangement and re-adjustment of the departmental staff and the appointment of officers can be made immediately and the Department's budget for the current year provides for such changes.

146. *Pari passu* with these changes, the Banks will have to be given detailed instructions as to the alterations they are expected to introduce in their system of working, their staff and their constitution.

147. A Five-Year Plan is sketched.

CHAPTER XI.

CONCLUSION.

138. Acknowledgments.

In concluding this report I have to express my sense of thankfulness to all those officials and non-officials, who each in his own way, assisted the enquiry. From beginning to end, the whole programme was carried out in an atmosphere of helpfulness and courtesy and it is not possible even to mention the names of people and to indicate the nature of the help received from them. I can only refer here to the Introductory Chapter and the Appendices. I must, nevertheless, specifically acknowledge the valuable services which Messrs. Chitale and Apte rendered in the conduct of the investigation. Their varied experience and familiarity with the detailed working of societies and Banks were a great asset. The Board of the Poona Central Co-operative Bank deserves my sincere gratitude for facilitating Mr. Chitale's co-operation in the execution of my task.

The author of an enquiry like this, is pleased with nothing more than the assurance that his advice, so far as practicable, will be translated into action, calculated to benefit the large number of people for whose well-being it was undertaken. It is a sincere pleasure to me to know that the authorities in Gwalior will permit no delay in the consideration of this report and the implementing of approved recommendations. They have already given effect to important suggestions I made in advance of the completion of this report. Sincere congratulations and thanks are due to the Darbar for this promptness of action. It makes the outlook peculiarly hopeful.

POONA,
20th August, 1937.

}
V. G. KALE.

APPENDIX I.

ITINERARY.

Date.	Journey undertaken.
19-2-1937 ..	Reached Gwalior.
21-2-1937 ..	Pachhar.
22-2-1937 ..	Futera, Singwasa, Devakhedi, Patharia and back to Pachhar.
23-2-1937 ..	Nateran, Meheluva, Khajurideo, Bhilsa.
25-2-1937 ..	Dholkhedi and back to Bhilsa.
26-2-1937 ..	Gwalior.
1-3-1937 ..	Kashipur, Purani Chhavani and back to Gwalior.
2-3-1937 ..	Dabra and back to Gwalior.
5-3-1937 ..	Joura, Ghadore and back to Joura.
6-3-1937 ..	Sabalgarh.
7-3-1937 ..	Bijaipur.
8-3-1937 ..	Dorad, Sheopur.
10-3-1937 ..	Kanapur and back to Sheopur.
11-3-1937 ..	Gwalior.
13-3-1937 ..	Morena and back to Gwalior.
15-3-1937 ..	Morena and back to Gwalior.
16-3-1937 ..	Bhind.
18-3-1937 ..	Gwalior.
24-3-1937 ..	Shivpuri.
25-3-1937 ..	Kolaras and back to Shivpuri.
27-3-1937 ..	Gwalior.
30-3-1937 ..	Bhilsa.
1-4-1937 ..	Ujjain.
3-4-1937 ..	Kaliyadeh and back to Ujjain.
4-4-1937 ..	Badnagar and back to Ujjain.
5-4-1937 ..	Shajapur.
6-4-1937 ..	Barwal and back to Shajapur.
7-4-1937 ..	Shujalpur, Ujjain.
9-4-1937 ..	Agar.
10-4-1937 ..	Susner.
11-4-1937 ..	Ujjain.
12-4-1937 ..	Neemuch.
13-4-1937 ..	Jawad and back to Neemuch.
14-4-1937 ..	Chitorgarh.
15-4-1937 ..	Mandsaur.
17-4-1937 ..	Ratlam.
18-4-1937 ..	Sardarpur.
19-4-1937 ..	Bag and back to Sardarpur.
20-4-1937 ..	Ratlam—Left the Gwalior State.

APPENDIX II.

QUESTIONNAIRES.

Questionnaire No. 1 (General).

Banks.

1. Should the whole Board of Directors be elected annually or should only 1/3 of the Directors be elected annually ?
2. Should there be Directors on the Board representing societies to be elected by them annually? If so, what should be the proportion of such Directors ?
3. Should the money-lenders, and especially those dealing with members of Co-operative Societies, be disqualified from standing as candidates for Directors' election ?
4. Do you advocate the principle, generally accepted by co-operative institutions, of having one vote per member both for individual share-holders and for representatives of societies attending General Meetings of the Bank ?
5. Would you prescribe any qualifications such as that of education or of holding a minimum number of shares for candidates standing for the Directors' election ?
6. Should the Banks make their own arrangements for the inspection of societies, distribution of loans and recovery of their dues by appointing their own Inspectors, who should be directly responsible to the Bank ?
7. Is it necessary to have Honorary Managing Director for a Bank ? If so, what should be his qualification, position, powers, responsibilities and duties ?
8. The Senior staff of the Bank and at times even the Junior one is appointed and virtually controlled and transferred by the Co-operative Department. Similarly the Budgets of the Banks are sanctioned by the Department though they are formally prepared by the respective Boards. Would you recommend that these powers should be entirely given to the Banks ?
9. The employees of the Bank have no security for the continuity of their service, their pay, promotion, leave, etc., nor are they properly trained. What remedies would you suggest to guarantee this security and to give them necessary training ?
10. Do you not appreciate the importance of ascertaining Bad and Doubtful Debts due from societies and from individual borrowers from time to time and of providing for such debts out of allocation from the annual profits of the Banks ?
11. Please supply the figure of bad debts due from your societies or individual loan-holders as on 30th June, 1936, and the amount out of the same that will have to be 'written off' definitely.
12. The Banks have not introduced internal audit of their accounts. What are your suggestions regarding the same ?

13. The Banks do not include the amount of the accrued interest due to them at the close of the year anywhere in their published Balance Sheets. Would you have any objection to include this figure in the Balance Sheets, provided that it is not taken into account while determining their divisible profit for declaring dividend?

Societies.

14. It is noticed that the number of members of Co-operative Societies changes every now and then as some of the villagers are required to leave their village for one reason or the other. What is the reason of this and what remedy would you suggest to induce the members to stick to their villages permanently?

15. Non-occupancy tenants and sub-tenants are financed by Co-operative Societies at the risk of their running away from their villages. Would you at all recommend that such members should be financed by Co-operative Societies?

16. In the profits of a Co-operative Society which are transferred to the Reserve Fund, in full, is included the amount of accrued interest due to it. Would you recommend that the Profit and Loss Statement of a Co-operative Society should be based on its actual income and expenditure in the year?

17. How many societies in your District are solvent from their Haisiyat point of view? Detailed information should be given on the following lines:—

- (1) Number of societies whose collective Haisiyat (based on the valuation of members' movable and immovable property) exceeds three times the collective loans due from the members.
- (2) Number of societies whose collective Haisiyat (based on the valuation of the members' movable and immovable property) exceeds twice the collective loans due from the members.
- (3) Number of societies whose collective Haisiyat (based on the valuation of the members' movable and immovable property) exceeds the collective loans from the members.
- (4) Number of societies whose collective Haisiyat (based on the valuation of the members' movable and immovable property) is less than the collective loans due from the members.

18. Please supply another statement giving information on the above lines but while considering the members' assets the value of their immovable property only and not of movable property should be taken into account.

19. Please supply the number of members of agricultural co-operative credit societies under the following heads:—

- (1) Zamindars, (2) Occupancy tenants, (3) Non-occupancy tenants
- (4) Sub-tenants and (5) Others.

General.

20. Is it desirable for a District Bank to receive directly in its office from the members of Co-operative Societies their dues to their societies? If such a facility is to be given, what remedy would you suggest to minimise the clerical and account work in the office of the Bank?

21. At present the Haisiyat Register of Co-operative Societies is prepared by the Secretary, but the information recorded in it is at times found to be incomplete or unreliable. What would you suggest to get this information correctly recorded?

22. How should the assets of a member be valued? Detailed suggestions for valuing the Zamindari rights, the rights of occupancy and other immovable property should be given.

23. Should the movable property of a member be included in the Haisiyat Register? If so, have you any suggestions for valuing the same?

24. Should the loan-limit of a member be fixed on the valuation of his assets coming under 22 above or under 22 and 23 taken together?

25. What, in your opinion, would be the best scale for determining the maximum loan-limit of a member?

26. While fixing the limit under 25 above, should the loans due by a member to his other creditors, whether on specific security or otherwise, be taken into consideration? If so, what are your suggestions in that connection?

Questionnaire No. II.

(For Auditors.)

1. Has any effort been made in the case of banks and societies to safeguard the interests of the latter as being comparatively the weaker bodies? If it has been made, what are the results? If it was not made, why was it so?
2. Have auditors made constructive suggestions in the matter of policy to banks? Have these been communicated to the Department? If they have been, what steps have been taken to give effect to them?
3. Is audit with you a matter of mere technical testing of the correctness of accounts or do you go behind the figures and examine the system of management?
4. In the audit of societies, do you ever come into close contact with members of societies? Is your audit a means of education to these people? Or, do you leave these matters to the Supervisors and Secretaries?
5. As a result of your audit, do you make suggestions for improvement and do you discuss different important questions with Supervisors and Inspectors and with Boards of Banks?
6. Do you believe that the bank's provision for bad and doubtful debts is sufficient? Is an estimate made from time to time of doubtful debts and debts that are likely to turn out bad? Are there any data available to estimate doubtful debts?
7. Do banks look merely to their profits and are they indifferent to the position of societies? Do they regard themselves merely as middlemen distributing loans and collecting them through Inspectors?
8. Will the situation improve if banks are allowed to appoint and control their own Inspectors and Supervisors? If this is done, how should the expenses of inspection, supervision and secretaries' work be allocated as between the banks and the societies and the Government?
9. What, in your opinion, would be an economic unit for an average bank? Will a bank with a total amount of one lakh or one lakh and a half lent out to societies at 7 per cent be able to function successfully? Or is a larger unit necessary for a bank to be run profitably? Which of the existing banks you think are too small to be able to run profitably?
10. Do you think it desirable to merge small banks into larger ones? Show how this may be done by giving examples.
11. Is it practicable to improve the position of the banks by their being allowed to lend to individuals on proper security? Is the present system of short-term loans with Bankers desirable? How will you improve or replace it?
12. If the banks are not truly co-operative in spirit and working, how will you improve them and make them co-operative? Do you think it possible to secure the right type of Directors, who will work as true co-operators? If not, what is the remedy?
13. Work out a model Balance Sheet and Profit and Loss Account of a bank, of what you consider a reasonable size and show how it should be organised and worked.

14. Should Pargana Banks be turned into branches of a District Bank or will it be better to keep the Pargana Banks and improve and make them more efficient?

15. Do you think that the interference of higher Government Officers in the internal affairs of Banks resulted in inefficiency? Do you know instances of these interferences, *e. g.*, in the granting of loans and in appointing Bankers and in keeping particular sums with them? Do you think it justified and desirable? Do you think that the Directors of Banks will carry on successfully if they are freed from interference and control from above? If control is necessary, how should it be exercised?

16. If the work now being done by the Government Inspector, except of attachment and sale of defaulters' property, is allowed to be done by the employees of the Bank entirely under the control of the Board of the Bank, will this arrangement work successfully?

17. Do you think that overdues of the members to societies, and of the latter to the banks may be recovered? When and how should overdue interest and principal be recovered?

18. What is the percentage of societies that may have to be liquidated owing to irrecoverable debts? Are extensions necessary?

19. Is a special investigation necessary in each tract for this purpose?

20. What, in your opinion, would be fair rate of interest that banks may charge to societies and the latter to their members?

21. What evidence is there to show that assets of members of societies are greater than their liabilities? Is an estimate of assets made each year or once in many years? Can such an estimate be reliable?

22. With the large fall in prices that has taken place, what is the average ratio of assets to liabilities of members of societies?

23. Do you think that scrutiny of the accounts of each society is necessary for the purpose of ascertaining the above ratio and the financial position of the societies?

Questionnaire No. III.

(For Inspectors.)

1. What remedies would you suggest for improving the condition of societies which have deteriorated owing to the depression?

2. Have you ever tried to ascertain how much credit should be allowed to a member of a society for one bigha of land in the different tracts? Give facts and figures from your experience.

3. How do you ascertain the repaying capacity of a member? Are the loans given adjusted to this capacity?

4. Do you think it practicable to start new societies in villages where they do not exist to-day? What preliminary steps should be taken before a new society is started?

5. Do the Secretaries and Supervisors do their work in a truly co-operative spirit, that is, with the genuine desire to improve and help the cultivator?

6. Are these officers, on the average, qualified men? That is, men who know their work, the correct methods of keeping accounts and co-operative practice generally?

7. What is the average holding of land in your tract and what would be the average net income for a bigha to the cultivators?

8. Do members of societies carry on any subsidiary occupation, such as carting, cattle-breeding, dairying, etc.?

9. Do you think it practicable to introduce subsidiary industries among members of societies? Name such industries and demonstrate their practicability.

10. Is it necessary to wind up, re-organise or amalgamate any of the existing societies? Give an idea of the number and present situation of such societies.

11. Are Sub-Inspectors and Inspectors able to exercise real control on the members of societies and try to teach them the methods and advantages of Co-operation?

12. Differentiate the work that is done by (1) Secretaries, (2) Supervisors and (3) Inspectors in respect of distribution of loans and recoveries, keeping accounts, auditing, co-operative education, propaganda, etc.

13. Have you any suggestions to make in respect of placing the relations between Banks and societies on a better footing? Under whose control should Inspectors, Supervisors and Secretaries be placed so that their duties may be discharged more efficiently?

14. Is it a proper position for the Inspector to occupy when he is expected to do the ordinary work of the Bank and is responsible to the Government Officers of the Co-operative Department? Should not the Inspector be really a Bank employee?

15. What evidence is there to show that assets of members of societies are greater than their liabilities? Is an estimate of assets made each year or once in many years? Can such an estimate be reliable?

16. With the large fall in prices that has taken place, what is the average ratio of assets to liabilities of members of societies?

17. Do you think that a scrutiny of the accounts of each society is necessary for the purpose of ascertaining the above ratio and the financial position of the societies?

APPENDIX III.

List of Officers from whom Replies to the Questionnaires were received.

1. The Suba, Sheopur District.
2. The Suba, Narwar District.
3. The Suba, Esagarh District.
4. The Suba, Bhilsa District.
5. The Deputy Director of Agriculture, Malwa Circle.
6. The Assistant Director, Co-operative Societies, Bhilsa.
7. The Inspecting Officer, Co-operative Department, Gwalior.
8. The Chief Auditor, Co-operative Department, Gwalior.
9. The Boundary Officer, Gwalior (Mr. Saraswati Charan).
10. The Inspector, Co-operative Societies (on Special Duty), Purani Chhavani Development.
11. The Auditor, Co-operative Societies, Gwalior (Mr. R. S. Chandorkar).
12. Do. do. do. (Mr. H. M. Yaqub Khan).
13. Do. do. do. (Mr. Lakshmi Sahai).
14. Do. do. do. (Mr. Raghunath Sahai).
15. Do. do. do. (Mr. I. S. Gupta).
16. Do. do. do. (Mr. A. N. Phalke).
17. Do. do. do. (Mr. Om Prakash).
18. The Inspector, Co-operative Societies, Pargana Gird.
19. Do. do. do. Pichhore (Gird District).
20. Do. do. do. Mastura.
21. Do. do. do. Bhandar.
22. Do. do. do. Bhind.
23. Do. do. do. Mehgaon.
24. Do. do. do. Lahar.
25. Do. do. do. Gohad.
26. Do. do. do. Jaura.
27. Do. do. do. Ambah.
28. Do. do. do. Nurabad.
29. Do. do. do. Sabalgarh.
30. Do. do. do. Sheopur.
31. Do. do. do. Bijaipur.
32. Do. do. do. Shivpuri.
33. Do. do. do. Kolaras.
34. Do. do. do. Karera.
35. Do. do. do. Pichhore (Narwar District).
36. Do. do. do. Pachhar.
37. Do. do. do. Mungaoli.
38. Do. do. do. Bajrangarh.
39. Do. do. do. Kumbhraj.
40. Do. do. do. Bhilsa.
41. Do. do. do. Basoda.
42. Do. do. do. Ujjain.
43. Do. do. do. Badnagar.
44. Do. do. do. Khachraud and Sonkach.
45. Do. do. do. Shajapur.

46. The Inspector, Co-operative Societies, Shujalpur.
 47. Do. do. do. Agar and Susner.
 48. Do. do. do. Mandsaur.
 49. Do. do. do. Suvasra.
 50. Do. do. do. Jawad.
 51. Do. do. do. Neemuch and Gangapur.
 52. Do. do. do. Amjhera.
 53. Do. do. do. Pargana Bakaner.
 54. Mr. Mathura Prasad, Director, Gird District Bank, Ltd.
 55. The Managing Director, Bhind District Bank, Ltd.
 56. The Managing Director, Tawarghar District Bank, Ltd.
 57. The Managing Director, Narwar District Bank, Ltd.
 58. The Manager, Narwar District Bank, Ltd.
 59. Mr. Krishna Vallabha Mittal, Director, Narwar District Bank, Ltd.
 60. The Managing Director, Esagarh District Bank, Ltd.
 61. Mr. Bankelal Shrivastav, Director, Esagarh District Bank, Ltd.
 62. The Managing Director, Bhilsa District Bank, Ltd.
 63. The Managing Director, Amjhera District Bank, Ltd.
 64. The Managing Director, Gangapur Pargana Bank, Ltd.
 65. The Managing Director, Agar Pargana Bank, Ltd.
 66. The Managing Director, Susner Pargana Bank, Ltd.
 67. The Managing Director, Shajapur District Bank Ltd.
 68. Mr. G. S. Joshi, Director, Shajapur District Bank, Ltd.
 69. Mr. Lakshmichand, Director, Shajapur District Bank, Ltd.
 70. Mr. Devi Singh, Director, Shajapur District Bank, Ltd.
 71. The Director of Shajapur District Bank, Ltd.
 72. Mr. Lal Mahomed Quoreshi, Supervisor, Ujjain Bank.
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APPENDIX IV.

**Questions for Mr. G. K. Lele, Deputy Director of Agriculture,
Malwa Circle, and his Replies.**

DEAR MR. LELE,

I shall feel thankful if you will kindly supply me information and your suggestions on the following points:—

1. Special features of the different districts or tracts of the State from the point of view of the present condition and development of agriculture.
2. The nature and extent of damage to crops owing to cold snaps or rust, etc. The steps necessary to resist these dangers.
3. Effect of natural conditions, peculiarities of soil, climate, rainfall, etc., on the agricultural industry in different tracts and their economic condition, *e. g.*, population, wages, etc.
4. Extent of irrigation and possibilities of its expansion.
5. Condition of cattle, cattle-breeding and steps necessary to improve it.
6. Industries subsidiary to agriculture, what new openings are there, and how can the old industries be protected and revived?
7. The help that village industries, such as cattle-breeding, dairying and fruit-culture, require in the way of finance, organisation and propaganda.
8. What scope is there for co-operative organisation and finance in promoting development of rural industries?
9. Improvements required in marketing of crops. Can Co-operative Sale Societies help the cultivators in holding their produce for good prices and affording finance for the sale of produce?
10. Can existing Banks take part in the above operations? What is the position in this respect in markets at Ujjain and other distributing centres?
11. Suggestions on other and allied subjects.

Yours sincerely,
V. G. KALE.

To

G. K. LELE, Esq.,
Deputy Director of Agriculture, Ujjain,

No. 1823/17-4-1937.

Ujjain,
17th April 1937.

From

G. K. LELE, Esq.,

Deputy Director of Agriculture,

Malwa Circle.

DEAR MR. KALE,

Your communication of 8th instant from Camp Ujjain contains eleven items which I attempt to answer in *seriatim* as below :—

(1) Malwa Division of the Gwalior State comprises of five districts, namely, (1) Bhilsa, (2) Shajapur, (3) Ujjain, (4) Mandsaur and (5) Amjhera. The geological surface of land in the first four districts consists of volcanic trap rocks, giving black soils spread in unequal depths all over. It is only in Mandsaur Pargana and Bag Tappa of Amjhera District and Neemuch and Jawad Parganas that we get a different geological history.

The black soils derived from trap rocks, form the major portion of the land surface of the division and these are really very important from the point of view of agricultural production, which forms the source of wealth of the country. The rest of the land is unimportant, being capable of growing only the minor crops.

Shajapur, Ujjain and Mandsaur Districts have been getting enough rains for the farming community to be able to grow Kharif as well as Rabi crops for several years past. Famine of food or fodder is practically unknown in these three districts. Amjhera District, especially Manawar Pargana and Bag Tappa, has suffered through deficiency of rainfall, although there has been no cause for anxiety due to excessive rainfall. Bhilsa District, especially the Bhilsa Pargana, has suffered immensely due to excessive rainfall, rust disease and the material condition of the Ryot has suffered to an unprecedented extent.

The country has three distinct seasons, namely, (1) Monsoon, (2) Winter, and (3) Summer and has got two distinct types of cropping, namely, Kharif and Rabi. During the summer the crops have to be sustained on irrigational water. The atmospheric temperature varies between 40°F to 114°F, according to the season. This range of variation does not affect the normal growth of crops. Occasionally a sudden drop in the atmospheric temperature, to as low a degree as 32°F causes damage to the standing crops, namely, cotton in the Kharif group and wheat in the Rabi group. This feature also tells adversely on sugarcane, fruit plants and even the forest growths.

The present farming is the outcome of the natural expression of the environs, utilised by the population of the country. To-day's condition of agriculture, is proving unremunerative, although the kind and quality of produce derived from land, has not deteriorated or diminished. The world depression is being felt keenly by the traders and the farmers generally and the depletion of wealth has reached a stage of virtual bankruptcy. The debt figures are simply colossal. It is really a very hard job to set this primary industry in order on which other industries also depend for fostering. But it is possible and only through the well-planned system and organisation as will be borne out by the subsequent paragraphs.

(2) There are four calamities, that come either singly or in combination and cause damage to crops generally. These are (1) Excessive rainfall, (2) Deficient rainfall, (3) Frost, (4) Rust, (5) Locusts. With regard to excessive rainfall, it may be noted that this factor causes some damage in the shape of soil erosion and water logging. Soil erosion is a loss occurring more of permanent nature, while due to water logging, it is only the crops that suffer giving subnormal out-turns. The areas suffering from water logging are cultivated and can be planted to Rabi crops. But to prevent soil erosion, the process of opening shallow lands and having bigger fields should be put a stop to. Bunding of fields should be encouraged.

Deficient Rainfall.—This is a very bad feature and endangers the human as well as cattle life. To overcome the bad effects of rainfall deficiency, field bunding and the dry farming methods of cultivation should be encouraged. Whereas the methods of dry farming are under the practice of the people, the bunding is practically an unknown thing in this country. This feature should be studied and adopted.

Frost.—Frost which was an occasional feature ten years ago, is proving to be an annual phase, and it has been responsible for incalculable loss to the farming industry. Cotton, sugarcane, fruit plants, gram, linseed and wheat have suffered partial or total destruction depending upon the intensity and duration of the frost witnessed during the last ten consecutive years. Early maturing cotton, early maturing sugarcane, late maturing wheat are being adopted to suit the avoidance of frost effects. Frost-resistant wheats exist in other parts of the world. But their introduction seems problematic until the problem is worked out and substantiated by experimental results. A change in the sowing time may prove a solution so far as the gram crop is concerned or else the Rabi areas will have to be absorbed for Kharif cultivation. In fact the frost and excessive rainfall combined appear to necessitate a change in the farming of the country.

Rust.—Rust-resistant types of wheat have to be found out and their suitability for average increased production has to be tested, particularly for Bhilsa District.

Locust.—Measures to combat the locust are needed to be taken simultaneously with the other parts of India, although the home of the locusts and their periodical appearance is being determined by world Scientists.

(3) The effect of natural conditions on the agricultural industry, existing in the different districts, is detailed fully in item I. How the conditions affect the economic working, that is to say, population, wages, etc., is expressed hereafter. The population generally is sparse. The country could sustain greater intensity of population, to the advantage of the State. Nature has been bountiful. It is really the human exertions that are lacking for the production of wealth and increased population is one of the healthy solutions of the problem. In agricultural industry, when the field operations have to be carried on simultaneously the dearth of labour is experienced by every tenant. In fact, foreign periodic labour flows into the State from outside renders considerable help to the State farmers especially for harvesting the crops.

Wages.—The scale of wages paid for some permanent or casual labour varies from operation to operation done in field and from period to period of the year. The wages are higher at planting and harvesting times. Otherwise the wages could be classed poor in the sense that the payment made for work is hardly enough for meeting the sustenance of the family of the labourer.

The scale of wages close to cities and towns is comparatively higher and pretty satisfactory.

(4) Taking into consideration the total cultivated area, area under irrigation is inappreciable. But irrigation would be found practised in every village and is looked upon as a reliable and genuine source of income. Of course, the little irrigation that is done, is almost entirely from wells. So to say wells form the principal source of irrigation. The geological formation of the country which is volcanic and plateauic, is far from being satisfactory, from the point of view of water supply to the wells, and this feature becomes apparent when one observes the extent of water supply in the wells in the seasons of the year. During the rainy season, all wells have plentiful supply of water, very often water overflows. With the disappearance of rains, the water level begins to sink till the summer, and during the summer, the majority of wells go dry. The supply of subterranean water is nil and there is no possibility of increasing the water supply of the existing wells by deepening them unduly. The nature of natural water supply being such, the farmer depends upon such irrigational sources as are available during the rainy and winter seasons. Occasionally wells with a constant supply of water throughout the year are met with, and these alone are really valuable from the point of view of agriculturists for intensive farming. I desire to note that every farmer, who owns a land-holding, must necessarily be equipped with at least one well that would enable him to grow money crops, and incidentally, provide for employment of his family labour all through the year. This measure eventually also proves as insurance against famine.

The storage water tanks are to be found in a few places here and there in the districts. Small canals constructed to carry and feed the underlying fields with irrigational water have been constructed at high cost. None of the tanks seems to be paying its way, perhaps for two reasons: (1) unsatisfactory nature of supply and distribution of tank water and (2) faulty method of application of water on behalf of the farmer. This state of affairs stands in need of correction as waste of money. Wastage of water and loss over crop grown in the commanded area have occurred. The problem is not at all difficult to solve though it is a serious one. The wells lying in the commanded zone under the tanks, generally, are capable of giving free and full supply of water to nearby fields. The number of such tanks, should be increased only after the working of the existing tanks is set in order and is proved to be remunerative. Deepening of the existing wells, where necessary, and creation of more storage tanks, are sure to become a potential source of wealth to the country.

Irrigation from streams, rivulets and rivers is negligible. But there are sites that indicate that these could be harnessed for the use of the public of the country. This sort of development forms an independent subject, and stands in need of a survey, calculation and scrutiny. It is enough to make allusion to the subject here.

(5) The condition of cattle corresponds to the condition of wells. The cattle prosper during the rainy season, in consequence of abundant grass, which becomes available for grazing to them. The interior pasture lands are usually used for the grazing of live-stock, whereas from superior pasture lands, grass is cut and stored as hay for future use of cattle. The live-stock remains in normal condition during the winter as they get some feeding from the superior pasture lands after grass cutting has been finished. But with the coming of summer with nothing to feed on in pastures, the cattle begin to get thin and lean, and are virtually left to find food for themselves, except-

ing such animals as yield milk or ghee production. It is the plough bullocks that receive hay or jowar stock, kept in store for them. The concentrated food is as a rule given only to milking animals. Even the plough bullocks fail to receive any sort of concentrated food. The result is that numbers of calves and dry cows die of starvation or readily succumb to epidemics annually.

Cattle-breeding.—Fortunately the country having remained free of cattle movements from other parts, there exists a good deal of purity of blood amongst cattle. The fundamental principles of breeding are partly known and partly unknown to the local breeders. It is true that in virtue of some knowledge of breeding on the part of the local breeders and the existence of pastures in the country, a good number of bulls and bullocks, she-buffaloes, sheep and goat are annually exported by traders to Berar and Khandesh. The export of live-stock is a regular source of income to the breeders, traders and the State. Cattle-breeding prevails in Agar, Susner and Suvasra Parganas of the Malwa Division.

Steps necessary to improve Cattle-breeding.—Malwa cattle is famous throughout India for its draft power, longevity and its partial immunity from diseases. It is economical with respect to feeding. The Malwi cows are poor milkers. On account of negligence in feeding and breeding, the cattle have degenerated and if this process is allowed to continue longer it is bound to bring fatal results. To prevent deterioration and stimulate export trade, the first essential is that good breeding bulls are kept and used in adequate numbers in every village. Simultaneously with this provision, the policy of castrating the scrubbed young stock, should be vigorously pursued to stop indiscriminate breeding. The bulls form half the herd. Good breeding bulls need not be imported for this purpose as the necessary number of good breeding bulls could be obtained in the course of a few years in the country itself. The milk strain which is wanting in Malwi cow shall have to be improved in order to get in sturdier and large-sized progeny. This work may be entrusted to the charge of the Animal Husbandry Section of the Department of Agriculture. Propaganda will have to be undertaken to impress upon the minds of the farmers that it is in their interest, to keep quality animals rather than a large number which they are unable to maintain properly throughout the year. This awakening will simplify the question of cattle improvement.

(6) Industries subsidiary to agriculture are numerous. These are carried on hereditarily by families engaged in them and fulfil the wants of the villages. Weaving of cloth, of course, has suffered a serious set-back and this has happened due to more economic production of yarn in the mills. Nothing can be suggested at present as to how the village labour could be made successful to compete with machinery. I have to make only one suggestion with regard to the revival and protection of old industries, and it is this. These as carried on to-day, by different families and different villages, should be organically linked and brought under one organisation, so that the spirit of competition is created and the products are sold more or less at equal values. The collection of raw material, conversion of products into finished goods, the storage and distribution should be guided, supervised and financed by the corporate organisation. This will conserve the raw material and put the same to proper use. The second significant suggestion that I have to make here is about the waste lands that could be put and utilised under agave plantations. Every village practically has some portions classed as waste lands and these lands could be profitably utilised for growing agave, which is a

fibre capable of yielding fibre and cordage for home consumption and export purposes. Besides giving material and employment, etc., to the village folk, throughout the year, an export trade in agave fibres is likely to develop. The agave plantation would necessitate no capital nor any special care from the villagers. This would prove a very profitable opening to the village folk.

The third significant suggestion that I have to make is with regard to systematic planting of babul (*Acacia Arabica*) on waste and pasture lands of the villages, existing practically in every village. This suggestion is offered with four aims in view, namely, (a) to provide fuel for the villagers, (b) to give relief to farmyard manure which is turned into cakes and used as fuel, (c) to provide hedging material and (d) to provide wood for bullock carts and agricultural implements. Raising of babul plants, would require no capital nor any special care for the village folk. On the contrary, once the plants are established, they could supply the requirements of the village people as mentioned above. The agave and babul plantation should be developed and shared by the village folk on a commercial basis.

(7) The question of cattle-breeding has been dealt with to some extent under item V. Dairying is a separate proposition which will be dealt with presently. The object of dairying is threefold: (1) to supply standard milk to the population in required quantities, (2) to supply ghee, butter and cream to the population as well as for export trade and (3) to supply kascene, milk sugar, etc., to produce highly manufactured goods. There exists no breed fit for carrying on dairying business in Malwa Division. The cattle that exist are primarily meant for draft purposes. Animals of a breed suitable for dairying, will have to be imported and maintained in cities and towns, to start with, and these will have to be restricted to urban areas or to such areas where special facilities for dairying could be found. Dairying cattle, on the whole, would not prove suitable for draft and therefore these should not be permitted to mix with the local cattle indiscriminately. The buffaloes have some value for dairying but even they do not pay their way. It is my honest opinion that buffaloes would be easily better than cows for dairying purposes in the State. Buffaloes of good breeds, like cows of good milking breeds, will have to be imported and maintained.

Fruit Culture.—This is a line little known to the public although of recent years there is an awakening and response found from the public. People have not fully grasped the value nor the possibilities of fruit production. There is ample scope for fruit production, consumption and export. Now financing is the chief difficulty. The fruit plantation requires initial capital for a long term, which the public is unable to invest. A large variety of tropical fruit is possible to be raised, the limiting factors being (1) soil drainage, (2) frost, (3) irrigation water. No nurseries growing or dealing in seedling of fruit plants exist in the country. The State will have to take the lead in this matter and afford opportunities to the public for taking to fruit growing which has immense possibilities and scope.

Propaganda is needed in respect of cattle-breeding and fruit culture but not for dairying. Financing will be necessary for cattle-breeding to some extent but will be quite essential for dairying and fruit culture. Organisation is required for every item and the success principally depends upon the workers of the organisation. In case of cattle-breeding, the village community, as a whole, will have to be financed for the purchase of the required number of good breeding bulls. Investment made on this score should be non-interest bearing and realisable from the second year to

the fifth year in equal instalments from the village community. The bulls will remain the village communal property taken advantage of by every farmer and paid for by every farmer in proportion to the number of cows owned by him.

Dairying proposition, as I said before, is of a different nature and pertains to cities and towns and specially cities only. Dairying societies are likely to prove useful in attracting share capital of the urban public who can run the concerns to advantage. People doing milk supply business for cities and towns should be taken into confidence for establishing dairies. Individual loans that are given for well sinking, etc., on low rates of interest should be advanced to such farmers as are anxious to develop fruit plantations with adequate security. Such investments should also be non-interest bearing but recoverable by instalments commencing from sixth to tenth year. The development of fruit plantation is an affair requiring huge labour, long time, and enormous outlay. The Government should be particularly sympathetic and charitable to such people, who are really the pioneers of the industry.

(8) In my opinion, two groups of rural industries stand in urgent need of organisation and financing on co-operative basis. They are: (a) Poultry, Dairying, Wool and (b) Sugar-making, Fibre, Bee-making and Weaving. Many more industries can be added to the list but I consider that the ones referred to could be safely tackled under the present state of affairs with the rural people. Without such organisation and finance these industries can never hope to make headway. On the contrary, if no attempt is made to save them, these are destined to dwindle, leaving the population to the mercy of money-lenders, traders and other exploiters. Industries in group (a) would need initiation on part of the State. While those grouped in (b) are already in existence but are being conducted in an unsystematic fashion.

(9) Co-operative sale societies are extremely necessary to help the farmers in holding their produce for good prices. The societies will have to arrange not only for finance but also to look into grouping the various sorts of produce so that the collected material may be put in bulk of approved standards on the market for sale. At present the produce, though grown individually pure, is purchased by local traders and mixed up and then exported. This way, a good deal of merit and value, is lost for which the traders as well as the farmers suffer some loss. The produce brought in the market, should be classed on technical basis, and got into bulk after classification, so that the ultimate buyer can depend upon obtaining graded and classified stuff.

There are rules for marketing in existence. But the personnel of the markets is defective in as much as the cultivators' representation is negligible. The supervision of markets is imperfectly done. Some of the local buyers are also represented on the personnel of market control committees and they form the majority. There is considerable disparity in the period of payment, all of which, the farmers have quietly to bear, as otherwise, it would not be possible for them to sell their produce. I suggest that the State should have trade agents at important places, where the State produce finds its way or is consumed. The Co-operative Banks should afford the necessary finance, should arrange the necessary storage and should furnish samples to the trade agents in order to effect sales at premium prices. Co-operative Societies to buy and handle cotton and wheat should be particularly started, as both are world commodities and are produced here in good quality and quantity.

(10) The only Bank that I am aware of, is the Ujjain Branch of the Imperial Bank of India, advancing short-termed loans, to traders and merchants dealing in cotton and wheat. The Imperial Bank is doing immense

business and as far as I understand, it is doing business with profit. The Bank makes advances against goods in godowns, the goods are also duly insured against risk and damage and the goods are liquidated when the sale is effected. I believe there is a very scope for the State if they have such banks to deal with the agricultural commodities, such as cotton, wheat, jowar, gram and ghee, etc. There are no Banks at all taking direct part at other distributing centres. Big Firms like Volkart Brother, Ralli Brothers, Langley and Co., and some Japanese Firms make purchases in season and arrange payment through the Imperial Bank of India only.

11. *Suggestions*.—The Co-operative, Agricultural, Veterinary, Irrigation, Trade and Revenue Departments should be so interlinked that their joint working leads to easy handling and quick decisions with regard to matters affecting the prosperity of the public.

Seed and granaries should be established for every village.

Rural Industry Department will have to be created.

State Bank to provide finance will have to be established.

Facilities for setting up cotton mills, floor mills, Oil mills and sugar mills will have to be afforded to deal with raw material produced in the State.

NOTE.—The proposals and suggestions contained in this report have been put forward with due regard to the existing Land Revenue and other laws governing the administration of the country. The status and calibre of the public has also been duly kept in view in preparing the report. The object in view is that agriculture and industry should progress together, hand in glove, without which it is not possible to have a permanent and stable improvement of the State and its people.

APPENDIX V.

List of Officials and Non-officials specially consulted.

Esagarh District.

1. Mr. G. H. Chinchani, Suba, Esagarh District.
2. Mr. N. R. Jathar, Assistant Director of Co-operative Societies, Bhilsa.

Bhilsa District.

3. Mr. Ibne Abbas Abbasi, Suba, Bhilsa.

Sheopur District.

4. Mr. P. S. Mehta, Suba.
5. Mr. B. R. Bhalerao, Tahsildar.

Narwar District.

5. Captain S. R. Kadam, Suba.

Ujjain District.

7. Mr. Baburao Suryawanshi, Suba.
8. Mr. G. K. Lele, Deputy Director of Agriculture, Malwa Circle.
9. Mr. G. M. Hirwe, B. A., LL. B., Pleader, Ujjain.

Shajapur District.

10. Captain S. B. Ingle, Suba.
11. Mr. C. V. Naidu, Director, Shujalpur Pargana Bank.

Mandsaur District.

12. Mr. K. S. Kadam, Suba.
13. Seth Laxmi Narayanji, Managing Director, Mandsaur District Bank.

Amjhera District.

14. Mr. Mohsanulla Khan, Deputy Director of Co-operative Societies, Malwa Circle.
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APPENDIX VI.

Names of Societies to which Visits were paid and whose
Panchas were interviewed.

Northern Circle.

Esagarh District.

1. Futera.
2. Singwasa.
3. Devakhedi.
4. Pachhar No. II.
5. Patharia.

Bhilsa District.

6. Maharashtra Samaj, Bhilsa.
7. Ganesh Sahakari Naj Society, Bhilsa.
8. Hinotia Naj Samaj.
9. Dholkhedi.
10. Namwar.
11. Imlia.
12. Jiwajipur.
13. Khairai.
14. Silwa Khajuri.
15. Taj Khajuri.
16. Ghatmai.
17. Nataran.
18. Meheluva.
19. Saletra.
20. Raha Kalan.
21. Mankheda.
22. Khajuri Deo.
23. Amokhedi.
24. Sākalkhedi.

Gird District.

25. Dabra No. I.
26. Ramgarh No. I.
27. Ramgarh No. II.
28. Purani Chhavani No. I.
29. Purani Chhavani No. II.
30. Gangapur.
31. Purani Chhavani Better Living Society.
32. Kashipur.

Tawarghar District.

33. Alipur.
34. Kashipur.
35. Tindoli.
36. Baran.
37. Chandora.
38. Madia Khadu.

Sheopur District.

39. Kanapur No. I.
40. Kanapur No. II.
41. Kanapur No. III.
42. Kanapur No. IV.

Bhind District.

43. Bara Kalan.
44. Jamna.

Narwar District.

45. Rajpura.
46. Badodia.

Malwa Circle.

Ujjain District.

47. Paraspar Sahakari Patpedhi, Ltd., Ujjain.
48. Ujjain Teachers' Society, Ltd.
49. Ujjain Family Relief Assurance Society, I.td.
50. Bhairavgarh.
51. Kaliadeh No. I.

Shajapur District.

52. Barwal.
53. Mazania No. I.
54. Mazania No. II.
55. Maharkhedi.
56. Petlawad.
57. Bhilkhedi.
58. Agar No. I.
59. Tijarat No. I.

Mandsaur District.

60. Nayapur.
 61. Kamalhara, Mandsaur.
 62. Narsingpura.
 63. Kitiyani.
 64. Lalghati.
 65. Kanavati.
 66. Neemuch.
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APPENDIX VII.

Names of Societies Audited in Detail.

Esagarh District.

1. Futera.
2. Pachhar No. II.

Bhilsa District.

3. Hinotia.
4. Dholkhedi.

Gird District.

5. Khasori.
6. Badagaon No. III.

Tawarghar District.

7. Shivlal-ka-Pura No. I.
8. Shivlal-ka-Pura No. II.

Sheopur District.

9. Kanapur No. I.
10. Kanapur No. II.

Bhind District.

11. Bhind No. III.
12. Haibatpura.

Narwar District.

13. Badodia.
14. Joor No. I.

Ujjain District.

15. Khajuria Numavat.
16. Bhesod.
17. Dudarsi.

Shajapur District.

18. Haraipura.
19. Maniharwadi.
20. Agar No. I.
21. Tijarat No. I., Susner.

Mandsaur District.

22. Kitiyani.
 23. Lalghati.
 24. Manavati.
 25. Neemuch.
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APPENDIX VIII.

Names of Societies Super-audited.

Gird District.

1. Kashipur.
2. Tigra Kalan.
3. Chandral.
4. Ramgarh No. I.
5. Dabra No. I.
6. Kariawati No. I.
7. Kariawati No. II.

Tawarghar District.

8. Baravkhar.
9. Mariakhar.
10. Rathalkapura.
11. Dinari.
12. Alipur.
13. Kashipur.
14. Tiktoli.
15. Tindoli.
16. Deopur.

Sheopur District.

17. Radep.
18. Kanapur No. IV.
19. Bijiapur No. I.
20. Bijiapur No. II.

Bhind District.

21. Bara Kalan No. I.
22. Jamna.
23. Chhimka.
24. Nonari.
25. Mehgaon No. II.
26. Deori.

Narwar District.

27. Karera.
28. Dinara.
29. Kachipura No. II.
30. Rajpura.

Ujjain District.

31. Palkhanda.
32. Piploda Dwarkadhish.
33. Manpur.
34. Morukhedi.
35. Harnyakhedi.
36. Badnagar Tijarat No. I.
37. Lakshesra.
38. Badagaon.
39. Kamthana.

Shajapur District.

40. Bhilkhedi.
41. Meherkhedi.
42. Gadiwan Karwa.
43. Tijarat No. II, Agar.
44. Tijarat No. I, Susner.
45. Tijarat No. II, Susner.

Mandsaur District.

46. Nayapur.
47. Khilchipura.
48. Narsingpura No. I.
49. Kanavati.
50. Barukhara.
51. Jawad No. I.
52. Jawad No. II.
53. Gangapur No. I.
54. Gangapur No. III.

Amjhera District.

55. Chatbari.
 56. Amodia No. I.
 57. Antedi.
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