CHAPTER V

DEFECTS IN THE WORKING OF CENTRAL FINANCING AGENCIES AND THEIR RECTIFICATION

In the beginning when the primary credit societies were organized in the villages it was hoped that these societies would be able to raise sufficient funds locally to finance the need of their members. But this hope could not be materialised and it was soon felt that some intermediary between the rural credit societies and money market, which could supply finance to the former was necessary. This function had to be taken up by the new central cooperative financing institutions, as the existing joint stock banks were not found suitable for this purpose for three main reasons. Firstly the security offered by the societies was moral rather than material, which these commercial banks could not accept; secondly that these banks dealt in loans of very short term duration as compared to long term loans required by societies, and thirdly that the banks could not exercise adequate control over the working of the borrowing societies. To fill the lacuna therefore these new financing institutions took up two main functions; viz; (1) to supply finance to the affiliated societies and (2) to serve as their balancing centres.

TWO TYPES OF INSTITUTIONS: There are two types of central credit institutions in the State i.e. central banks and the banking unions. The chief differences between the two are (i) whereas central banks admit both individuals as well as societies as their members, the membership in banking unions is confined to societies only, (ii) The profits of the central bank are divisible subject to certain rules under the Cooperative Societies Act while that of banking unions are indivisible,
and (iii) The area of operation of a central bank is larger than that of a union. In case of a central bank this area of operation generally extends over one whole district or one or two tehsils, while in the case of a banking union it is generally confined to a part of tehsil, having a radius of 10 to 15 miles.

**DEFECTS IN THEIR WORKING**

Before dealing with the present day defects in the working of these financing agencies, a brief reference to the four main defects pointed out by Mr. Wace in his report on the Cooperative Movement in Punjab (1939) may not be out of place. These defects are:

(i) The heavy amount of overdue interest
(ii) Poor recoveries
(iii) Restriction of credit to societies and
(iv) Small provision of reserves against bad and doubtful debts.

Each of them is touched below in the light of recent trends:

(i) **Heavy Overdue Interest**: The problem of overdue interest in these institutions was not realized until the outset of the Great Depression (1929-33). All the interest accrued on loans due from the societies during the year, whether recoverable or irrecoverable was in the first instance credited to the profit and loss account of the year, and was ultimately carried to reserves. This falsely exaggerated both the profits and the reserves of these banks, due to the inclusion of all interest due even from bad societies a part of which may prove irrecoverable later.  

Put the figures of overdue interest began to rise so much after the year 1930 that the situation became alarming. This amount of overdue interest which was Rs.17 lakhs in 1931 rose to Rs.23 lakhs in 1933 and to

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1. In case of A, B & C class societies the interest becomes overdue if not paid within a year from the date of the principal loan issued while in case of 'D' class societies all the interest due at the end of the cooperative year i.e. 30th June becomes overdue.
Rs. 26 lakhs in 1934, as is evident from the following table also:

**Table No. XXIII**

Overdue interest due from Primary Credit Societies to Central Institutions (Rs. thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest recovered at the end of the year</th>
<th>Interest due over due</th>
<th>Suspense Interest Account.</th>
<th>Year</th>
<th>Interest recovered at the end of the year</th>
<th>Interest due over due</th>
<th>Suspense Interest Account.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930-31</td>
<td>37.98</td>
<td>23.52</td>
<td>17.15</td>
<td>1946</td>
<td>11.88</td>
<td>28.31</td>
<td>25.05</td>
</tr>
<tr>
<td>1934-35</td>
<td>22.02</td>
<td>34.00</td>
<td>28.34</td>
<td>1948</td>
<td>1.36</td>
<td>4.26</td>
<td>3.74</td>
</tr>
<tr>
<td>1936-37</td>
<td>23.52</td>
<td>41.00</td>
<td>35.07</td>
<td>1949</td>
<td>2.09</td>
<td>7.71</td>
<td>(1.52)*</td>
</tr>
<tr>
<td>1938-39</td>
<td>16.03</td>
<td>53.37</td>
<td>43.48</td>
<td>1950</td>
<td>2.95</td>
<td>8.56</td>
<td>8.45</td>
</tr>
<tr>
<td>1942-43</td>
<td>32.66</td>
<td>74.04</td>
<td>47.99</td>
<td>1952</td>
<td>3.51</td>
<td>10.30</td>
<td>10.07</td>
</tr>
<tr>
<td>1944-45</td>
<td>19.72</td>
<td>30.59</td>
<td>29.39</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Interest due from Muslim societies. The amount of interest overdue, but exact figures are not available.

As it was difficult to reverse this trend immediately, it was decided in 1935 that all the interest not paid by 'D' class societies at the end of a cooperative year, in future, should in the first instance be credited to the Suspense Interest Account. It should be credited to the Profit and Loss account only when the amount was actually realized. In case of overdue interest accumulated in the past, it was however to be carried to the Suspense Interest Account gradually. Later in 1937 it was further decided that the interest overdue in future from A, B and C class societies should also be carried to Suspense Interest Account instead of Profit and Loss Account. With this decision the position in this respect began to improve and the Suspense Interest Account which was Rs. 6 lakhs in 1935 rose rapidly to Rs. 37 lakhs in 1939. This however could not keep pace with the fast increasing amount of overdue interest. The reason was that since 1934 the concession was granted, to certain selected 'D' class

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1. While certain central banks carried only interest overdue for more than a year to the Suspense Interest Account, the banks having better financial position carried all the interest accrued but not paid before the close of the year, to the 'Suspense Interest Account'.
societies, under which the total amount recovered from them had to be credited to the principal account and the interest went on accumulating. So it was only after the year 1942 when this concession was withdrawn that this Suspense Interest Account fully balanced the amount of interest overdue. It may be noted here that the overdue interest itself has been decreasing from 1943 to 1947 due to better recoveries. This amount thus touched a low figure of 3 lakhs in 1947 as compared to Rs. 48 lakhs in 1943. Since partition again there has been a rise in the amount of overdue interest because of longer overdues from Muslim Credit Societies. It may be difficult to improve the position unless some settlement is arrived at between the two state Governments about the recovery of loans from the evacuee members.

(ii) Poor Recoveries of Loans: The recoveries of loans from societies, which had decreased during the Great Depression continued to be low till 1939, in spite of rise in the prices of agricultural commodities and various types of concession given to the societies. This was due to the moral degradation of their members, caused by the Agriculturists' Debt laws. It was only after 1939 when vigorous policy was followed by the Cooperative Department that the recoveries improved substantially. The percentage of recoveries which was as low as 22% in 1931, and 18% in 1939 rose to the high level of 41% in 1943 and 49% in 1946 and this may also be seen from the following table. The position in this respect has remained satisfactory even after the partition.

With a view to expediting the recovery of loans the banks have been giving various types of concessions to the societies and these particularly increased after 1935 (1) The rate of interest on all loans was reduced from 9% to 8% in 1933 with a rebate of 1% in case of recoveries in time. It was further reduced to 7% in 1936 with a rebate of 2%. (2) As stated above, special concessions were given to 'D' class weak societies selected by the field staff where the repayment was first credited towards the principal amount. (3) In case of societies where debts were beyond the members capacity to repay, concessions were given
both in the interest charges and the principal as may be seen from the table given below. (4) A Grain Payment Scheme was instituted in 1937 under which debtors were allowed to repay their debts in kind to the brokers, appointed by the central banks on payment of certain commission to them. Though most of the concessions have been withdrawn after the partition, yet certain concessions to weak societies in the form of remission of interest and principal are still allowed by them:—

**Table No. XXIV**

(a) Loans Advanced and Recoveries made from Primary Credit Societies
(b) Concessions given to the Societies, and
(c) Provision made against debts due from 'D' class and Under-Liquidation (U.L.) Societies

By the Central Institutions.

(Rs. Thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan Business</th>
<th>% of Recoveries</th>
<th>Amount written off</th>
<th>Bad &amp; Doubtful Debt Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Issued</td>
<td>Loan Recovered</td>
<td>Loans at the end of the year</td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>1930-31</td>
<td>84.0</td>
<td>107.77</td>
<td>495.00</td>
<td>22.15</td>
</tr>
<tr>
<td>1932-33</td>
<td>35.21</td>
<td>73.05</td>
<td>414.00</td>
<td>12.6</td>
</tr>
<tr>
<td>1934-35</td>
<td>57.99</td>
<td>44.76</td>
<td>396.00</td>
<td>15.5</td>
</tr>
<tr>
<td>1936-37</td>
<td>54.27</td>
<td>76.37</td>
<td>377.00</td>
<td>19.3</td>
</tr>
<tr>
<td>1938-39</td>
<td>63.08</td>
<td>66.32</td>
<td>372.00</td>
<td>17.7</td>
</tr>
<tr>
<td>1940-41</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1942-43</td>
<td>47.04</td>
<td>130.15</td>
<td>243.00</td>
<td>41.1</td>
</tr>
<tr>
<td>1944-45</td>
<td>35.92</td>
<td>80.58</td>
<td>145.60</td>
<td>42.2</td>
</tr>
<tr>
<td>1946-47</td>
<td>37.77</td>
<td>61.83</td>
<td>116.53</td>
<td>49.4</td>
</tr>
<tr>
<td>1948-49</td>
<td>25.09</td>
<td>22.79</td>
<td>32.68</td>
<td>60.9</td>
</tr>
<tr>
<td>1950-51</td>
<td>9.31</td>
<td>11.93</td>
<td>31.11</td>
<td>55.79</td>
</tr>
</tbody>
</table>

* Amount due from Muslim Credit Societies.

(iv) Restriction of Advances to Societies: Due to heavy fall of prices after 1929 which reduced the income of the farmer it was natural that the amount now advanced by these institutions to the societies should decrease. It actually fell from Rs.178 lakhs in 1929 to Rs.35 lakhs in 1933. But even after the year 1933 when the prices began to rise gradually the fresh advances to the societies did not increase in the
following year as is apparent from the above table. The main reasons were (i) The recoveries did not improve much inspite of the rise in prices and banks could not advance further loans unless the old loans were recovered. (ii) Due to the harsh policy followed by the department in the case of recoveries in certain areas, the members stopped their dealings with the societies after paying off their debts and instead looked to the money lender for their needs. (iii) With the sharp rise in prices after 1939, people having substantial land holdings were able to meet their demands from their own means while some of the agriculturists supplemented their incomes from military resources. (iv) With better recoveries from members in the good societies the owned funds of these societies increased which made it possible for them to meet the demands of their members from their own funds.

The restriction of loans to societies on the other hand, created a great problem for the central institutions to employ their funds profitably, and these banks had to face this problem right from the year 1929 upto partition. This affected their profits. The rate of interest on deposits had to be reduced substantially to have less deposits. It is interesting to note that in the year 1946 the total loans advanced to these societies were Rs.117 lakhs as against Rs.264 lakhs of deposit by these societies.

After the partition, although, the overall situation in this respect has improved and the total advances made to societies have sharply increased from Rs.25 lakhs in 1947 to Rs.61 lakhs in 1950 and Rs.106 lakhs in 1952 yet all the central institutions have not so far come into their own. This situation cannot improve unless the whole movement is

1. The advances made were Rs.57 lakhs in 1935 and 47 lakhs in 1943 while they were Rs.178 lakhs in 1929.
2. These deposits in those banks decreased from Rs.510 lakhs in 1933 to Rs.442 lakhs in 1938 and to Rs.350 lakhs in 1941.
3. At present certain institutions which have large amount of deposits amounting to about Rs.94 lakhs blocked in Provincial Banks Lahore (West Punjab) are suffering from want of funds temporarily, but these will have to face the same problem when that amount is released.
reorganised and the societies which are now in a moribund condition are revived. It may not be out of place in this connection to mention that some of these central institutions in order to employ their surplus funds have advanced them for such purposes which are not within their jurisdiction and should be looked with great concern. While the loans advanced to housing and cooperative farming societies are of long term nature and therefore should not be advanced from the short term deposits of these banks, the loans to transport and non-agricultural multi-purpose societies which are non-cooperative in nature are not justified. The types of loans advanced to various kinds of societies during the years 1951 and 1952 may be seen from the table given below:

**Table No. XXV**

<table>
<thead>
<tr>
<th>Loans advanced by Central Institutions to various kinds of Societies</th>
<th>Rs. (1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>1952</td>
</tr>
<tr>
<td>Total loans outstanding ... at the end of year:</td>
<td>98,84</td>
</tr>
<tr>
<td>1. Agricultural Credit Socs. Non-Agricultural Credit Socs.</td>
<td>62,03 + 7,83</td>
</tr>
<tr>
<td>2. Non-Agricultural Transport Multipurpose</td>
<td>3,02 + 6,78</td>
</tr>
<tr>
<td>3. Cooperative Housing Farming</td>
<td>1,17 + 2,27</td>
</tr>
<tr>
<td>4. Under liquidation and all other kinds of societies except Industrial</td>
<td>15,74</td>
</tr>
</tbody>
</table>

The various types of loans advanced by the central institution to the societies are not mentioned by the Cooperative Department in its annual reports and it is advisable that in future such figures should be given separately in order to judge the nature of these advances.

(iv) **Small Provision of Reserves against Bad & Doubtful Debts.** The problem of making specific provision against bad and doubtful debts long overdue from societies was not realised by most of
the central institutions till the year 1931. Until then these institutions had a bad and doubtful fund of only Rs. 8 lakhs against an amount of Rs. 40 lakhs due from 'D' class and under liquidation societies. With the onset of depression in 1929 it was found that the figures of overdue interest were rising and it was opined that when the societies could not pay even the interest regularly it was possible that most of the principal amount may also prove irrecoverable. It was therefore decided in 1931 that all the central institutions should create a bad and doubtful fund out of their annual net profits to make it equal to at least half of what was due from 'D' class and under liquidation societies, while all loans due from A, B and C class societies were considered safe though it was not a right policy. As a result of this decision the amount in the fund began to increase (as may be observed from the above table) but it could not reach the target of 50% till the year 1945. Because (i) These banks were also advised in the year 1934 to make a provision against overdue interest which affected the annual profits of these banks (ii) The number of 'D' class and under liquidation societies increased rapidly after 1934, firstly due to mere strict policy followed in the classification of societies and secondly due to rehabilitation policy followed after 1939 under which many societies had to be brought under liquidation. So it was only in the year 1945 that these banks were able to achieve this standard of 50% when all the interest overdue had been fully covered by the Suspense Interest Account enabling the banks to allocate substantial amounts from the annual profits to this fund.

The position in this respect has remained satisfactory since then, but two problems however still remain to be tackled. Firstly no provisions have been made against the principal overdue from other societies such as A, B & C and the provision for the same cannot be made unless the principal overdue is clearly worked out. The present system of calculating the principal overdue from the societies is most defective.

1. Serious view of this point has also been taken by the Reserve Bank of India in its inspection in May 1952.
and unscientific. Under the existing procedure the loans to societies are advanced on demand promotes and the instalments for the repayment of loans are not fixed in the bonds taken from them. These demands for the recoveries of the principal are fixed afterwards at the time of each harvest taking into account the condition of the harvest and only where the demand has been actually fixed and the repayment is not forthcoming, the instalment in question is classified as overdue. But as the demand for repayment is fixed by the Field Staff, it is likely, that this demand fixed may be less than the actual to show less overdue principal. So it is essential that in future all the loans advanced to the societies should be for a specific period and the repayment made by the societies in instalment according to the conditions given in the bond. Then all the amount due but not recovered according to the bonds should be shown as overdue, according to the time of non payment such as overdue, over one year, two years, three years etc. The provisions against overdue principal then be made according to the periods of overdues. The present procedure of showing separately the amount due from 'D' class and under liquidation societies in the Annual Reports should also continue.

Secondly the loans due from Muslims, in Muslims societies or in Indian Societies having mixed membership are not covered by this fund. This amount comes to Rs.9 lakhs principal in case of Muslim Societies while the amount due from Muslim members in Indian societies is still to be calculated. At present these central institutions are suffering a great loss in this connection and it is essential that the decision about the recovery of these loans should be arrived at an early date as suggested in chapter IV.

1. For instance if Rs.1,000/- is due from a society on demand and demand has been fixed at Rs.250/- at the time of harvest, then if Rs.200/- is paid by the society at this harvest and Rs.50/- remains unpaid, the overdue principal will be Rs.50/- only and not Rs.800/-.
Effect of Partition: From the facts stated above it is clear that the position of central institutions in respect of provision against overdue interest and debts due from 'D' class and under liquidation societies was quite sound, when they received a great shock, with the partition of the country. Not only these institutions suffered due to the migration of Muslim members in societies which were indebted to them, but also suffered in other ways. Almost all the 66 Central Institutions in East Punjab had deposited their surplus funds amounting to Rs.291 lakhs in one form or the other with the Provincial Bank at Lahore (West Punjab) which was the apex institution for Undivided Punjab. The details of these funds may be seen from the following table.

Table No.XXVI

Funds of the Central Institutions Block in Provincial Bank, Lahore

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>(Rs.1000)</th>
<th>S.No.</th>
<th>Particulars</th>
<th>(Rs.1000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>Government Securities for safe custody</td>
<td>26,05</td>
<td>2.</td>
<td>Deposits of (Individuals) Muslims in Central Institutions</td>
<td>91,00</td>
</tr>
<tr>
<td>3.</td>
<td>Deposits</td>
<td>185,78</td>
<td>3.</td>
<td>Deposits of Muslims, (Individuals) in societies</td>
<td>14,78</td>
</tr>
<tr>
<td></td>
<td>Grand Total</td>
<td>290,53</td>
<td>4.</td>
<td>Balance</td>
<td>80,00</td>
</tr>
<tr>
<td></td>
<td>Grand Total</td>
<td>290,53</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These funds were not released by the above Bank after the partition. Even the interest on these funds was not paid to them though these banks had to pay the interest to their depositors, thus entailing them a heavy financial loss.

Their Rehabilitation: At one time there was great danger of collapse of some of these central institutions because of their inability to meet the demand of their depositors due to blockade of their funds in West Punjab. But partly due to timely help given by the East Punjab Provincial Cooperative Bank and partly due to the patience shown by the depositors the crises had been averted then but that problem has not yet been fully solved.
After the partition protracted negotiations were carried out with the West Punjab Government for the return of these funds and other debts due from Muslim Evacuee Members but the matter has not yet been finally settled. All Government securities of these institutions amounting to Rs. 104 lakhs have been released by the Provincial Bank Lahore and delivered to these institutions in May, 1950 but their deposits amounting to Rs. 185 lakhs have not been returned to them in full. As against these deposits, some of these institutions and primary societies had got deposits of Muslim evacuees amounting to Rs. 91 lakhs and 14 lakhs\(^1\) respectively. But the net balance of Rs. 80 lakhs is still due from the Provincial Bank Lahore. This amount is not to be released by the Bank, till the final settlement of all the claims regarding deposits between the two Cooperative Departments as decided upon under the Inter-Dominion Agreement of April, 1949. At that time it was hoped that all the claims regarding deposits will be finally settled within a year from the date of agreement but that hope could not be realized. Even now there does not appear to be any hope of final settlement in the near future. In view of this immediate relief to these institutions temporarily to tide over their present difficulties is absolutely essential. The Reserve Bank of India was approached for a temporary accommodation but the Bank declined to help in this matter, as under the present Act, it could only lend for seasonal agricultural operations. Of course the Reserve Bank Act needs amendment to this effect to render necessary financial help to the cooperative institutions in times of emergency, as it does to the Scheduled Banks. But that is likely to take time. For the present to render them immediate help it is suggested that the Government of India should give them a temporary grant of an equivalent amount from its usual Rehabilitation Grants. As regards the debts due from Muslim members indebted to these institutions, the proposals for the repayment of the same have already

\(^1\) This amount of Rs. 14 lakhs has not been handed over to these banks by the societies due to some slackness on the part of the Cooperative Department.
been discussed in Chapter IV.

**OTHER DEFECTS AND THEIR RECTIFICATION**

So far we have dealt with those defects pointed out by Mr. Wace, and the effects of the Partition. But these institutions suffer from some other defects also which may be discussed now in light of their working capital etc. given in the following tables.

1. **Membership and Share Capital:** The membership of societies is more than that of individuals. In the case of banking unions the membership is generally confined to societies only, but even in central banks where there is mixed membership, the membership of societies is more than that of individuals. The amount of paid-up share capital has continued to be small till recently and this has been comparatively smaller in case of banking unions. This is evident from the table also. The reason for smaller share capital in unions is that their membership is confined to societies only which purchase one or two shares each. The chief reason for small paid-up share capital in all these institutions had been that the number of shares held by affiliated societies was not related to maximum credit limit sanctioned to the society by them as was the procedure followed in Madras and Bombay. Stress over this point was laid by the Maclagan Committee which observed,\(^1\) "We think it is ordinarily preferable to subscribe to a number of shares in the central bank that may bear some proportion to their borrowings from the bank. This arrangement has the merit of maintaining a proper relation between the obligation of the societies with the central bank and the advantages gained by them from it, and it is the system ordinarily adopted in Europe." But no consideration was given to this important recommendation. The Reserve Bank of India also laid great stress over this point during its inspection of these institutions in May 1952. It observed that the central institution should increase their owned funds on the basis of which rediscounting facilities will be provided to them. So under pressure from the Reserve

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1. Maclagan Committee Report, P. 72.

Combined Working Capital of 23 Central Banks and 42 Banking Unions.

Working Capital of Central Banks

Total Deposits 74.6%
- Societies Deposits 24.1%
- Reserves 11.7%
- Share Capital 3.3%
- Loans 16.0%

Individuals Deposits 50.5%

Working Capital of Banking Unions

Total Deposits 76.4%
- Societies Deposits 36.8%
- Reserves 13.0%
- Share Capital 24.9%
- Loans 35.7%

Individuals Deposits 39.6%
Bank of India in June 1953 the Registrar directed all 'A' & 'B' class primary societies to invest 50% and 'C' class societies to 25% of their statutory reserves in the share capital of District Central Banks in order to raise their share capital to Rs.3 lakhs in each case. This target in case of District Central Banks has been achieved in this way but the problem of rest of the institutions remains unsolved.

Table No.XXVII
Working Capital of Central Institutions

<table>
<thead>
<tr>
<th>Year</th>
<th>Membership</th>
<th>Total Individ Socie-</th>
<th>Share Reserve</th>
<th>Other Deposits</th>
<th>Capital Fund</th>
<th>Indiv. Secs.</th>
<th>Working Cost of P &amp; L Owned</th>
<th>% of Capital</th>
<th>Capital Mangt Account</th>
<th>% of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1943-44</td>
<td>115</td>
<td>47</td>
<td>4.054</td>
<td>20.257</td>
<td>35.16</td>
<td>49.70</td>
<td>64.09</td>
<td>538.43</td>
<td>154.96</td>
<td>32.64</td>
</tr>
<tr>
<td>1948-49</td>
<td>67</td>
<td>72</td>
<td>11.992</td>
<td>10.599</td>
<td>19.03</td>
<td>80.49</td>
<td>40.40</td>
<td>307.66</td>
<td>168.52</td>
<td>65.85</td>
</tr>
<tr>
<td>1949-50</td>
<td>65</td>
<td>82</td>
<td>2.052</td>
<td>10.942</td>
<td>19.41</td>
<td>32.11</td>
<td>24.23</td>
<td>322.16</td>
<td>171.38</td>
<td>41.06</td>
</tr>
<tr>
<td>1950-51</td>
<td>65</td>
<td>72</td>
<td>2.077</td>
<td>11.259</td>
<td>19.83</td>
<td>32.51</td>
<td>41.15</td>
<td>325.55</td>
<td>169.70</td>
<td>62.57</td>
</tr>
<tr>
<td>1951-52</td>
<td>65</td>
<td>82</td>
<td>2.201</td>
<td>11.905</td>
<td>20.95</td>
<td>33.08</td>
<td>41.27</td>
<td>320.23</td>
<td>155.11</td>
<td>60.15</td>
</tr>
</tbody>
</table>

*Figures of year 1946 for comparison are not available, so figures of 1944 have been given.
Figures in brackets indicate the number of Central Banks.
'B.U.' indicates 'Banking Unions' and 'C.B.' indicates 'Central Banks'.

2. Reserves: There are two types of reserves. Firstly the Statutory Reserve Fund which every cooperative institution is required to form from its net annual profits under the Cooperative Societies Act. Secondly other reserves which include various types of reserves, such as Bad and Doubtful Debt Reserve, Depreciation Reserve, Building Reserve, Dividend Equilisation Fund and other reserves, the most important one being the Bad and Doubtful Debt Reserve. These reserves are also formed out of the annual profits but there is no statutory provision for them.

These central institutions have been steadily building these reserves from the very beginning, but the true position of these reserves could not be known till the year 1944 upto which these reserves also included the overdue interest. With the covering of all the overdue interest, by the Suspenst Interest Account in that year the position became quite clear. Since then the position of reserves in central banks has been quite satisfactory. However, most of the banking unions have not been able to accumulate sufficient reserves due to their smaller turnover and relatively high cost of management. (For example in the year 1952, 42 unions have only Rs.14 lakhs of reserves as compared to Rs.50 lakhs in 23 central banks).

1. The above procedure of directing the societies to invest their statutory Reserve Funds in the share capital of the banks does not seem to be sound. The proper course would be that the society should invest in the share capital of the central banks in proportion to their liabilities to them as suggested by the Macalgon Committee, and as is the procedure followed in Madras and Bombay. The Standing Advisory Committee of the Reserve Bank in their 3rd meeting also expressed the same view. The Former Committee had thoroughly examined this question and came to the conclusion that the reserves of the societies should be invested in loans to members. (1) To make the societies independent from the funds of the central banks, which is the real aim of the movement and (2) to enable the societies to charge lower rates to the members. So the above method adopted by the department appears to be wrong and should be modified. Good societies in no case should be penalised in this way to invest their reserves under compulsion.

2. Under Sec.33 of the Cooperative Societies Act of 1922, no registered society can divide its profit unless it puts 1/4th of its net profits to its reserve fund.

3. For instance in the year 1952, out of a total of Rs.41 lakhs of other reserves, Rs.24 lakhs was bad and doubtful debt reserve.
3. **Owned Funds**: The owned funds consist of share capital and reserves. Although these funds are primarily intended to come into play in the event of liquidation and are a great source of confidence for the depositors yet they constitute an important element in the working capital. They are permanent and indivisible property of the institution and are used free of interest. So it is essential that the central institutions should possess sufficient owned funds. As regards to their amount to be maintained the standard laid down by the Department is that these owned funds should be at least $3\frac{1}{2}\%$ of their total working capital. Since 1935 most of these central institutions have been maintaining this departmental standard. It is however unfortunate that certain banking unions could not maintain this due to their small share capital and reserves and this is a matter of great concern.

4. **Deposits**: Since their very beginning most of these central institutions with the exception of certain banking unions having less public confidence have been able to attract sufficient deposits from the public at a rate favourable to them and in competition with the commercial banks. A notable thing is that the deposits from individuals have been more than deposits from societies. It clearly shows that in the past less stress was laid upon thrift in the societies and the banks have been serving more as a supplier of credit to the societies, than as their balancing centres. The amount against different types of deposits fixed, saving and current for a few years may be seen from the following statement.

---

1. No standard has been laid down by the Reserve Bank of India while the Maclagan Committee suggested as 11\% of the working capital.

2. For instance in the year 1952, 43 Banking Unions had deposits of Rs.132 lakhs as compared to Rs.341 lakhs in 23 central banks.
### Table No. XXVIII

**Different kinds of Deposits & Fluid Resources held by Central Institutions**  
(Rs. Thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Fixed</th>
<th>Saving</th>
<th>Current</th>
<th>Required</th>
<th>Held</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945-46</td>
<td>976.96</td>
<td>498.18</td>
<td>349.22</td>
<td>129.56</td>
<td>269.53</td>
<td>545.81</td>
</tr>
<tr>
<td>1948-49</td>
<td>484.91</td>
<td>218.09</td>
<td>203.88</td>
<td>62.94</td>
<td>186.27</td>
<td>133.64</td>
</tr>
<tr>
<td>1949-50</td>
<td>465.42</td>
<td>210.17</td>
<td>199.37</td>
<td>65.38</td>
<td>116.84</td>
<td>230.35</td>
</tr>
<tr>
<td>1950-51</td>
<td>482.22</td>
<td>212.39</td>
<td>204.17</td>
<td>65.66</td>
<td>122.87</td>
<td>237.18</td>
</tr>
</tbody>
</table>

It will be observed that the percentage of fixed deposits to the total deposits is quite satisfactory being 44% in 1951. This shows that the banks have been able to attract sufficient fixed deposits.

5. **Fluid Resources**: The fluid resources are generally maintained in the form of cash balances on hand, undrawn cash credit with the Imperial Bank of India or with the Provincial Bank and in the form of Government Securities. There is no reference in the departmental Annual Reports to fluid resources held by these financing agencies before 1930, which shows that no definite policy was followed in maintaining the fluid resources till then. In that year a definite standard was fixed which required to maintain fluid resources on the following basis:

- (i) On fixed deposits falling due within 12 months = 12.5%
- (ii) On Saving Bank Account = 25%
- (iii) On current accounts = 50%
- (iv) On statutory reserves = 100%

Since then most of these banks have observed the aforesaid standard, as is clear from the figures given above. It will be seen that after partition the level of fluid resources fell below the required standard in most of the cases primarily due to the blockade of their funds in West Punjab. But with the release of the Government securities the position has improved and is likely to improve further with the release of other funds. The Reserve Bank has suggested a new standard of maintaining
fluid resources for these institutions from 1948 which is now being followed by the banks. The standard i.e.:

(1) On fixed deposits maturing after the next 3 months but within 6 months. = 12\%\%
(2) On fixed deposits maturing within the next 3 months. = 25 \%
(3) On saving deposits … = 25 \%
(4) On current deposits … = 40 \%

which is even milder than the previous one.

6. **Rate of Interest**: The rate of interest offered on fixed deposits uptill 1950 varied from 1\%\% to 3\%, depending upon the amount and period of the loan. In 1950 this rate was raised from 3\% to 4\% due to the rise in the Bank Rate and the consequent tightening of the money market. The rate of saving deposit varies from 1\%\% to 2\% which compares favourably with that of commercial banks. The rate of interest charged on loans to societies varies from 5\% to 7\%, thus leaving a fair margin of 2\%\% to 3\% between borrowing and lending. Looking at the present conditions any rate of interest higher than 6\% appears to be unsatisfactory especially when we see that these institutions already enjoy many privileges from the Government. The Bombay Agricultural Credit Organisation Committee (1946) was of the view that if a central bank could not advance money within 4\% it could not be considered functioning satisfactorily and its working should be a matter for examination by the Provincial Bank or the Cooperative Department. Keeping of this high margin between borrowing and lending rate of interest shows that there is something wrong with the banks. It may be either due to high cost of management or low turnover or both, either of which calls for investigation and reorganisation of the whole banking structure.

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1. In the year 1952 a slight change was made in item No.1 and the words "but within 6 months" were added, vide Proceeding of Standing Advisory Committee - 3rd Meeting, P.15.
7. Trading Activities: Some of the central institutions were given
the whole sale and retail agencies for the distribution of controlled
articles, in particular, sugar, kerosene oil, and cloth in 1943 and this
activity continued up to the time of partition. There was some slackness
in this activity just after the partition due to abnormal conditions. It
however increased greatly after 1948 when the controls were re-imposed
and this is evident from the following table:

| Table No. XXIX |
| Trading activities of the central institutions. |
| (Rs. in 1,000) |

<table>
<thead>
<tr>
<th>Year</th>
<th>Total No. of items in sales</th>
<th>Total Profits</th>
<th>Stock held at the end of the year</th>
<th>Year</th>
<th>Total No. of items in sales</th>
<th>Total Profits</th>
<th>Stock held at the end of the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1942-43</td>
<td>115</td>
<td>N.A.</td>
<td>4,62</td>
<td>1947-48</td>
<td>66</td>
<td>N.A.</td>
<td>43,81</td>
</tr>
<tr>
<td>1943-44</td>
<td>115</td>
<td>N.A.</td>
<td>10,65</td>
<td>1948-49</td>
<td>66</td>
<td>N.A.</td>
<td>41</td>
</tr>
<tr>
<td>1944-45</td>
<td>115</td>
<td>N.A.</td>
<td>112,26</td>
<td>1949-50</td>
<td>65</td>
<td>N.A.</td>
<td>43,23</td>
</tr>
<tr>
<td>1945-46</td>
<td>114</td>
<td>84,86</td>
<td>85,35</td>
<td>1950-51</td>
<td>65</td>
<td>141,23</td>
<td>1,41</td>
</tr>
<tr>
<td>1946-47</td>
<td>66</td>
<td>85,35</td>
<td>-</td>
<td>1951-52</td>
<td>65</td>
<td>178,23</td>
<td>14,16</td>
</tr>
</tbody>
</table>

After partition they also took up the work of distribution of agricul-
tural implements and seeds from the Agricultural Department. No doubt these
institutions served the public and helped the Government in checking
black-marketing but some of them took-up this work merely to earn some
profits by investing their surplus funds. They actually earned handsome
profits in this secured business and this helped in many cases to meet
their crisis resulting from the blockade of their funds in Provincial
Bank Lahore. With these profits they were able to pay interest to the
depositors, and thus save themselves from the disastrous effect of non-
confidence. But apart from this, the principal of combining the two
activities of banking and trading does not appear to be commendable. It
would have been better to engage separate wholesale organisation for
distribution and marketing as had been done in Madras. Most of the cen-
tral institutions which took up this work, of distribution during the war
and after have now ceased to do so since decontrols. In the case of
those which are still persisting, it should also be given up as it is contrary to the traditional of sound banking. The Reserve Bank of India has rightly observed \(^1\) "These Banks should give up trading activities like distribution of sugar, cloth etc. The more desirable form of development will be to organise, where condition require and justify, Consumers' Cooperative Societies, primary and central, and entrust the distribution of consumer goods including controlled articles to such organisation."

8. Collections of Bills: The work of collection of bills was not taken up by these institutions upto the year 1930 till the Provincial Banking Enquiry Committee (1930) recommended in its favour. So the banks were allowed to do this business under certain restrictions. They were permitted to collect the bills in general, only in towns where there were no commercial banks or their agencies, while in other towns with commercial banks only for their own customers. This work is still carried on, on a restricted scale. But this activity can be greatly increased provided a uniform policy regarding the rate of collections is followed by all the institutions in the State, and the present restrictions are removed. Besides increasing their profits this activity will bestow many additional advantages on these banks, (a) They will be able to employ their surplus funds for a temporary period during the slack season (b) The staff will be fully employed. (c) It will also popularize the movement among urban people, who at present possess little practical knowledge about these banks. Such work is done on a large scale by the cooperative banks in the Bombay State while cooperative banks in the European countries also do this business. For the coordination of such activities the setting up of an association of these banks on the lines of Bombay seems to be most desirable.

\(^1\) Proceedings of the 3rd meeting - Standing Advisory Committee, P.34.
9. **Management:** The management of the banks is satisfactory but so far as the staff is concerned, much more is desirable. The Directors of these Banks try to employ their own relatives who are sometimes most unqualified and incompetent, but even otherwise the staff employed in most of the institutions is not well qualified. A minimum qualification of Accountancy for the employees should be prescribed in the bye-laws of the banks and stress should be laid on the training of the staff. The Reserve Bank of India in its report remarks, "Any attention paid to the recruitment of the qualified staff will pay a greater dividend in the long run and it is good bankers and not larger resources, which alone go to make a good bank." But apart from the low qualifications of employees in most cases there is great complaint from the sides of the employees about the uncertainty of their services. This is specially so from the higher staff. So it appears that there is considerable difficulty in obtaining competent persons in the absence of such security. To remedy this situation it would be better if their services are regularized with the help of the Provincial Bank. As a corollary to the unsecured conditions of their services and their post being non-transferable, it has been observed that the managers are unable to work independently. The directors of banks sometimes abuse their power in getting some illegal things to be done by them. Further sometimes managers control the whole affairs of these banks when they have put in some long service. The reason of this is that the Directors who come from villages are not well educated and hardly understand the banking business. Under such circumstances it is desirable that provision should be made for transfer of managers and accountants to safeguard the interests of the

1. This was also the observation made by the Reserve Bank in its inspection in May, 1952.
2. For training of the Employees, the Reserve Bank of India's Scheme to train higher-staff at Poona is a step in the right direction. However the main responsibility for the training of the employees will lie with the State Government. For this setting up of a co-operative training college has been suggested in Chapter XIV.
banks against chances of fraud. The powers of such a transfer should lie with the Board of the Provincial Bank who should exercise it in consultation with the central banks concerned. However if this procedure is introduced the uniformity of pay scale in all banks which is not followed at present will also be essential. In addition to the above, one more thing which needs attention in the management of these banks is some check over the activities of the managers. In certain non-agricultural multipurpose societies where managers themselves were their members or were connected with these societies through their relatives heavy loans had been advanced to such societies, and in certain cases even against the bye-laws of the banks. With a view to safeguarding the interests of the banks it is necessary that loans to such societies having any connection with bank officials, should not be allowed without the approval of the Registrar.

10. Inspecting Staff: There is a post of Financial Adviser to the Cooperative Department to advise the banking institutions in their banking matters. This post was created in 1929 and was originally filled by a Banking Expert. Much appreciation of this post was made by Sir Darling in his report submitted to Government of India in 1935. The wise policy followed by the Central Institutions after 1930 was mainly due to the sound advice rendered by this Banking Expert. But on the retirement of the first banking expert in 1938, this post has been filled by non-technical officers of the department such as Deputy Registrars, who are not competent enough to advise these banks on sound banking principles. Due to clear advantages that accrue by the guidance of a banking expert in their working it is desirable that this post should be reserved for a highly qualified person in banking business. The other officials such as Inspectors and Assistant Registrar who also inspect these institutions are not well qualified in the banking matters. So it is suggested that arrangements for their special training in accountancy matters should be made. The relations between the officials and the directors of these
banks are also seldom cordial. On certain occasions officials of the Cooperative Department in order to exert their influence try to issue certain orders to these banks which may not be in their interest. As these officials generally are not much conversant in banking business, it is desirable that such orders should not be issued without the consultation of the Financial Adviser. To bring complete understanding between the officials and non-officials, the officials should attend the meetings of the banks more often and try to reconcile their differences in the meetings themselves instead of issuing orders afterwards.

11. Inspection of Societies: There is no staff kept by these banks to inspect the societies before making them advances or to judge their financial position afterwards. As these banks are the lenders, they should keep some inspecting staff for the inspection of these societies. They should not depend on the departmental staff who may overlook the interests of these banks as it actually happened in many cases before the depression period. Such staff is kept by such banks in Bombay and there it seems to have rendered useful service to them. Stress for keeping inspecting staff by them has also been made by the Standing Advisory Committee. 1

12. Provision of Finance in Deficit Area: Providing normal finance in deficit areas, where rains generally fail and there is a good harvest only after every three to four years in a cyclic order, involves high risk. For such areas the Gadgil Committee recommended that a special, machinery should be set up by the State (1) to provide relief to the agriculturists by way of test works or grants during scarcity conditions (2) to provide normal finance at concessional rates to enable the agriculturists to resume their normal agricultural operations and (3) to reconstruct the economy of the whole area by long term programmes. So far as

1. Standing Advisory Committee IIIrd meeting p.11. There it has been suggested that every central bank should have two inspectors for agricultural finance.
this State is concerned there appears to be no need for such a special state machinery as such area in this State is small i.e. four districts only. The normal finance to all agriculturists in this area can be provided by the central banks which are in a sound financial position provided the Government guarantees to make good all the losses in case of successive failure of rains, and to meet some cost of their administration. The banks in this tract have already entailed considerable losses in the past for writing off huge amount of bad debts specially during the Rehabilitation Scheme of 1939 - 1945. So they will not be prepared to take up this risky business again unless the Government gives the required assistance. Such an assistance was even recommended by the Gadgil Committee which observed 1 "It might be possible in large long-term programme for the Departments of States to utilise the agencies for normal finance such as the Agricultural Credit Corporation. Even where such agencies are utilised, their operation will be specially controlled and also specially guaranteed or subsidied by the State; for their costs in relation to special risks or expenses incurred must be covered." Such a course will have two advantages (1) The unnecessary expenditure which the State will have to incur for the set-up of special machinery will be saved and the sum so saved can be utilised for other long term development programmes, and (2) the duplication of machinery will be avoided. Along with that there is one more important thing which will need, attention of the State Government. The change is required in the present method of distributions of Relief Funds or Taccavi Loans to the agriculturists through the Revenue Department. This method is full of corruption, nepotism and delay. So to avoid these occurrences in future such state funds should be administered by the Rural Development Department and distributed through the village cooperative societies to have prompt and fair distribution. Such a course has also been recommended by the

Planning Commission which observed 1 "It would be advantageous to distribute, even the State loans for development purposes through the cooperative societies. We recommend this policy" These loans should be recovered through the societies and the societies should be allowed to charge a small commission for these collections.

Besides this there is one more point which would need consideration in deficit areas. At present loan to members of the primary societies are issued against their maximum credit limit fixed by the society. But in case of continuous failure of rains for 3 to 4 years in this tract this maximum credit limit of the agriculturists is generally exhausted and then they have to go to the private money lender to get further advances against the security of gold or silver. On these loans they have to pay exorbitant rates because the money market in those days is very tight. In view of this it is suggested 2 that the central banks in such areas should be allowed to lend to the bonafide agriculturists against the security of gold and silver to assist them in time of stringency.

13. Reserve Bank's Assistance: The discounting facilities which are provided by the Reserve Bank of India under Section 17 of the Reserve Bank of India Act for seasonal agricultural operations and marketing crops at concessional rates have not been availed of by these institutions so far. At present they borrow either from the Provincial Banks or the Imperial Bank of India at 4% rate of interest. On the other hand the Reserve Bank of India discounts the agricultural paper at the rate of 1½% which can be passed on to the central institutions at 2% by the Provincial Bank, keeping a margin of ½%. The Reserve Bank of India is now fixing their borrowing limits and it is hoped that this facility will be availed by these banks soon. This will enable them to lend at a lower rate of interest to the societies.

1. The First Five Year Plan, P. 236
2. This desire was greatly expressed by the agriculturists during my tour to this scarcity area.
14. Re-organisation: Besides the defects mentioned above re-organisation of all the central institutions on a planned basis, is an other important problem, primarily due to two reasons, viz., (i) Some of the banking unions are not working properly and economically and need to be liquidated or turned into branches of the central banks, and (ii) the distribution of these central institutions throughout the State is most uneven. So we shall first study the present position of these institutions in light of the above two factors and then make a case for their reorganisation.

Central Banks v/s Banking Unions: There is a great controversy still going on as to which is the better central institution, whether central bank of the mixed type or the banking union of pure type for serving the primary societies. Both of them have their merits as well as demerits which need examination. No doubt, from the point of view of cooperative principles a banking union is an ideal one and it was to fulfill these objects that such unions were encouraged. Main arguments in their favour are:-

(1) These would develop the cooperative spirit and their moral and educative effect would be considerable. The Directors would visit the constituent societies and supervise their working and thus reduce the cost of supervision and management.

(2) These would give opportunity to local men to gain experience in management, and

(3) These will attract local deposits at a cheaper rate to finance the societies.

But the experience of 35 years of working of these unions in this State and elsewhere in this country shows that most of the unions have not been able to fulfill these objects. The Registrar remarked about these unions as early as in 1920 thus, "The main function of these unions is to finance their constituent societies and this way they are meeting with difficulty." * The two main reasons for their failure were:- Firstly, they

* Annual Report 1920 - P.11
were not able to win the confidence of the public, because of the difficulty of obtaining educated and experienced directors, which proved a great hinderance in attracting deposits. So they had to borrow loans at a higher rates of interest and thus could not finance the societies cheaply. This fact is evident from the following table also:

Table No.XXX

Comparative resources of Central Banks & Banking Unions
Since 1921 to 1951
(Rs. in 1000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Kind of Institution</th>
<th>Total No.</th>
<th>Share Capital</th>
<th>Reserve Funds</th>
<th>Owned Deposits</th>
<th>Deposits</th>
<th>Loans</th>
<th>Working Profit</th>
<th>Working Capital &amp; Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920-21</td>
<td>Banking Unions</td>
<td>63</td>
<td>1,78</td>
<td>95</td>
<td>2,73</td>
<td>9,36</td>
<td>10,32</td>
<td>10,85</td>
<td>55,28</td>
</tr>
<tr>
<td></td>
<td>Central Banks</td>
<td>51</td>
<td>11,50</td>
<td>3,92</td>
<td>15,42</td>
<td>52,55</td>
<td>9,57</td>
<td>18,77</td>
<td>95,50</td>
</tr>
<tr>
<td>1950-51</td>
<td>Banking Unions</td>
<td>65</td>
<td>3,30</td>
<td>4,63</td>
<td>7,93</td>
<td>44,37</td>
<td>19,94</td>
<td>22,22</td>
<td>94,47</td>
</tr>
<tr>
<td></td>
<td>Central Banks</td>
<td>47</td>
<td>29,42</td>
<td>32,11</td>
<td>61,55</td>
<td>66,22</td>
<td>49,02</td>
<td>60,34</td>
<td>10,65</td>
</tr>
<tr>
<td>1940-41</td>
<td>Banking Unions</td>
<td>69</td>
<td>3,39</td>
<td>12,43</td>
<td>16,37</td>
<td>36,68</td>
<td>19,09</td>
<td>15,01</td>
<td>57,16</td>
</tr>
<tr>
<td></td>
<td>Central Banks</td>
<td>47</td>
<td>50,33</td>
<td>86,58</td>
<td>117,21</td>
<td>141,42</td>
<td>68,82</td>
<td>152,19</td>
<td>2,31</td>
</tr>
<tr>
<td>1950-51</td>
<td>Banking Unions</td>
<td>42</td>
<td>3,30</td>
<td>14,14</td>
<td>17,44</td>
<td>70,36</td>
<td>66,34</td>
<td>22,19</td>
<td>176,38</td>
</tr>
<tr>
<td></td>
<td>Central Banks</td>
<td>23</td>
<td>16,53</td>
<td>59,53</td>
<td>78,06</td>
<td>254,98</td>
<td>102,33</td>
<td>40,88</td>
<td>474,23</td>
</tr>
</tbody>
</table>

* This increase in the percentage of deposits in Unions is due to the fact that certain central banks are discouraging deposits due to surplus funds with them.

It will be observed that while in the banking union the percentage of outside loans to their total working capital was 32%, 24%, 17% and 13% in 1921, 1931, 1941 and 1951 respectively, this percentage in central banks was 20%, 8% 13% and 8% in the same years. Moreover their area of operation being limited their turnover was small, profits less and cost of management comparatively high and so they have to keep a fair margin between borrowing and lending. Secondly, the important function of spreading cooperative education and lessening cost of supervision could
not be fulfilled, because most of the directors lacked cooperative spirit and seldom visited their constituent societies, thus defeating both these aims. While on the other hand, it has been observed that certain directors sanctioned more loans to their own societies having no check from the depositors. The other disadvantages of these Unions, are their small owned funds and small profits which have already been examined in the foregoing pages. These are evident from the above table also. It is a matter of great concern that between 10 to 13% of the unions have always been going under a net loss, while some of them had to be liquidated as they could not be run profitably.

From the facts given above it is clear that most of the unions could not serve the societies in the way expected and particularly were not able to supply finance at a cheaper rate. There is thus a clear case for their amalgamation into the central banks. There can be two objections against such a course. (1) The individuals living in the urban areas, having no sympathy for the rural people may predominate, but such a fear is baseless under the existing conditions, when the number of individuals in the Directorate of the central banks is limited and, moreover, loans to them are restricted. (2) The second objection and which is more important than the first is that when all the village credit societies are to be converted into multipurpose ones, these unions will take up multifarious activities to coordinate their various functions, such as marketing, supply of consumer goods, etc. Sir Manilal B. Nanavati is of the view\(^1\) that this function of combining of the various activities of these multiple-purpose societies should be taken up by these unions unless the investigations made by the Reserve Bank of India justify the need for some different type of federation. But such a course is not free from dangers, and even the Reserve Bank of India itself has criticised it. It remarked

1. This view has been expressed by him in his article 'Reorganisation of the Cooperative Movement', Indian Journal of Agricultural Economics, August, 1952, p.36.
"There is a tendency to combine banking and trading but the Takula multi-purpose should be purely a trading concern and it would be preferable to exclude banking from it completely for various reasons." The banking business should not be combined with trading risk. It is the marketing unions on which this function should rightly devolve. The banking business is of some different nature and needs centralisation. Dr. Qureshi rightly remarks, "It has now been fully realized that there is little future for small banks, and it is well to have a strong centralised branch Banking System."

Uneven Distribution: In order to show the present position of all these institutions in a more clear way and to show their uneven distribution in the state, the working of all the institutions for the year 1952 has been given in the appendix. From there it will be observed that not only the number of central institutions in the two Divisions of Ambala and Jullundur varies greatly being 13 and 52 respectively, but the distribution of these institutions also varies from district to district, ranging from 2 to 15. It is true that the number of such institutions in any district depends upon the number of societies and their quality of working, but even taking into consideration of these facts, their present distribution is not fair. Some of the banking unions have got very small working capital, low profits, high cost of management, a smaller area of operation and are running under a net loss as is indicated in the data given below:

<table>
<thead>
<tr>
<th>Condition of Banking Unions as on 30.6.52</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Unions</td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>42</td>
</tr>
</tbody>
</table>

* out of 24 unions which showed losses in 1952, 9 suffered loss due to blockade of their funds in Provincial Bank Lahore.

1. The Future of the Cooperative Movement in India, P.23.
It will be seen that cost of management in some cases is as high as 2 to 3 percent and in case where it is low, the staff employed is most unqualified and even there are under-matrics employees who cannot maintain accounts properly. No office hours are observed and such types of unions really give shadowy appearance when visited. On the other side, there are central banks which have large area of operations to cover, a district or a tehsil, without having many branches to operate. The societies experience great difficulty and have to waste a lot of time and money to get loans or to repay them. There is therefore a clear case for reorganisation of these institutions on scientific basis, to achieve greater efficiency and economy.

From the facts stated above it should not be concluded that there is any prejudice against the banking unions, but it is extremely desirable that theory should not always be pushed through at the cost of economy and efficiency. So it is necessary that the financial conditions of all the unions including those central banks which charge higher rate of interest (i.e. above 6%) should be examined by the Financial Adviser to the Cooperative Department and they should either be turned into branches of the District Central Banks or liquidated where there is no necessity for the same. On the other hand, District Central Bank should open branches at all Tehsil head-quarters and other important places wherever such branches are needed. In this respect, the example of

1. For instance, the Central Banks of Rohtak, Hissar, Gurgaon and Karnal, operating over the whole district have got only one or two offices.
2. This was also the view held by the Reserve Bank of India. The Bank remarks "42 banking unions and 23 central banks are too many for 13 Districts revenue districts in the state. Therefore reorganisation of the Central Banks and Banking Unions on a wider and stable basis may be taken up." (Proceeding of the Third Meeting of the Standing Advisory Committee, P.23) In this connection the scheme tentatively approved by the Standing Advisory Committee and the circular issued by the Reserve Bank for a bank to have a minimum share capital & reserves of Rs.3 lakh and working capital Rs.20 to 25 lakhs are instructive." (Ibid - P.9,10,11).
Bombay State is worth citing, where 15 district central banks had 96 branches in 1951. Some of the central banks have got sufficient resources to open such branches while in case of those which are not in a position to do so, Government should give subsidies in the initial stages as has been done by the Bombay Government. There should be on average 2 to 3 branches or offices in every Tehsil. Where there are too many of them they should be amalgamated with nearest banks.

Such an arrangement will not only be economical and efficient, but will also increase the confidence of the public. There will be net work of banks throughout the state which will help tremendously to tap the savings of the rural masses. To make these banks popular among the rural masses it is suggested that the collection of Land Revenue should be made through them. This step will help in creating more confidence among the rural people, and inculcate in them the banking habit. The Provincial Banking Enquiry Committee rightly observed "We feel that if the Government wishes to encourage the banking habit among the rural classes, an obvious way of doing so is to allow payments of its dues through cooperative bank, wherever this is possible." Such a policy induces among them the idea that such banks are fully backed by Government and there is no chance of their failure.

Conclusions: To sum up we may say that the position in respect of four cardinal defects pointed out by Mr. Wace are as follows:— The provision of reserves against overdue interest and debts due from 'D' class and under liquidation societies has been sufficient since 1943. But the question of provision of funds against principal over due from A, B and C class societies has not been considered so far and needs serious attention. The debts due from Muslim members are causing great loss to these institutions and need immediate settlement. The recoveries from societies have improved since 1942 but advances to societies have remained low till partition. Since then these advances have increased but the problem of surplus funds with these institutions cannot be fully solved.

J. Committee Report, P. 113
unless the whole credit movement is reorganised.

These institutions were hit hard by partition due to blockade of their large surplus funds amounting to Rs. 291 lakhs in the Provincial Bank, Lahore. A part of this amount has been released by the Provincial Bank, Lahore, but a sum of Rs. 80 lakhs is still due from it, against which temporary accommodation by the Central Government should be given to them as an immediate relief. Besides the defects stated above, most of the banking unions have small owned funds, small deposits, and charge high rates of interest due to their small business or comparatively high cost of management, while at the same time the distribution of central institutions throughout the State is uneven. All this underlines the need of reorganisation of the whole cooperative banking structure. To provide finance at reasonable rate of interest to the societies, those banking unions and central banks which charge high rates of interest should be turned into branches of central banks or liquidated where unnecessary, while branches should be opened by the District Central Banks, at place where there is deficiency. In deficit areas to provide normal finance to the agriculturists involves high risk and the Government help for guarantee of loans is essential. The work of collection of bills which is restricted at present, can be increased if uniform policy in collection rates is followed and the present restrictions are removed. The staff in most of the banks is not well qualified. So minimum qualification should be fixed for their recruitment and adequate arrangements should be made for their training but at the same time for recruiting qualified staff security of service should be provided.