(b) CO-OPERATIVE
CHAPTER 8.

Co-operative Credit I.

Short-term Credit.

A brief historical retrospect -
Agricultural credit societies -
Operations of credit societies in the different states.
Progress in Madras and Bombay.
Extension of activities of credit societies -
Overdues for credit societies -
Audit classification -
Interest rates -
Reasons for the high rates -
Delay in the issue of loans -
Scheme of "post-sanctioned loans" in Madras.
Utilization of loans -
"Controlled Credit" in Madras.
Agricultural Multi-purpose societies -
Recent developments in U.P., Assam and Bihar.
Reorganization of credit societies in Bombay and Madras.
Progress of Multipurpose Societies.

Central financing agencies:
Operations of central banks in the different states -
Madras, Bombay and other states.
Lending rates.
Capital structure of central banks.
State help to central banks.
State (Provincial) Co-operative banks.
Bombay and Madras.
Reorganization in certain states -
State financial help and control,
Co-operative Credit Institutions in India date from 1904 when the first Co-operative Societies Act was passed. The Act provided only for the formation of credit societies. The Act was amended in 1912 to make it possible to organise non-credit societies and central societies for financing the primaries. The effect of the new Act was to give a fresh impetus to the growth of the movement. The table below gives an idea of the progress of the movement as a whole.

**Table - Progress of Co-operative Societies.**

<table>
<thead>
<tr>
<th>Averages for the five-year periods</th>
<th>Number of societies (in thousands)</th>
<th>Membership (in lakhs.)</th>
<th>Working capital (in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1911-15</td>
<td>11.79</td>
<td>5.48</td>
<td>5.48</td>
</tr>
<tr>
<td>1926-30</td>
<td>23.94</td>
<td>36.39</td>
<td>74.89</td>
</tr>
<tr>
<td>1936-40</td>
<td>116.96</td>
<td>50.77</td>
<td>104.68</td>
</tr>
<tr>
<td>1941-45</td>
<td>149.89</td>
<td>72.18</td>
<td>124.35</td>
</tr>
</tbody>
</table>

For the year

| 1946-47.                          | 172.17                            | 91.63                  | 164.00                    |
| 1946-47.                          | 139.14                            | 91.01                  | 156.01                    |
| 1949-50                          | 172.09                            | 125.61                 | 233.10                    |

The expansion of the movement was rapid until 1929 when it received a severe setback owing to the severe slump in agricultural prices and the consequent decline in the income of the farmers during the period of the depression. The decade 1929-39 witnessed efforts at consolidation and rehabilitation of the movement rather than expansion.

The rise in agricultural prices during the war period eased a difficult situation and the co-operative movement was considerably strengthened. Between 1939 and 1946 the number of societies, members...
and working capital recorded an increase of 41.0, 70.6 and 54.0 per cent respectively and the movement as a whole touched 10.6 per cent of the rural population as against 6.2 per cent in 1938-39. In the post-war period, the partition of the country in 1947 created a difficult situation especially in those provinces which were immediately affected by it, namely the Punjab and Bengal. During the war period and after there has been a shift in the emphasis from the credit to the non-credit functions of primary credit societies. This is indeed a welcome development for the criticism of the co-operative credit movement in this country has been that it has made lopsided development and that it does not touch all the important activities of the members. The village society should become a "General purpose" society and thus bring about an economic regeneration of the rural masses in India.

The Co-operative Planning Committee (1945) pointed out that the main cases of the limited progress are "the laissez-faire policy of the state, the illiteracy of the people, and the fact that the movement did not especially in its initial stages take the life of the individual as a whole". * The Committee recommended that an attempt should be made to bring 50 per cent of the villages and 30 per cent of the rural population within the ambit of the reorganised primary societies within a period of ten years.

Agricultural Credit Societies.

The greater proportion of co-operative societies is rural; and it was to serve the interest of the rural areas that the co-operative movement was first started. Agricultural societies numbered 142,390, forming 83.9 per cent of the total number of societies in 1949-50. Agricultural credit societies predominate, their number and percentage being 116,534 and 68.7 respectively in that year. The agricultural credit society is usually constituted on the Raiffeison model which has

"a restricted area of operations to ensure mutual knowledge and mutual supervision; joint and unlimited liability (with safeguards) to enforce mutual control and vigilance and reassure the creditors; equal status of members and democratic control; honorary service on the executive to ensure economy and promote self-help; allocation of profits to indivisible reserves which are the principal bulwark of unlimited liability and make for financial stability and strength; limitations of loans to members only, to safeguard the co-operative character of the movement; coupled with a careful selection of members on the basis of character and finally reliance on personal rather than material security."

Agricultural credit societies constitute the pivot of the co-operative movement in India. The progress of agricultural credit societies in the post-war period is revealed by the following figures:-

* Review of the Co-operative movement in India. 1939-40.
### OPERATIONS OF AGRICULTURAL CREDIT SOCIETIES

(Rupees in crores).

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Societies</th>
<th>Membership</th>
<th>Owned Capital Rs.</th>
<th>Percentage of owned capital to working capital</th>
<th>Deposits Rs.</th>
<th>Borrowings Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945-46.</td>
<td>112,951</td>
<td>3,575,470</td>
<td>13.29</td>
<td>51.3</td>
<td>3.91</td>
<td>8.68</td>
</tr>
<tr>
<td>1947-48.</td>
<td>26,260</td>
<td>3,482,352</td>
<td>11.35</td>
<td>47.5</td>
<td>3.04</td>
<td>9.47</td>
</tr>
<tr>
<td>1949-50.</td>
<td>116,584</td>
<td>4,317,545</td>
<td>16.29</td>
<td>43.4</td>
<td>3.93</td>
<td>16.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Working capital Rs.</th>
<th>Fresh advances Rs.</th>
<th>Recoveries Rs.</th>
<th>Outstandings Rs.</th>
<th>Overdues Rs.</th>
<th>Percentage of overdues to outstandings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945-46.</td>
<td>25.89</td>
<td>3.23</td>
<td>7.59</td>
<td>15.83</td>
<td>5.83</td>
<td>36.8</td>
</tr>
<tr>
<td>1947-48.</td>
<td>23.87</td>
<td>10.45</td>
<td>8.15</td>
<td>16.02</td>
<td>3.93</td>
<td>24.5</td>
</tr>
<tr>
<td>1949-50</td>
<td>35.22</td>
<td>17.99</td>
<td>13.51</td>
<td>24.96</td>
<td>5.35</td>
<td>21.5</td>
</tr>
</tbody>
</table>
Owing to the partition of the country, there was a decline in the number of agricultural credit societies which in 1947-48 stood at 85,260. The owned capital of these societies amounted to Rs.11,35 crores forming 47.5 percent of the working capital. Owned capital and borrowings continued to form the bulk of the working capital as the societies have failed to attract deposits to any great extent. Out of a total working capital of Rs.23.87 crores, deposits amounted to only Rs.3.04 crores, that is, 12.7 per cent of the former. Fresh advances increased to Rs.10.45 crores, and the percentage of overdues to outstandings was 24.5. Taken as a whole, the structure of rural credit societies, despite partition can be said to be impressive, and owing to the changes brought about by the war, improved in certain respects, particularly in the reduction of overdues which stood at about 47 percent in 1938-39. During the next two years 1948-50, the number of societies and members showed a significant increase and at the end of 1949-50, their number was 116,534 and 4.8 millions respectively, thus having exceeded the figures for pre-partitioned India in 1945-46. Deposits improved slightly but the percentage of the same to working capital fell to 11.15. The societies resorted to greater borrowings from central banks as the increase in owned funds also has not been commensurate with the increased demand for funds from the large number of members recently added on, and also on account of non-credit activities such as supply of controlled commodities, seeds, manures, implements etc. undertaken by credit societies. Thus borrowed funds stood at Rs.16 crores as against Rs.9.5 crores in 1947-48. Fresh advances showed an upward trend, reaching the record figure of Rs.17.99 crores, constituting more than twice the amount of advances made in pre-partitioned India in 1945-46. Recoveries have on the whole been satisfactory and they have kept pace with the increase in the advances. Loans outstanding at the end of 1949-50 amounted to Rs.24,96 crores and the overdues to Rs.5.35 crores forming 21.5 per cent of the former.
Loans are generally for a period of one year, though loans for a period of 1 to 2 years have also been advanced to a sizable extent. In Mysore and Rajasthan, loans for a period of 2 to 3 years and above 3 years exceeded advances made for shorter terms. Loans for productive purposes formed more than 95 per cent of the advances in Madras, and 85 per cent in Bombay. Loans for other purposes included industrial production, marketing and trade. Redemption of prior debts engaged the attention of societies in Mysore, where advances for that purpose formed nearly 50 per cent of the loans in the two years 1948-50.

Crop loans are issued by primary societies in some states, while in a few of them, notably Madhya Pradesh and West Bengal special societies known as "crop loan societies" have been organized for the purpose.

Of the total of 12456 grain banks, 11692 were in Hyderabad at the end of 1949-50. They receive share capital and deposits in kind, lend out in kind and realise also in kind. The absence of proper storage or supervision facilities hampers their successful working.

Madras & Bombay.

Much of the progress has been confined to the states of Madras and Bombay and outside these two states the condition of agricultural credit societies leaves much to be desired. The position of agricultural credit societies in Madras and Bombay at the end of 1949-50 was as follows:-

<table>
<thead>
<tr>
<th></th>
<th>No. of societies</th>
<th>Membership (lakhs.)</th>
<th>Owned capital</th>
<th>Deposits, Rs.</th>
<th>Borrowings, Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madras</td>
<td>15348</td>
<td>11.91</td>
<td>2.9</td>
<td>.57</td>
<td>6.5</td>
</tr>
<tr>
<td>Bombay</td>
<td>8928</td>
<td>6.12</td>
<td>3.6</td>
<td>1.2</td>
<td>3.8</td>
</tr>
</tbody>
</table>

contd....
It will be seen that the two states of Madras and Bombay have together contributed more than half the working capital of all credit societies in India. The average working capital per society in 1949-50 was the highest in Bombay at Rs.9641. In Madras it was 6514. The average expenditure per society and per member was again the highest in Bombay state, the respective figures being Rs.551 and Rs.8 in 1949-50. The average expenditure in Madras per society was Rs.89 in the same year and the expenditure per member was slightly more than a rupee.*

In the states of West Bengal and East Punjab which were directly affected by the partition of the country, there was some improvement but the position is not quite satisfactory. In West Bengal very little improvement has been noticed in the matter of fresh registrations membership or working capital. The societies numbered 9598 in 1949-50 and had a working capital of Rs.1.05 crores. Loans outstanding amounted to Rs.58.02 lakhs of which Rs.38.95 lakhs were overdue. In East Punjab there were 6852 societies with a working capital of Rs.3.17 crores. Fresh advances amounted to Rs.97.23 lakhs and outstandings were high at Rs.183.54 lakhs.

Extension of activities.

The credit societies have extended their activities on the non-credit side such as the supply of controlled commodities and commodities in short supply. During 1949-50, 13236 agricultural credit societies were engaged in such activities. The value of goods purchased and sold by them during the year amounted to Rs.14.44 crores and Rs.15.52 crores respectively.

Overdues:

The overdues for agricultural credit societies stood at Rs.5.35 crores in 1949-50. Bad and doubtful debts formed a total of Rs.15.50 lakhs. The excessive overdues are caused by the very loose conduct of the societies. The loans are not truly based on the repaying capacity of the borrowers. As the Gadgil Committee suggested in order to improve the system of co-operative finance, the frozen assets of co-operative societies should be liquefied by adjusting the claims of the societies to the repaying capacity of the members.

Audit Classification.

The audit classification of primary societies reveals that the bulk of the societies continue to belong to 'C' Class in most of the states. In Bombay 'A' and 'B' class societies stood at 57.6 per cent of the total number of societies in 1949-50. Madras had 24.6 per cent, Mysore 50 per cent and East Punjab 36.3 per cent. In Coorg the percentage of 'A' and 'B' class societies was 94.8 in that year. In sharp contrast to this the percentages of such societies in West Bengal, Bihar, Uttar Pradesh and Hyderabad were as low as 0.6, 2.6, 04, and 2.2 respectively. The percentage of societies liable for cancellation ('D' class) was 20.8 in West Bengal, 21.5 in Madhya Bharat and 22.1 in Travancore-Cochin. The number of societies under liquidation at the beginning of 1949-50 were 7976 and during the year 3364 societies were liquidated of which 2475 represented societies mainly grain banks in Hyderabad.

contd...
Interest rates.

Co-operative credit in this country suffers from certain defects. In spite of the extension of co-operative credit facilities to the farmer, the system has failed to bring down the rates of interest to the agriculturist borrowed. The lending rates in 1949-50 were as follows:

<table>
<thead>
<tr>
<th>State</th>
<th>Percent.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madras</td>
<td>6¢</td>
</tr>
<tr>
<td>Bombay</td>
<td>6¢ - 9-3/8</td>
</tr>
<tr>
<td>West Bengal</td>
<td>12¢</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>12 - 15</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>4 - 12</td>
</tr>
<tr>
<td>Punjab</td>
<td>9-3/8</td>
</tr>
<tr>
<td>Bihar</td>
<td>6¢ - 13½</td>
</tr>
<tr>
<td>Orissa</td>
<td>8 - 12½</td>
</tr>
<tr>
<td>Assam</td>
<td>12 - 12½</td>
</tr>
<tr>
<td>Mysore</td>
<td>6 - 9-3/8</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>3-1/3 - 9-3/8</td>
</tr>
<tr>
<td>Travancore-Cochin</td>
<td>6¢</td>
</tr>
</tbody>
</table>

It will be seen that while the lending rates are low in Madras, Bombay, Mysore, Hyderabad and Travancore-Cochin, they are not so in the other states, notably West Bengal and Uttar Pradesh where the rates charged to the agriculturist were as high as 12½ and 12 to 15 per cent respectively. The reasons for the high rates in some of the states are:

(a) the comparatively high rates at which money is available to the co-operative societies;
(b) the uneconomic size of the financing institutions at the several stages which raises the cost of administration; and

contd...
(c) the risk undertaken by the institutions concerned and the existence of bad and doubtful debts that occurred on account of such risky operations.* The Gadgil Committee recommended that the rate of interest should not exceed 6\% per cent for short and medium-term credit. Efforts are being made to bring down the rates of interest to the ultimate borrower. In Bombay, on the recommendation of the Agricultural Credit Reorganisation Committee, the state government gives a subsidy to the extent of 2.5 per cent of the working capital to rural credit societies to enable them to lend at 6\% percent to their members.

An oft-repeated criticism is that the co-operative credit system is inelastic and involves unjustifiable delay in the issue of loans. The member of the co-operative society has to apply to it for a loan. The society considers all applications which it has received from members in a batch and submits its loan application to the financing Central Bank. The Central Bank in turn applies to the apex bank. The apex bank sanctions the loan and intimates to the central bank and finally the member of the credit society gets the amount of the loan. In some areas a member has to wait from one to two months after applying for a loan before he can actually get it. At times the agriculturist requires money at short notice, especially for current agricultural needs and he is perforce driven to the money-lender.

The Gadgil Committee remarked that the delay in granting loans could be minimised by the adoption of the following devices; (a) borrowing limits for each member and for each society should be fixed for the year; (b) societies with sound management should be allowed cash credit arrangements with their financing institutions; (c) societies of good standing might be permitted to keep some cash in hand for making small

loans; (d) the system of running credits to individuals may be adopted wherever practicable; and (e) authority should be granted to specific office-bearers to sanction loans not in excess of specified amounts in emergency.

To overcome this difficulty, Madras has devised a new system of "Post-sanctioned loans" under which societies obtain cash credit facilities from central banks and issue loans to their members by drawing upon the credit subject to the scrutiny of the loans by central banks subsequently. During 1949-50 the total amount drawn by credit societies for advancing loans without prior approval by central banks amounted to Rs.21.36 lakhs. "This experiment deserves to be watched with great care, as previous experiments such as what was known as the "forecast system", were not much of a success."

Utilization of Loans.

Co-operative credit has always been distinguished from money-lenders' credit. They money-lender is not concerned with the use to which the loan obtained from him is put by his client while the theory of co-operative credit requires that the need for the loan should be properly scrutinized, that the application of it for the purpose for which it is taken should be supervised and controlled and that the recovery of it in due time should be insisted upon. In actual practice it is found that most of the principles which make co-operative credit controlled are either not observed or enforced. In Madras the scheme of 'controlled credit' was first introduced in 1937 and has received added momentum year after year. The essence of this scheme is that loans sanctioned should be disbursed to members in instalments as the need for the purpose for which the loan is given arises, and the loan given should be recovered out of the income obtained by the application of the loan. If a loan for cultivation expenses is sanctioned, it should be disbursed...
In instalments as the cultivation operations progress, and the loan should be collected from the sale proceeds of the crop raised. For this purpose, the member is asked to execute an agreement to sell the produce either through the society or the sale society to which the village co-operative is affiliated. The sale proceeds are devoted first to the discharge of the loans given by the village society and secondly to the payment of the loan instalment due to the land mortgage bank, if a loan for redemption of prior debts has been taken from the land mortgage bank. The balance of the amount will be handed over to the farmer. Thus through a co-ordination of the work of agricultural credit societies, sale societies and land mortgage banks, credit is linked up with marketing and every stage of the application of the loan i.e. from the stage of cultivation to the stage of sale of produce is supervised and controlled.

The average Indian farmer is ignorant and illiterate and must be educated in the productive use of credit. It is claimed that controlled credit educates the borrower into a realization that credit from a co-operative agency is not a gift and should be applied to the productive purpose for which it is granted. The scheme of controlled credit may be extended to all provinces. It can be modified, if necessary, in the light of further experience.

**Agricultural Multipurpose Societies:**

**Recent developments:**

The shift in the emphasis from the credit to the non-credit activities has been a welcome development in the co-operative movement. This has led to the organisation of multi-purpose societies. The period of the war witnessed the formation of such societies but the progress achieved since the end of the war has been even more remarkable. Some of the states have adopted a planned programme of organization of multi-

contd....
purpose societies. In U.P. according to the Development Plan put into 
operation in 1947, development blocks comprising 10 to 15 villages are 
organized, with a multipurpose society in each village and a union for 
each block. The starting point for the organization of the societies 
is generally the seed store which would be the production nucleus around 
which activities would normally develop in the areas covered by the union. 
The multipurpose societies would undertake the supply of improved seeds, 
fertilizers and implements and would also provide guidance in better 
methods of cultivation. They would also arrange for the marketing of 
the surplus produce of the villages and for the supply of the agricul-
tural and household requirements of the agriculturists. Attention would 
be devoted to cattle breeding and the promotion of cottage industries. 
The business activities of each block would be conducted at the union 
level. There would be a federation for each district and an apex organi-

cation for the whole state.*

The work began in 1947-48 but it was in the next year that the 
organisation of 1300 blocks covering 21,000 villages was effected. Credit 
societies were functioning in about 5000 villages and these were converted 
into multi-purpose ones. New societies were organized in the remaining 
villages. To begin with, the State government transferred 567 seed stores 
formerly run by the Agricultural Department and new seed stores were also 
organized.

There were 22,786 multipurpose societies operating in U.P. in 
1949-50 with a membership of 7.35 lakhs and working capital of Rs.2.86 
crores. Loans advanced by them during that year amounted to Rs.1.63 crores 
and the outstandings at Rs.1.96 crores.

In Assam the new scheme envisaged the organisation of about 1000

multipurpose societies called primary trading co-operatives and a central trading co-operative for each sub-division in the State. There were 1000 trading co-operatives in 1949-50 and the number of members and paid-up capital were 3.5 lakhs and Rs.26 lakhs respectively. A new scheme for the establishment of multipurpose societies in Mysore was inaugurated in 1949. The State has been divided into 746 revenue circles, each being covered by a multipurpose society. There were 828 multipurpose societies including taluk societies in 1949-50 with a membership of 1.64 lakhs and working capital amounting to Rs.30.80 lakhs. In Bihar too the organisation of new multipurpose societies and the conversion of existing agricultural credit societies into multipurpose societies on a limited liability basis has been done according to a scheme of reorganisation. There were in all 3,567 multipurpose societies in the state in 1949-50.

In Bombay, following the recommendations of the Agricultural Credit Organisation Committee (1947) the policy has been to register multipurpose societies in preference to single-purpose societies and the conversion of the existing primary societies into multipurpose ones. There were 2161 multipurpose societies in 1949-50 and they had a membership of 2.20 lakhs and their working capital amounted to Rs.287.68 lakhs of which Rs.88.34 lakhs represented borrowings from central banks. Loans outstanding at the end of 1949-50 amounted to Rs.187.48 lakhs of which Rs.18.53 lakhs were overdue.

The scheme of reorganisation of rural credit societies introduced in Madras in 1949 aims at not only the expansion of co-operative societies to cover 50 per cent of the villages and 30 per cent of the rural population as recommended by the Co-operative Planning Committee but also a reorganisation of their activities so that they may take up non-credit functions. The existing societies are converted into multipurpose societies under the supervision of central co-operative banks. Under the...
orders of the government, all the rural credit societies have been renamed "multipurpose rural credit societies." At the end of 1949-50 there were 12534 societies under the scheme. Of these 6,444 societies undertook multipurpose activities. Thus the multipurpose idea has taken firm root in almost all the states.

The quantitative progress achieved by multipurpose societies during the last three years is shown below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Membership</th>
<th>Working Loans</th>
<th>Purchase of goods</th>
<th>Sale of goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947-48</td>
<td>18,162</td>
<td>5,77,386</td>
<td>279.28</td>
<td>170.63</td>
<td>163.13</td>
</tr>
<tr>
<td>1948-49</td>
<td>24,609</td>
<td>1,107,182</td>
<td>541.24</td>
<td>254.07</td>
<td>159.72</td>
</tr>
<tr>
<td>1949-50</td>
<td>29,525</td>
<td>1,507,801</td>
<td>755.48</td>
<td>369.09</td>
<td>1,397.48</td>
</tr>
</tbody>
</table>

Central Financing Agencies:

The central financing agencies are the central banks and the banking unions. While the banking union where it exists serves a taluka, the central bank operates over a district in some states or over a mere taluka in others. These institutions, which contain a mixed membership of both individuals and societies, have as their primary purpose the provision of finance to primary societies. The working capital of the central banks is generally made up of paid-up share capital, reserves, deposits and loans. Before partition, the number of central banks was 601 with membership of 80423 individuals and 118094 societies in 1946. The owned funds had increased from Rs.6.65 crores in 1939 to Rs.8.45 crores in 1946 and the working capital from Rs.22.42 crores to Rs.45.07 crores in the same period. Deposits rose from Rs.18.94 crores in 1939 to Rs.32.66 crores in 1946, an increase of about 78 per cent. Borrowings declined from Rs.4.43 crores to Rs.3.96 crores since the banks had come into possession of larger funds. The partition of the country directly affected the...
number of banks, membership, deposits and capital. In 1947-48 the number of banks was 469 with a membership of 78881 individuals and 88334 societies. The owned funds, deposits and working capital stood at Rs. 6.7 crores, Rs. 29.25 crores and Rs. 41.90 crores respectively. The number of central banks and banking unions rose to 498 at the end of 1949-50, the increase being partly due to the organization of new institutions and partly to the inclusion of central banks in merged states. Membership of individuals and societies also registered an increase, the figures for 1949-50 being 90599 and 99123 respectively. The owned capital of the banks rose from Rs. 6.70 crores in 1947-48 to Rs. 8.06 crores in 1949-50. Deposits increased by 19.6 per cent, from Rs. 29.25 crores to Rs. 34.99 crores and borrowings from Rs. 5.94 crores to Rs. 6.80 crores in the same period. The working capital of central banks advanced from Rs. 41.90 crores in 1947-48 to Rs. 49.87 crores in 1949-50. The percentage of owned capital, deposits and borrowings to the working capital continued to be around 16, 70, and 14 respectively. Fresh advances during 1949-50 totalled Rs. 75.43 crores of which Rs. 8.67 crores were made to individuals. Recoveries have kept pace with advances, and amounted to Rs. 76.20 crores in 1949-50. Loans outstanding against societies and individuals amounted to Rs. 28.92 crores. The loan transactions of central banks have been overwhelmingly with their affiliated societies, the percentages of advances, recoveries and outstandings against societies to the respective totals being 88, 89, and 90 respectively in 1949-50. Deposits have not generally kept pace with the demand for loans with the result that increased dependence on apex banks for funds was much in evidence. Even so, some of the banks presented a dangerously over-extended loans position. The increased transactions were largely a result of activities such as financing procurement and distribution of food-grains, cloth etc. activities which are not strictly germane to the normal functions of co-operative credit institutions. "The view of the Reserve Bank has conti....
all along been that while as a temporary expedient commercial transactions on the part of co-operative banks may be allowed to a certain extent, it should be their endeavour to explore further avenues of investment in the many available fields which can be regarded as properly co-operative." * 

A disquieting feature in the working of central banks has been the increase in overdues. The amount at the close of 1949-50 stood at Rs.286.36 lakhs as against Rs.218.54 lakhs in 1947-48. The percentage of overdues to loans outstanding at the end of 1949-50 was 9.8. Bad and doubtful debts amounted to Rs.132.52 lakhs against which provision in the shape of bad and doubtful debt reserves was inadequate at Rs.94.85 lakhs.

Madras. A study of the working of these institutions shows that Madras and Bombay lead the rest of the country in the progress and development of these institutions. The number of central banks in Madras was 31 in 1949-50 with a total membership of 22039, the rise in membership being entirely due to more affiliations of societies. The owned capital and working capital have also recorded appreciable increases from Rs.1,70 crores and Rs.14.07 crores respectively in 1947-48 to Rs.2.14 crores and Rs.17.38 crore respectively in 1949-50. Loans issued to primary societies amounted to Rs.43.40 crores of which loans to credit societies and marketing societies amounted to Rs.12.80 crores. Recoveries were satisfactory and overdues under principal was only 5 per cent, the lowest on record for central banks in the state.

Bombay. The number of central financing agencies including banking unions in Bombay increased from 15 in 1947-48 to 43 in 1949-50 as a result of the inclusion of the institutions in the merged states. The membership of these institutions rose from 19637 in 1947-48 to 38,230 in1949-50. Compared with Madras, the rise in individual membership in Bombay is most marked. There were increases in the owned capital, deposits and working capital. Deposits

from individual members amounted to twice as much as deposits from societies. Fresh advances to societies in 1949-50 amounted to Rs.9.92 crores having registered a decline from Rs.14 crores in 1947-48. Overdues on the other hand increased from Rs.33.27 lakhs to Rs.47.58 lakhs in the same period.

Other States:

In Uttar Pradesh there were 67 central banks with owned capital of Rs.74.38 lakhs and working capital amounting to Rs.284.53 lakhs. Under the development plan efforts are being made to evolve a strong and sound unified banking organization capable of providing adequate financial assistance to the primary societies. In Madhya Pradesh the number of central banks increased to 41 in 1949-50. Under the scheme of rehabilitation by the end of 1947-48 12 of these banks had paid off their dues and most of them resumed their normal working. In Bihar central banks were functioning as agents of the Provincial Bank under the Credit Agreement Scheme and they opened depots for the sale of seeds, manures and chemical fertilizers. In the states of Orissa and Assam the number of central banks were 22 and 15 respectively in 1949-50 with a working capital of Rs.118.40 lakhs and Rs.9.94 lakhs. The financial position of central institutions in East Punjab and West Bengal which were immediately affected by the partition of the country has not shown much improvement. In East Punjab there were 65 central banks in 1949-50 with owned capital, deposits and working capital amounting to Rs.91,84 lakhs, Rs.493.56 lakhs and Rs.626.45 lakhs respectively. Fresh advances increased and recoveries have kept pace with the former. There were 40 central banks in West Bengal with a total working capital of Rs.191.29 lakhs. Fresh advances declined considerably and amounted to Rs.77.46 lakhs in 1949-50. Overdues were heavy at Rs.34.67 lakhs and formed 58 per cent of the outstandings.

In recent years, central banks have engaged in non-credit contd...
activities such as the distribution of foodgrains or other controlled commodities. During the period of the second world war, as a result of easy money conditions central banks had large surplus funds for which there were no channels for investment in exclusively co-operative fields. Later however the demand for more funds from societies had to be met and central banks are now experiencing difficulty in meeting the demand for loans. In Bombay the borrowings of the central banks from the Provincial Bank increased greatly.

**Lending Rates.**

The rates of interest on lendings to primary societies continued to be high in most of the states though there were exceptions. The rates varied from 4½ per cent in Madras to between 9-3/8 and 10-15/16 per cent in West Bengal. In Madhya Pradesh, Orissa and Assam the maximum rates were 10½ to 12½ per cent. It has been stated that unless the credit societies obtain their funds from the central banks at less than 4 per cent, they cannot finance the agriculturists at the rate recommended by the Gadgil Committee viz. 6½ per cent. In Bombay central banks have assumed obligations to reduce the lending rate of interest to the primary societies to 4 per cent for agricultural purposes so as to enable societies to advance loans at 6½ per cent to their members.

**Capital Structure.**

The share capital structure of central banks is weak; the share capital of all central banks in 1949-50 was only Rs.3.54 crores out of a total working capital of Rs.49.87 crores, the percentage being only 7:1. The reserve fund of central banks showed an increase, though less than proportionately to share capital, from Rs.1.94 crores in 1947-48 to Rs.2.25 cr in 1949-50. Side by side with the increase in share capital, the banks should also make efforts to strengthen the statutory reserve fund and other reserves. The net profits of all central banks amounted to -

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Rs. 42.30 lakhs. The banks paid dividends ranging from 3 to 10 per cent in the different states. As the Reserve Bank has suggested, it will be a wholesome rule to lay down that until the reserve fund equals the paid-up share capital, at least one-third of the profits should be carried to the reserve fund and thereafter at least 25 per cent. The central banks maintain separate reserves for other purposes such as bad debts reserve and these totalled Rs. 2.27 crores in 1949-50. It would be advisable to merge reserves of an indefinite character into the statutory reserve fund.

The central banks are now faced with increased demand for loans which they have been able to meet by resorting to increased borrowings from the apex institutions in their respective states. Deposits of the central institutions have not kept pace with the demand for loans. But so far, apart from stray attempts, no co-ordinated schemes have been put into operation for tapping deposits locally in any of the states. The central banks have to resort to well-planned schemes for attracting larger deposits and thus become self-sufficient in the matter of working funds.

In the future the central banks will be confronted with a larger demand for funds from co-operatives. The rates of interest at which funds are made available should be brought down in order to make co-operative finance popular with the agriculturists.

State help:

The central banks have received state help in the form of direct loans as well as subsidies. Under the scheme of integrated agricultural credit in Bombay, the state government has agreed to contribute to the Provincial Bank a sum equal to the contribution of the Bank to the share capital of central financing agencies. The government has also agreed to grant subsidies to make up 4th for the losses incurred during the first three years by newly opened branches of central financing agencies, when such branches are opened with the approval of the Registrar.
Subsidies towards the management cost, under special circumstances, of central banks working in undeveloped areas have also been agreed to. In Madras subsidies have been provided for purposes such as reorganisation of rural credit societies into multi-purpose societies under the supervision of central co-operative banks. The government subsidy amounted to Rs.1.14 lakhs in 1949-50. In Bihar and Madhya Pradesh too the government provided subsidies to central banks. Thus in recent years the co-operative financing agencies have come to depend increasingly on the financial assistance rendered by the state governments.

**State (Provincial) Co-operative Banks:**

The apex institution in the co-operative credit structure is the State (formerly called Provincial) Co-operative Bank. The number of states co-operative banks which had decreased from 13 in 1945-46 to 11 in 1947-48 as a result of partition increased to 14 in 1949-50 with the organization of apex institutions in Orissa, Assam and East Punjab. The membership consisted of 7703 individuals and 10915 banks and societies in 1949-50. The share capital of these banks increased from Rs.38.65 lakhs in 1947-48 to Rs.135.34 lakhs in 1949-50 mainly as a result of the increase effected in the share capital of the Bombay Provincial Co-operative Bank under the scheme of integrated agricultural credit. There were also increases in the share capital of the apex banks of Madras, Madhya Pradesh and Hyderabad, the newly organized provincial banks contributing a negligible amount. The owned funds of provincial banks rose from Rs.260.09 lakhs in 1947-48 to Rs.343.24 lakhs in 1949-50. Deposits increased by Rs.110.36 lakhs to Rs.2116.83 lakhs in 1949-50. Deposits held from individuals and other sources amounted to Rs.1318.10 lakhs as against Rs.399.89 lakhs from primary societies and Rs.399.84 lakhs from co-operative banks. Borrowings of the apex banks rose from Rs.1.39 crores in 1947-48 to Rs.5.85 crores in 1949-50.

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The working capital of the provincial banks rose by over Rs. 7 crores from Rs. 24.05 crores in 1947-48 to Rs. 30.45 crores in 1949-50. The ratio of owned funds to working capital showed only a slight improvement from 7.1 percent in 1947-48 to 7.8 percent in 1949-50 but showed a fall from the percentage figure of 9.5 in 1939-40. Deposits at Rs. 21.17 crores in 1949-50 formed 69.5 per cent of the working capital. The gap between deposits and working capital had to be filled by borrowings which increased by Rs. 4.46 crores during the period 1947-50. Loans advanced to banks and societies increased from Rs. 15.78 crores in 1947-48 to Rs. 33.52 crores in 1948-49 and declined to Rs. 23.46 in the following year. The decline is attributable to the fact that the demand for procurement finance in Madras grew less as also finance for distribution of cloth in Bombay. Loans to individuals rose from Rs. 6.85 crores in 1947-48 to Rs. 7.34 crores in the next year but declined to Rs. 6.11 crores in 1949-50. In Bombay the Provincial Bank advanced loans to individual members not only for commercial transactions but also for settlement of adjusted debts under the Agricultural Debtors' Relief Act. In Madhya Pradesh and Hyderabad, loans to individuals were more than three times or twice the advances made to banks and societies. Fresh advances, recoveries and outstandings against banks and societies amounted to Rs. 23.46 crores, Rs. 25.77 crores and Rs. 12.27 crores respectively in 1949-50. Overdues for all the provincial banks stood at Rs. 197.58 lakhs or 13.9 per cent of the total outstandings at the end of 1949-50.

The investments of these banks showed a small increase from Rs. 11.43 crores in 1947-48 to Rs. 11.57 crores in 1949-50. Investments in Government and other securities amounted to Rs. 10.79 crores while investments in land and buildings amounted to only Rs. 11.48 lakhs.

The operations of these banks in the different states show great disparity in development and financial strength. In Bombay the Provincial Bank...
Co-operative Bank functioned both as the apex bank in the state as well as the central financing agency in certain areas of the state. Acting on the recommendations of the Nanavati Committee, the state government have amended the constitution of the Bank providing for subscription to the share capital by government and representative on its Board by three nominees of government. The share capital was increased in 1949-50 by the issue of new shares, 32,000 shares being purchased by government at par.

The total paid-up share capital increased to Rs.48.26 lakhs at the end of 1949-50. Co-operative institutions formed 55.5 percent of the total membership and they held 42.2 per cent of the total share capital. The owned capital of the Bank amounted to Rs.81.67 lakhs in 1949-50. Deposits held from individuals and societies amounted to Rs.470.66 lakhs and Rs.328.37 lakhs respectively, the latter showing an increase. Advances to societies amounted to Rs.11.88 crores, in 1949-50 while advances to individuals amounted to Rs.1.46 crores, showing a decline from the previous year. The Bank advances loans to persons whose debts have been adjusted under the Bombay Agricultural Debtors' Relief Act as well as to creditworthy agriculturists under the integrated system of agricultural finance. The increase in the amount of short-term loans and crop loans from Rs.52.09 lakhs in 1947-48 to Rs.123.94 lakhs in 1949-50 shows the effect of such operations. The total reserves of the Bank including the statutory reserve fund at Rs.11.58 lakhs and the bad and doubtful debts for Rs.7.16 lakhs amounted to Rs.33.41 lakhs.

Madras

The Madras Provincial Co-operative Bank also increased its share capital as the demand for funds increased in order to finance procurement operations. The owned funds of the Bank increased from Rs.57.61 lakhs in 1947-48 to Rs.68.69 lakhs in 1949-50 and the working capital rose from Rs.618.16 lakhs to Rs.677.37 lakhs in the same period. The Bank has a very
stable reserves position, the statutory reserve fund being nearly three
times the paid-up capital. The advances to societies amounted to Rs.8.44
crores in 1949-50 while advances to individuals amounted to only Rs.7.06
lakhs in that year. Thus the business with individuals is small as
compared with Bombay. The Bank had been singularly free from the problem
of overdues or bad and doubtful debts.

Among other states, the progress achieved by the U.P. Provincial
Co-operative Bank deserves mention. The owned capital was Rs.17.62 lakhs
in 1949-50. Deposits increased from Rs.60.28 lakhs in 1947-48 to Rs.253.94
lakhs in 1949-50. The Bank had to meet an increased demand for funds
from institutions under the development plan. Loans to the Co-operative
Marketing Federation and other institutions increased and the outstandings
increased from Rs.21.68 lakhs in 1947-48 to Rs.248.56 lakhs in 1948-49. It
is however to be noted that but for the cane growers' unions and the
Marketing Federation, the movement has not progressed in other spheres
of co-operative endeavour.

The Provincial Banks in the two states of Bihar and Assam have
undertaken trading activities on a large scale. The Bihar Bank under
the Credit Agricole scheme undertakes the sale of seeds, manures and
fertilizers through central banks acting as its agents and also through
depots directly under its control. The total value of sales amounted to
Rs.79.94 lakhs in 1950 and the Bank earned a profit of Rs.5.54 lakhs in
the previous year. Loans advanced by the Bank to banks and societies
amounted to only Rs.15.36 lakhs in 1949-50. The apex bank thus provides
only a very small amount of finance to societies for the provision of
credit facilities to agriculturists. In Assam, under the scheme of
reorganisation the apex bank which started functioning in April 1949
has set up eighteen branches, finances the thousand multipurpose
societies called "trading co-operatives" and central trading co-operatives
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Its paid-up capital amounted to Rs. 0.86 lakh and deposits amounted to only Rs. 13.70 lakhs. The government gave a loan of Rs. 46 lakhs to this bank. The Orissa Bank founded in April 1948 depends also on the State Government for funds and loans from the government and the Reserve Bank amounted to Rs. 26.50 lakhs in 1949-50. The position of the apex banks in East Punjab and West Bengal was directly affected by the partition of the country. The Punjab Provincial Co-operative Bank which had functioned successfully in that province went to Pakistan. A new apex bank, the East Punjab Provincial Co-operative Bank was founded in 1949 with an authorised capital of Rs. 25 lakhs of which only Rs. 1.48 crores was paid-up. The loans advanced to banks and societies amounted to Rs. 22.45 lakhs and outstandings amounted to Rs. 17.12 lakhs at the end of 1949-50. The West Bengal Bank was greatly affected by the partition and the State Government has given liberal assistance against its general assets as well as by way of annual instalments of the guarantee for the collection of investments of the Bank in East Bengal, (Pakistan).

In the other states of the Indian Union apex banks are either non-existent or their financial operations are very much on a small scale. The Reserve Bank has been taking interest in the development of apex banks in states where they are non-existent for the reason that a central institution is necessary not merely to serve as a balancing centre but also to function as a co-ordinating agency ensuring the proper development of the co-operative movement. The Reserve Bank has been playing an important role in providing increased financial accommodation to the co-operative movement through the provincial co-operative banks."

In a scheme of integrated rural finance, the apex banks have a vital part to play by serving the financial needs of banks and societies. In some states, notably Hyderabad and Madhya Pradesh, the policy of the

*Vide Chapter - "Role of the Reserve Bank"
banks cannot be regarded as co-operative in character. The commercial business of these banks with individual members is strongly to be deprecated.

It is found that there are provincial banks like those in Bihar, Assam, West Bengal which are under a scheme of reconstruction and reorganization involving state control. The tutelage of the state by the provision of adequate finance and sound administration is wholesome and is in the best interests of their future development. An even in co-operative circles there seems to be no great opposition to the extension of state patronage and control. On the state governments devolves the responsibility of making the state co-operative banks financially as sound as possible and, from the policy point of view, co-operative in character as well.