CHAPTER V
THE PRIMARY AGRICULTURAL CREDIT SOCIETIES

Since the inauguration of the official Co-operative Movement in India which dates back to the year 1904, primary co-operatives continue to be overwhelmingly of the credit type. In a country like India, where more than 75 per cent of the population dwells in rural areas depending upon agriculture, agricultural credit co-operatives naturally far exceed in number to any other type of co-operative organisation. Even in 1950 the credit side of the movement continues to hold its predominant position; credit societies constitute nearly 75 percent of the total number of primary co-operatives in the movement and 81 per cent of the agricultural societies. Out of a total of 169,66 thousand primary societies in the country in 1949-50, agricultural credit societies predominate, their number and percentage to the total being 116,53 thousand and 68.7 respectively. Membership of agricultural credit societies is also the highest compared to any other single group of co-operative undertaking. It may be noted that primary agricultural credit societies represent only 15 per cent of the total working capital of all types of societies, and loans advanced by them constitute about 25.6 per cent of the total loans advanced by the primary societies.

The Act of 1904 provided for the organisation of both urban and rural banks simultaneously; emphasis was laid more on the development of rural credit co-operatives. Though for the
country as a whole, agricultural societies outnumber the non-agricultural societies. Assam and Delhi have more of the latter than of the former. Bombay, the Punjab, Travancore-Cochin, Rajasthan, Jammu and Kashmir, Saurashtra, Ajmer and Manipur States have more than 25 per cent non-agricultural societies of the total societies in their respective States. Since the second World War, distribution trends of primary societies are more on the non-credit and non-agricultural side due to the extension of the co-operative movement's attempts to attack the economic front of the village for a many-faceted problem. Leaving aside the number of non-agricultural societies in comparison to the agricultural societies, statistics of membership and working capital of primary societies will give a different picture of the relative importance of the non-agricultural societies in the movement. While there were 27,273 non-agricultural societies compared to 142,394 agricultural societies in 1949-50, non-agricultural societies had a membership of 46,15,494 compared to a membership of 77,58,702 in the agricultural societies. More striking contrast is noticeable in the working capital—the working of capital non-agricultural societies was Rs. 78,31 crores whereas that of agricultural societies was Rs. 48,36 crores. It may therefore be inferred that the non-agricultural societies which represented only 19 per cent of the total primary societies in 1949-50 claimed a membership of 37.5 per cent of the total membership of primary societies and accounted for
There are naturally wide variations in the development of co-operative institutions in various parts of the country depending upon divergent economic conditions and circumstances. In general, however, it may be said that the credit aspect of the movement is given the greatest emphasis and attention in most of the States of the country. Some of the States with a conservative attitude have stuck to the development of co-operative credit societies only without attempting to enfold within the ambit of the movement the manifold economic needs of the average man. The high hopes entertained in the beginning of the Movement in the credit aspect have not come to bear fruits, with the result that, in recent years the village credit societies have taken to non-credit activities, especially in the field of distribution and have assumed greater diversity of functions than have hitherto been adopted.

The spread of co-operation is rapid in urban areas and is on sounder lines in comparison to the rural areas. The reasons for the rapid growth of co-operative institutions in towns and cities may be traced in the greater facility of propaganda, organisation, supervision and inspection available in urban areas than in widely scattered villages. The purpose of starting the co-operative movement in India was to serve the rural areas and spread benefits of co-operation there, rather than in urban India, simply because ours is a country inhabited by people living in a great majority in the 5,00,000 villages on the rural side. So, however important role
urban co-operatives play in the economy of the country, they should not be favoured at the expense of the illiterate but noddy teeming millions of rural areas. It is encouraging to note that during the year ending 1949-50, the increase in the number of societies has been most marked in the case of agricultural credit and agricultural noncredit societies. A provision of the Indian farmer's economic position and as such if the credit aspect of the movement is neglected, it would have disastrous consequences affecting almost all the lines of co-operative development and economy of the country.

The Indian Co-operative Credit Societies' Act, 1904, hold that co-operative credit societies should be organized "to encourage thrift, self-help and co-operation among agriculturists artisans and persons of limited means". By-laws differ in various States of the country in defining the objects of primary agricultural credit societies but in general, they include the borrowing of funds from members and/or others to be utilized for loans to members only, the provision of credit for those who have no security to offer in exchange in the shape of capital, to train people to cultivate business-like habits, to impart knowledge of co-operative principles and conduct of business to enable them to manage their own affairs and to encourage them to be provident and thrifty. In some credit societies by-laws are so sweeping and embracing that societies are expected to carry on important functions such as joint sale of their members' produce, joint purchase of
their agricultural and other requirements, hiring of implements, machinery and cattle on behalf of their members, propagation of the latest agricultural improvements, the promotion of subsidiary cottage and small-scale industries, the reform of social and religious practices and the promotion of general and co-operative education not only among the members but also to outsiders. Societies are also expected to encourage self-help and co-operation among members and to achieve economic and social betterment of members by participating in the village improvement work. In actual practice, barring some cases, little had been attempted to promote the objects save the dispensing of credit.

In recent years village credit societies have permeated several walks of the life of the rural people by assuming a greater diversity of functions. They have handled the distribution of manures, chemical fertilisers, agricultural implements and other essential goods; helped the Government in the procurement of food-grains from rural areas, in popularising and propagating the Grow More Food Campaign particularly in Madras, Bombay, Delhi and Madhya Pradesh. The aim, therefore, of the village credit society, if it intends to serve all the aspects of village life, should be to ameliorate the grievances of the farmers who form a great majority of the population in the rural areas by keeping within its ambit every possible aspect of their lives and endeavouring to help them not only in regard to the supply of credit but in all matters which combine to make farming uneconomic.

are Grain banks/credit societies existing in Hyderabad, Orissa and Bihar. Their main objects are to accumulate grains to be lent out to members for seed, domestic consumption and for repayment of grain debts at higher interest, to create a reserve of grain for any unforeseen emergency such as famine or flood, and to evolve improved varieties of seed by a process of careful selection and to propagate the same.

The promotion of thrift is by far the most important key to the success and prosperity of a co-operative credit society. A habit of thrift raises not only the members' economic well-being but also promotes a sense of self-confidence and makes them creditworthy. Despite repeated recommendations by various Banking and Co-operative Enquiry Committees to encourage the habit of thrift, the societies have neglected the advice. This neglect of the emphasis on thrift has been one of the greatest weaknesses of the Indian co-operative movement. Exceptions there are, as in the Punjab of the pre-partitioned period, women organized successfully the "somasies" or the thrift clubs; in Bengal a thrift promotion method was prevalent in the early forties of this century in the form of a daily collection of a handful of rice from each member; in Madras and several other parts of the South, school-children practice thrift by contributing the smallest amount, say a pice or two. Savings in some places have been collected compulsorily by making the members contribute a certain amount out of the sale proceeds at the harvest time. But, on the whole, the drive for small savings, the promotion and
encouragement of thrift-habit has not been given due attention to make members sufficiently provident. It may be noted that in India where the capita income of an average farmer is hardly enough to eke out a subsistence living, savings do not enter into the picture. In spite of this, during good seasons and especially at harvest times, the agriculturists are in a position to lay by something for the rainy season. Similarly in the case of industrial workers and other employees if a small deduction is made at the source when payment is made, sufficient funds can be accumulated for emergency purposes.

One of the major causes of the high infant mortality among the primary agricultural and other societies is perhaps due to the lack of sufficient savings and deposits of the members. The members' deposits which represent a very low percentage of the working capital of the primary agricultural credit societies indicates the lack of emphasis on thrift and consequent poverty of the members.

Manifold attempts have been made to mobilize the rural savings for productive use. The Gadgil Committee recommended that public opinion should be created to discourage wasteful expenditure on social and religious obligations and that a specific programme should be fixed for small savings. The Rural Banking Enquiry Committee also stressed the need of draw-

ing surplus and idle funds from the rural areas for investment by inculcating the habit of banking among the people in those areas. The Government at the centre and the State Governments have recognised the need for sopping up whatever savings are available from these areas. Government's recent Small-Savings Scheme through the issue of savings certificates of small denominations and the issue of tickets worth two annas, four annas etc. by the Post Offices have been successful in drawing good amount of savings from the rural areas. Co-operative credit societies may also experiment with issuing two to four annas savings certificates in varied colours to attract deposits from members and to develop the habit of thrift. Students in schools may also be trained to form the habit of thrift by voluntary contributions to a fund. Interest on small savings which would usually be too small to induce investment may be increased as an inducement to save. Such efforts, would be highly educative and will foster the habit of providence both among the rural people and the youngsters and will promote the co-operative spirit. An intensive drive for propaganda and publicity explaining the advantages of savings and thrift may win popularity for the small savings campaign.

In some societies there is a practice of encouraging members to go on adding to their shareholdings every year, so

long as they continue to be members of the societies while in others dividends are credited to the account either as deposits of members or in addition to their shareholdings. Such practices are highly commendable.

Compulsory savings are effected in some primary credit societies. A society while disposing of the produce of the members deducts a certain amount and deposits it to the members' account. Such compulsory deposits are undesirable if such a practice compels the members to borrow from elsewhere. Provident Fund Scheme as prevalent in a few societies in Baroda, in which a co-operative society contributes a certain percentage of deposits to encourage thrift can only be put into practice by societies of high financial standing. An atmosphere of confidence should be created to attract the members to deposit their savings in the a society. The society should see that the hard-earned savings of its members which involve a proportionately higher sacrifice are not frittered away by a reckless lending policy. In many cases societies do not safeguard the interests of their members and run after a profitable but otherwise unsound outlet of their funds.

For the successful operation of a credit society, it is necessary to determine an optimum size of the society under any given set of circumstances. It is commonly acknowledged in co-operative circles that the operations of an agricultural credit society with a liability without limit should be confined to the village itself, or, in cases where the village is too small, the society may cover nearby villages within an area of
three to five miles. To minimize the element of risk, it is desirable that area of operations should be small and compact to ensure mutual knowledge of the character, assets and inclinations of the members. One society for one village ensures mutual trust, joint responsibility and control. As the members live in a small village and are acquainted with one another with regard to their honesty, industry and financial position to judge the individual position of a member with greater ease while advancing credit to the member-borrower.

The grouping of villages within a radius of three to five miles from the society is permissible in cases where it is intended to serve rural areas, which, if not put together, would remain outside the co-operative service. Sometimes for the economic working, adequate business and efficient supervision, a society extends its area of operations to nearby villages. The Madras Committee on Co-operation favoured the grouping of small societies to reorganize them to extend their area of operations to more than one village, say, over an area covering about three to five miles. The Mysore Committee on Co-operation would permit a society under special cases to extend its area of operations to a number of nearby villages within a radius of three to five miles. Such a policy of

grouping together a number of villages to be served by a single society within a definite area enables the Co-operative Movement to cover vast rural areas within a reasonable time under its service. The target set by the Co-operative Planning Committee to serve 50 per cent of the villages by co-operation within ten years has been creditably fulfilled by Madras and Bombay States. Madras serving 61 per cent of the villages and Bombay 53 per cent in 1949-50.

Societies based on group spirit that is, societies based on caste, religion and sect - sometimes lead to dissensions in the society and in such cases, it becomes necessary to have more than one society in the village to ensure efficient working. Instances have occurred in the Punjab where, due to internal dissensions arising of communal spirit among the members, the working of the societies has been adversely affected. Similarly, in the South, in many societies, heterogeneous membership of different castes and communities have led to the weakening of the society’s progress. In societies, where members cannot work together with conciliatory attitude, separate societies on the basis of castes, sects and creed are allowed to function.

Initial membership of a primary society must at least be ten and the Registrar may dissolve any society which falls below

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that number. In 1949-50 for the country as a whole, the average membership per agricultural credit society was 41. There are wide variations in the average membership of agricultural credit societies in various States of the country. Average membership of agricultural credit society was highest in Travancore-Cochin, 124; in Coorg, 107; in Madras, 78; in Bombay, 68; while the average was as low as 16 in Madhya Pradesh, about 19 in Vindhy Pradesh, Himachal Pradesh, Jammu and Kashmir and Rajasthan. In Bengal, Ajmer and Madhya Bharat average membership per agricultural credit society was below 25. Coorg, Ajmer and the Punjab have highest number of co-operative institutions per lakh of inhabitants. Coorg has also the highest number of members of primary societies per 1000 inhabitants.

Although the Indian Co-operative Societies' Act has not placed any upper limit for admitting members to a society, local Governments are empowered to prescribe the extent to which such a limit may be imposed. Capacity and intelligence of the members of the managing committee of a rural credit society is quite adequate for a small society of 40 to 60 members, but if there are about 200 members, management will become unwieldy to handle loan business efficiently. The beginning should be with a moderate number of members and the membership may be increased as the efficiency in the management is increased. Mutual knowledge of the character, economic position and the inclinations of individual members, joint responsibility and control which are the essential characteristics of membership vanish if the society confines its area
of operations to more than a village and has more than necessary members. With too many members efficiency of management, supervision and training of members is marred and the society degenerates into an aimless association without the co-operative spirit.

Too small a size of an agricultural credit society is equally a limitation to the successful and economic working of a society. The Co-operative Planning Committee (otherwise known as the Saraiya Committee) recommended 50 as the minimum membership of a society and regarded smallness of the size of the primary unit a hindrance to progress. In those States where the average membership of the credit society is less than 25 the indication is that of weakness of the Movement rather than strength and efficient management. In West Bengal and Madhya Pradesh among the major States and in Rajasthan, Madhya Bharat, Vindhya Pradesh and Himachal Pradesh among the small States the average membership of the agricultural credit society may be considered below optimum size. The explanation of so low a membership in these areas lies in that the Movement in Bengal was seriously affected due to a partition of the country while in other States, low membership was the result of the integration of a number of small States into States' Unions with weak co-operative societies. Madhya Pradesh

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has not had a brilliant record of the progress of the co-operative movement so far and the movement had been passing through a crisis immediately before the Second World War.

In India where casteism, sectarianism and communalism prevail to a considerable extent, it becomes expedient to maintain distinct societies for different groups. Many a time sharp differences among the members of a society belonging to various castes, tribes or religion have led to the division of a society into a number of small societies. Even elections to co-operative societies are in some cases fought on this kinship of castes and creed. But this is an evil to be kept at its lowest point and not to be made a rule. It is desirable to carry on the working of a society having members of different group-spirit, provided serious antagonism or sharp differences among the members do not compel divisiveness on a caste-community basis. The establishment of societies on sectional basis is likely to make permanent divisions which is not in consonance with the co-operative spirit. Co-operative principles and practice demand that people of different castes, tribes, communities and religion should, narrowing the existing differences by a policy to give and take and mutual understanding - pull on together to achieve the common economic well-being of the members. Separate societies for special groups have in some cases a creditable achievement on record especially in Madras and other South Indian States such as Nycore, Travancore and Cochin.
One of the most important factors determining the success and prosperity of an agricultural credit society is the quality of membership in the society. Membership to a primary credit society is generally open to all persons qualified under the by-laws of the society. By-laws of the society are usually identical in most of the states. Persons signing the application for registration of a society are original members. In general, conditions to attain a membership are: that a person should have attained the age of 18; should not be a member of any other unlimited liability society; should be substantively employed and thrifty; should be almost unanimously elected as a member by the Managing Committee of the society; must be a resident of the village in which the society operates; should be honest and possessing good moral character. Sufficient care and discretion should be exercised in admitting persons to membership of the society. Members of an unlimited liability society should have a voice in the admission of their fellow-members, for, their fate is linked up with the incoming members.

As soon as a member is admitted to a society, he has to pay an entrance fee and has to hold a fully paid-up share. On admission he is deemed to have acquired all the rights and incurred all the obligations and responsibilities of a member of the society. If a member is of the opinion that the working of the society is not satisfactory, he has a right to withdraw by giving three months' notice to the Secretary of the society. The society may accept such application for withdrawal of
Membership is terminated on death, on ceasing to hold one share, on permanently residing outside the area of operation of the society, on permanent insanity and on joining another society of unlimited liability.

A society may expel any of its members on failure of paying the share money, debts due from him to the society, incurring serious outside liability without intimating the society and in giving wrong and misleading information regarding his debts to the society. A member may be expelled from the society by a vote of not less than 2/3 rd of the members present at a General Meeting of the society; if he is a persistent and wilful defaulter; if he is notoriously improvident and untrustworthy; if he is a bankrupt, legally disabled or criminally convicted; if he joins any other unlimited society and intentionally acts against the interests and prestige of the society. In Madras a person is disqualified for membership if he is convicted of certain offences.

Existing state of affairs, both as regards assets and liabilities of a society with unlimited liability should be fully revealed before a member is admitted to an agricultural credit society to enable him to have a clear view of the working of the society. In case a society is unable to provide the legitimate credit needs of its members, the latter may be permitted to resort outside agencies for their finance,
but, if it meets all their legitimate credit requirements and yet they are found to borrow from outside the society, they shall do it on pain of expulsion from the society. Membership of more than one unlimited liability credit society is detrimental to the interests of the societies concerned. It leads to overborrowing and reckless expenditure. A person should be disqualified of membership if he is found to be a member of any other unlimited liability society.

Whether the liability of a co-operative society should be limited or unlimited is a controversial point. Since the inauguration of the Movement to the world-wide economic depression, it was held by almost all the Co-operative and Banking Enquiry Committees and co-operative circles that unlimited liability society is most suited to the people. Since the thirties, however, the co-operative opinion has taken a turn in favour of limited liability societies.

Co-operative Societies' Acts of 1904 and 1912 provide that co-operative credit societies should be organised on unlimited liability basis unless otherwise directed by the Local Government. The unlimited liability principle for a credit society is an essentially co-operative principle, for it exercises an educative influence on the members by stimulating mutual watchfulness and supervision and on the character and inclinations of the members by inspiring confidence among outside creditors. It has been considered a real force making for unity in village life and upholding the basic
principle of co-operation, "each for all and all for each." Observance of collective responsibility in an unlimited liability society is a moral virtue of great economic significance.

Under unlimited liability, a member's liability towards the payment of debts of the society extends to the last pie of his property. Some of the members are under the impression that the whole of the property of each member of a society is encroached upon for the debts due by the other members to the society but this happens only in the last resort. If in case there arises a deficit in the engagements of a credit society to its creditors; in the first instance, the deficit, if any, is made good out of the share-capital and reserves and in the final analysis, it is recoverable by a series of "per capita" levies upon the members to the full extent of their property.

Mr. H.C. Calvert clearly remarked regarding unlimited liability of a society that "the loss in a co-operative society will fall firstly on the members, secondly on his sureties, thirdly on the reserve, fourthly on the share capital, fifthly on the unlimited liability of the members and finally on the creditors of the society."

It should be noted that the degree of danger from unlimited liability is minimised with adequate safeguards in a

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well-managed society. Having assumed the collective unlimited liability to outside depositors and lending institutions, members of a society may restrict the area of operation of their actual liability within narrow limits to secure greater control over the working of the society. They may reduce the risks of unlimited liability by fixing a maximum sum which the society may borrow from outside sources, by a careful selection of members and by putting a limitation on the maximum credit to be allowed to an individual member of the society. The funds lent by a society may further be safeguarded by allowing advances only after a careful and critical survey of the assets and the repaying capacity of the member, on examining how profitably the employment of money is to be made by him and cautiously scrutinizing the purposes for which loans are demanded. The release of funds to a member is to be made on grounds of meeting urgent and pressing needs and not because maximum credit limit is not reached, nor should it be judged merely on his repaying capacity and assets. For additional safeguards, security (personal or in exceptional case, mortgage or collateral) should be insisted upon and loans secured fraudulently or misapplied should be recalled. Such a policy will teach a member the art of intelligent investment. The building up of sizeable reserves and the introduction of share system will further reduce the risks of unlimited liability. With the above safeguards and the constant vigilance of the members of the society over the utilization of funds and the general management of the affairs of the society, the danger from unlimited liability remains little.
Co-operative societies based on unlimited liability offer certain important advantages to the people of small means for whom the co-operative movement is introduced. The poor who have no security to offer for the credit they require to meet their most urgent and pressing needs are supplied funds on personal security, honestly and on their potential earning and saving capacity. Greatest moral advantage of unlimited liability is that it teaches people to exercise their faculty in the selection of members, to place confidence among one another and to create a sense of responsibility among themselves.

The Maclagan Committee on Co-operation and the Central Banking Enquiry Committee recommended that a co-operative credit society should be based on unlimited liability. The Bengal Banking Enquiry Committee and the Mysore Committee on Co-operation found the collective and unlimited liability of a society absolutely essential for agricultural credit societies and the same view was laterly held by the Agricultural Finance Sub-Committee under the Chairmanship of Prof. D.R. Gadgil which recommended unlimited liability for credit societies as a rule.

Unfortunately, the golden rules for the proper and successful working of co-operative credit societies with unlimited liability have not been followed in most of the States. Credit societies with unlimited liability failed to serve the needs of the rural areas and even in the field of
providing credit they could serve only a very small percentage of the rural population. Strictly restricting their business to credit only, they did not endeavour to afford other facilities to the farmers by working on their behalf for joint purchase of their requirements, by marketing their produce and taking up the distribution of essential goods for the people. In short, they did not attack the economic front from all angles to uplift the rural people from their helpless conditions.

Unlimited liability as a principle in itself failed due to the ignorance and illiteracy of the raiyats of rural India; they could not understand the implications and final liability of the society. Unlimited liability kept aloof the solvent and well-to-do agriculturists, moneylenders and the rich, whose material help if secured would have contributed greatly to the financial stability and efficient management of the society. In many cases, in the absence of strict legal prohibition of alienation of property, the members actually disposed of property fearing the dissolution of a society, and eventual enforcement of recoveries against them led to unpopularity of the unlimited liability credit society. Fundamental principles that members of a village credit society possessed mutual knowledge of one another's affairs, exercising greater control and responsibility; and the principles of controlled credit and punctual repayment of loans have not been observed. Though credit was to be advanced on personal security, honesty
and earning capacity of the members, in actual practice, loans have been advanced more on material caution in the shape of mortgage or collateral security. Whenever a society is liquidated, enforcement of recoveries have been harshly effected even from non-defaulting members, bringing the movement into disrepute in many States. During the depression the members suffered n so heavily in some of the States, especially in the Punjab, Orissa, Berar and Delhi that some of them lost their property to the full, gave up their agricultural occupation and left their villages too. On the other hand, in Bombay and Bengal instances on which a member has been compelled to pay more than his own dues have been almost negligible.

The liability of a past member for the debts of a society as they existed at the time he ceased to a member continues for two years after the date he leaves the society. Even the estate of a deceased member is liable to attachment of the debts of a society for a period of one year after his death.

Instead of attracting depositors and provident people as members in the society, the unlimited liability credit society has degenerated into a society of borrowers. High hopes entertained of the feasibility of unlimited liability co-operative credit societies have been dispelled on account of lack of co-operative spirit, training and education among the members; lack of adequate share-capital, reserves and working capital; and insufficient supervision, inspection
and audit of co-operative society. Reckless borrowing by members, overfinancing by co-operative societies in seeking a profitable outlet for funds without building up adequate reserves, favouritism in advances without a careful scrutiny of purposes for which a loan is granted, manipulation of accounts in books and dishonesty of the members of the Managing Committee led to heavy accumulation of overdues, froze the assets of the societies and put them into great difficulties. Catastrophic fall in agricultural and land prices during the world wide economic depression made indispossession the lands held by the societies as security. As a consequence, the co-operative movement suffered heavily in U.P. and Berar, Bihar, Orissa, Bengal and in many other native States.

During the latter thirties credit societies without danger to their unlimited liability expanded their activities to non-credit activities in some parts of the country. In Bengal, crop loan societies have been successfully linked up with marketing societies making it obligatory upon a borrowing member to join the multipurpose society and deposit his produce for joint sale. In Bombay under the revised-by-laws, it is made obligatory on the part of the members of agricultural credit societies to sell their produce through a co-operative agency, if there is any, in the bazar place in which there operates such a marketing society. The sums loaned to members are recovered from the proceeds of the sale of their produce.
As an alternative to the unlimited liability society what is suggested is the reorganisation of a primary society on a limited liability basis with a greater diversity of functions touching all the economic, business and social activities of the village life. Since the last 15 years the distribution trends of primary societies are towards limited liability. In some States, new societies are organised on limited liability basis, leaving the old to retain their unlimited liability; while in others, societies with unlimited liability are converted into limited liability societies to extend their operations to non-credit activities. In U.P. and Bihar the official policy has been to convert existing societies into multi-purpose societies. In U.P. the process of reorganisation of credit societies from unlimited to limited liability with multipurpose functions is almost completed. Statistics for the year 1949-50 regarding agricultural credit societies reveal that 88 per cent of the total agricultural credit societies in U.P. were based on limited liability. In such cases, the classification of a society under credit remains only in name; while in actual practice, societies deal in all kinds of business.

In 1949-50 unlimited liability agricultural credit societies formed 74.6 per cent of the total agricultural credit societies. During the same year the percentage of agricultural credit societies with limited liability to the total agricultural credit societies was 46 in Mysore, 28 in Travancore-Cochin, 25 in Saurashtra, 22 in Madhya Pradesh and
In the above States the trend is towards limited liability societies. In contrast to this, some States with advanced Co-operative Movement have very few agricultural credit societies with limited liability. Limited liability agricultural credit societies in Coorg and Madras represented 2.7 and 0.8 per cent respectively. Even in 1949 there was not a single limited liability agricultural credit society in the Punjab, Bihar, Jammu and Kashmir, Ajmer, Bhopal, Delhi, Vindhya Pradesh and Himachal Pradesh.

Recently limited liability agricultural credit societies have taken to a number of activities such as the distribution of essential goods, seeds, manures, agricultural implements; procurement of food-grains, purchase and sale of produce on behalf of members; assistance to Government in rehabilitating the displaced persons and popularising the Grow More Food Campaign. Apart from credit business, the value of such transactions amounted to Rs. 14.4 crores for purchases and Rs. 15.5 crores for sales in 1949-50.

The shifting of the emphasis to limited liability in a village credit society not only enables the society to serve the rural population in their varied aspects of socio-economic life, but it also attracts the well-to-do and the solvent class of people to join the society, because the

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1. Reserve Bank of India: Statistical Statements relating to The Co-operative Movement in India for the year 1949-50 (Agricultural Credit Department, Reserve Bank of India, Bombay, 1951), p. iii.
element of risk is limited to the value of the share or shares or to a multiple thereof. Society based on limited liability can serve a number of adjoining villages thereby enfolding within the ambit of the movement scattered villages and greater rural population. A limited liability society because of having richer class as members will be capable of having greater share-capital and funds at its disposal for the successful working of the society. The Madras Committee on Co-operation, 1939-40 and the Saraiya Committee recommended the reorganisation of the primary societies on the basis of limited liability except in cases where the unlimited liability society is highly successful and local opinion demand the continuance of such a society.

Reserve Bank of India suggested two distinct types of agencies for the provision of credit. It suggested an agricultural bank with limited liability covering villages and lending to the prosperous cultivators against property and real security. The establishment of such a bank will lead to the disappearance of the rich as members from co-operative credit societies, abandonment of the principles of co-operative finance and apathy to the poor cultivators' interests for whom the movement was started. Reserve Bank suggested other agency representing a real Raiffeisen society with unlimited liability and a small limited area, working as an optimum economic unit for the socio-economic betterment of the poor, indebted and backward people. In the presence of the society for the rich, the well-to-do will not come to the
Raiffeisen society for membership and the latter will suffer from lack of funds and in that way the first agency will be detrimental to the interests of the second and for the co-operative movement as a whole. Alternatively, it will be better to have an unlimited liability village credit society with a small area of operation and necessary safeguards such as adequate education and supervision and a Rural Credit Stabilization Fund (on the lines of the one proposed by the Agricultural Credit Organization Committee in Bombay) to meet any unexpected emergency or disaster. Side by side there may be organised a multi-purpose co-operative society to serve wider area for all purposes except credit. This society may be based on limited liability.

In a limited liability society, on the death of a member, his share of interest may be transferred or its value paid, to the nominees under the rules of the society or to his heir or legal representative. In the case of an unlimited liability society, the heir of the member should not necessarily succeed, unless he so intends, to the deceased member's interest and corresponding responsibilities and may demand payment.

In general, a society should be based on unlimited

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1. The alternative suggestion has been made by E.M. Sough in her "The Co-operative Movement in India. Its relation to a Sound National Economy (Geoffrey Cumberlidge, Oxford University Press, Calcutta, 1950/ Second Edition, Revised and Enlarged), p. 66. In the absence of adequate funds and trained personnel separate societies at suggested above alternatively, are not likely to meet with success.
liability where it has restricted its area of operations within the narrow limits of a village; where it is organised to benefit the people of small means who have no security to offer. If the local opinion and circumstances demand that a society should be organised on unlimited liability, such a society be registered with the sanction of the Registrar. In all other cases, where the movement intends to cover greater rural population within its fold to offer benefits of co-operation, where the area of operation is large, where the activities of the society are not only confined to credit but take to a diversity of business, economic and social activities, the liability should be limited.

The constituents of the working capital of the primary agricultural credit societies are the share-capital, deposits from members and non-members, loans from societies, central and provincial banks, loans from the Government and the Reserve Funds. In 1949-50 the working capital of agricultural credit societies in India was Rs. 35.22 crores only out of a total working capital of Rs. 233.1 crores for the movement as a whole forming a small percentage of 16.25 of the total. For India as a whole, the working capital of agricultural credit societies per member was Rs. 75. These figures indicate that though agricultural credit societies outnumber other types of societies, their working capital is very low.

Out of a total working capital of Rs. 35.22 crores for the primary agricultural credit societies in 1949-50, owned capital was Rs. 15.29 crores and borrowed funds.
Rs. 19.93 crores forming 43.5 and 56.5 per cent respectively. For the same year, under the head "Owned Capital", share capital was Rs. 7.17 crores, Reserve funds Rs. 6 crores and other funds Rs 2.12 crores representing 20.35, 17.4 and 6 per cent respectively of the total working capital. Under the head "borrowing funds", deposits from members, non-members and societies which were Rs 4.1 crores represented 11.6 per cent of the total working capital. Loans from central banks, provincial banks and Government represented 44.99 per cent of the total working capital. Members' deposits were Rs 2.38 crores representing 58 per cent of the total deposits indicating the trend towards increasing deposits from members as contrasted with the deposits from non-members. It may be noted that loans from Government represent less than one per cent and forms an insignificant part of the total working capital. While owned funds and borrowings constitute a substantial portion of the working capital, deposits which indicate the emphasis on thrift represent only 11.6 per cent of the total working capital. This shows that emphasis on thrift is quite inadequate.

Wide disparity exists in the working capital per member of agricultural credit societies in India. In 1949-50, working capital per member of agricultural credit societies in Saurashtra, Gujarat and Bombay was Rs 155, 146, and 140 respectively as compared to less than Rs 40 per member in these societies in Bihar, Hyderabad, Travancore-Cochin and Himachal Pradesh. Madhya Pradesh, Punjab and Mahdy-Biharat
had a working capital of more than Rs 100 but less than Rs 125 per member in these societies. The average working capital per society in 1949-50 was highest in Bombay (Rs 9641) closely followed by Travancore-Cochin (Rs 9561) and Coorg (Rs 9092). Average working capital was as low as Rs. 717 and Rs. 815 in Bihar and Vindhya Pradesh; it was Rs 6514, Rs. 6724 and Rs 6824 in Madras, Saurashtra and Himachal Pradesh respectively.

It is evident from the statistics of the working capital of agricultural credit societies that instead of raising funds locally they depend to a considerable extent on the central financing institutions for the requirements of their funds. Such dependence for funds on external agencies is not congenial to the growth of co-operative spirit and leads to interference in the internal affairs of the societies by the financing agencies. The Dragan Committee on Co-operation stressed the "need of raising working capital locally, for, that implies thrift in the village, forms a good lying or reserve money and attracts a useful body of men to take interest in the management of the society as sentries of their own deposits". M. Durand held that a society borrowing from a central bank or an outside agency should be regarded as a society "in hospital" and the "first duty of the society should be to escape by rousing itself to new vigour and throwing off the yoke of dependence". The ideal should be that

In normal circumstances societies raise working capital locally and that central agencies should be approached for the supply of capital only to make good the deficiency. A well-conducted society on a sound financial basis should have its own working capital for business. A society's too much dependence on outside financial agencies for its working capital stunts its growth and initiative and it degenerates into a borrowers' institution without any independent policy of its own.

Funds may be locally raised by levying an entrance fee to members joining a society, issuing shares, attracting deposits through intensive propaganda to save and invest money in rural banks; by creating confidence among the members and people residing within the area of operations of a society and by building up an adequate reserve fund.

In most States it is customary to levy a small entrance fee varying from four annas to a rupee from members on joining a society. Its importance is particularly great in those societies which have no share capital, for, it serves to recover preliminary expenses and discourages a member to withdraw by making it entail the loss of a small sum.

Introduction of the share capital which is one of the most important sources of working capital of rural credit societies has proceeded by a method of trial and error. Except in Uttar Pradesh, the Punjab, Mysore, Hyderabad, Jammu and Kashmir, Travancore-Cochin, and Delhi where it represented
more than 25 per cent of the total working capital of agricultural credit societies in 1949-50, share capital plays a small part in constituting the total working capital of agricultural credit societies. System of share capital enhances the prestige of the society and develops the habit of thrift among its members. In the canal areas of Bombay the instalment share system has been introduced as a "second line of defence" and as one of the safeguards against the risks of unlimited liability of members. Share system is not general throughout the country in agricultural credit societies. Grain Banks in Orissa, Hyderabad and at some other places require their members to contribute towards share capital some places require scores of grain from every acre of land cultivated by them.

Shares are normally of small value, commonly ranging from Rs 10 to Rs 50 each. Societies working on the basis of 50-Rs-share should have an arrangement of subscribing shares on small annual instalments because in a poor country like India even the smallest instalment may exclude many for whose benefit the share system has been introduced. For the democratic control of primary societies the amount of share capital which an individual may hold is prescribed in the rules under Section 5 of the Indian Co-operative Societies Act, 1912 which reads: "Where the liability of the members of a society is limited by shares, no member other than a registered society shall - (a) "hold more than such portion of the share capital of the society, subject to a maximum of
one-fifth, as may be prescribed by the rules; or (b) "have or claim any interest in the shares of the society exceeding one thousand rupees." Shares which are payable half-yearly or annually may be withdrawn with payment of dividends after the ten-year deposit period subject to a maximum rate fixed under the rules or by-laws. Value of a share if sufficiently kept low to admit poor people to a society will check the practice of deducting share subscriptions from loans granted to the members by the society. Share subscriptions should be paid from the genuine savings of members. Share system based on small instalments encourages thrift in the purchase of shares, helps in the building up of sizeable reserve funds and owned capital for the society, leads to the reduction of the rate of interest to the members which otherwise would have been difficult to attain and makes the society independent of outside financial agencies. Where people are extremely poor and have nothing to lay by even in the best times, there should be organised a purely Raiffeisen type of society, making the profits over capital indivisible. As an alternative, even if peasants are poor and therefore deserve credit on their personal honesty and security, they may be persuaded to agree to a share subscription by small instalments of eight annas to a rupee at each harvest; this will have the effect of training the poor members to form the habit of thrift and will also at the same time constitute a distinct source of strength for the society. Sometimes in the total absence of the share system, the owned capital which is to be secured anyhow is
raised by keeping a higher margin between the borrowing and lending rates of interest of the society.

It should be seen that the introduction of the share system and the use of the share-capital as working capital to earn profits do not degenerate into a system of dividend-hunting. Moneylenders and greedy traders sometimes join the society neither to borrow nor to help their fellow-brothers, nor do they care for the prestige and interests of the society but would strongly oppose any move at the reduction of the rate of interest and would try to force the distribution of profits. Once the principle of share system is accepted, it is difficult to exclude the idea of dividends especially when there are sufficient surplus funds. But under any circumstances, it must at least be seen that for the general interests of the members and for the financial stability of the society, adequate provision is made to meet bad and doubtful debts, for reserves, and for the legitimate credit requirements of all the members of the society before the division of profits is affected. A safer policy to adopt, if practicable, would be to persuade share-holders to declare the profits indivisible for ever, or, even after ten years so as to consolidate the financial position of the society. It should also be seen that members do not take undue advantage by borrowing recklessly on seeing that the society has accumulated sufficient funds to run smoothly its affairs.

The amount of deposits in a primary society which is the
real index of measuring how far the movement has been success-
ful in inculcating the habit of thrift among the members,
unfortunately shows a discouraging result. A society generally
draws deposits from members, non-members and other societies.
It is encouraging to note that in recent years the trend is
towards the increase in member deposits than non-member or
society-deposits. Out of total deposits of Rs 4.1 crores,
non-members' deposits in 1949-50 were only Rs 1.55 crores,
members' deposits were Rs 2.38 crores and deposits from
societies amounted to Rs 0.18 crores. A society should
endeavour to attract local deposits by inculcating confidence
among the members and should discourage outside deposits
instead of relying upon them. A higher interest rate may be
offered to the members as an incentive to invest in the society.
The Mysore Committee on Co-operation suggested that "large
deposits may be attracted by stimulation of thrift, by creating
public confidence in societies through sound management and
adequate publicity of the work of societies and by giving the
depositors an opportunity to attend meetings of the General
body to become acquainted with the circumstances of the
society". Compulsory system of deposits which has been
introduced in some States is not desirable nor expedient
because it sometimes leads members to borrow from outside to
contribute to the compulsory deposit. Compulsory system of
deposits may be permitted in the case of a share system in
which subscription is to be paid on instalment basis to serve
the purpose in view; namely, that of an effective way of
teaching thrift. Due to high prices of agricultural products
and land during the war, the rural people accumulated sufficient funds to wipe off much of their debts and invest money in gold, silver, ornaments, in the purchase of land and buildings. Had this amount been drawn up to the co-operative movement from the rural areas by the co-operative agencies working in the rural areas, the financial position of the rural societies would have been much better. The Rural Banking Enquiry Committee found in co-operative societies the best agency to attract surplus funds from the rural areas. If more deposits are attracted from local sources, depositors who are in that case rural people will naturally take more interest in the employment of funds deposited by them. Member-farmers may be persuaded to deposit something at each harvest when the proceeds of the sale of their produce for the whole year come to them. Such deposits will have a restraint on wasteful expenditure by member-farmers who become extravagant on getting a lump sum at harvest. The ideal should be to attain self-sufficiency in the requirements of finance, for, it teaches the lessons of self-help and mutual help. Some societies in Bombay, the Punjab and Hyderabad have been able to raise sufficient funds locally to ensure independent working, but for the country as a whole, the situation is rather disheartening. In the early days of the movement non-members especially the moneylenders and the richer class in the rural areas were persuaded to deposit funds with the societies as a prospective field for safe investment. Non-members' deposits still represent 37.7 per cent of the total deposits of agricultural

credit societies in 1949-50. In Bombay where the Movement is well-placed on the credit side, non-members' deposits are discouraged on the ground that such depositors are likely to be impatient in case of a society gets into trouble. Some societies do not encourage deposits from non-members because they get adequate help from central banks in the form of financial accommodation and efficient supervision.

The maximum borrowing capacity of unlimited liability societies from outside agencies is fixed by the by-laws and for limited liability society, the power to borrow as a rule, does not exceed the limit of 8 to 12 times the paid-up share capital and reserve fund. In general, the figures of deposits in different parts of the country give an important clue to the soundness of the movement. Deposits from societies which form 4.2 per cent of the total deposits of the agricultural credit societies - is not a healthy practice. It was particularly objectionable in the past when the central societies themselves were unable to find an outlet for their surplus funds. Now, with the non-credit activities taken over by primary credit societies the surplus funds have not only disappeared but the co-operative institutions have to resort to local Governments and the Reserve Bank of India for funds to finance their manifold business operations. Societies should, as far as possible, accept deposits for a fixed term, not withdrawable in less than a year. Opening of current accounts by a society necessitates the maintenance of more fluid resources and other contingent liabilities.
The importance of reserve funds as a source of working capital of agricultural credit societies cannot be underrated. Reserve funds may be of two classes: a general reserve set aside out of profits to provide additional working capital, or to strengthen liquid resources, and to be available for contingencies; and specific reserves to provide for some probable or estimated loss on the realization of certain assets (e.g., investment depreciation) or in respect of pending transactions (e.g., bad and doubtful debts). For the country as a whole, Reserve fund per member in agricultural credit societies was only Rs 12.5 in 1949-50. However in some States such as Bombay, the Punjab, Assam, Saurashtra and Madhya Bharat reserve fund was above Rs 25 per member in these societies in the same year. Reserve funds represented more than 25 per cent of the total working capital in Bengal, Bihar, Madhya Bharat, Coorg, Ajmer and Bhopal and was as high as 50 per cent of the total working capital of agricultural credit societies in Assam.

The abandonment of immediate profit in favour of thrift productive expenditure, and building up of sizeable reserves should be the first principle of co-operative credit. As long as a society does not obtain a sufficient capital of its own to meet all its needs and is independent of outside assistance, it should aim at the accumulation of reserves in the form

of surplus assets. An indivisible reserve fund is a fundamental feature of the Raiffeisen system and it serves as a safeguard against the rigours of possible enforcement of unlimited liability. Thrift and Savings societies which do not borrow nor lend in excess of their assets may not maintain compulsory reserves. Section 33 of the Indian Co-operative Societies Act 1912 has made it obligatory on the part of the societies to build up an adequate reserve. It reads:

"No part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members:

"Provided that after at least one-fourth of the net profits in any year have been carried to a reserve fund, payment from the remainder of such profits and from any profits of past years available for distribution may be made among the members to such extent and under conditions as may be prescribed by the rules or by-laws:

"Provided also that in the case of a society with unlimited liability no distribution of profits shall be made without the general or special order of the Provincial Government in this behalf."

The validity of reserve funds of primary credit societies is many times to be discounted in view of the fact that figures relating to profits are in some cases based on estimates of assets and liabilities rather than on actual gains. Accumulation of heavy overdue in relation to both principal
and interest of the loans advanced in the post-depression years had made it abundantly clear that reserve funds were being shown without taking into consideration bad and doubtful debts and other unexpected financial contingencies.

Reserve funds are generally built up out of the profits of a society. The profits of a society are realizable by keeping sufficient margin between the borrowing and lending rates of the society. Usually the society keeps its lending rates of interest consistent with the prevailing interest rates in the market. In rural areas where the cost of maintenance of a society is comparatively high, a wider margin in the borrowing and lending rates becomes inevitable to build up sizeable reserves. The too low an interest rate is undesirable because it leads to re-lending by the borrowing members and secondly it means a restraint on the accumulation of reserves. Where the share-capital is relatively small, it is wiser to amass as large a reserve as possible to put the society on a sound footing financially.

Use of reserves by the primary societies differs in different States. Bombay, Delhi and the Punjab use their reserves as an addition to working capital. Large number of societies in the Punjab had become independent of outside financial aid by the use of reserves as working capital. Reserve funds are permitted to be employed as working capital in Madras only when they exceed 20 percent of the total working capital of a society and to that limit they are to be employed in central banks. In Bengal funds are to be invested
in the Provincial Co-operative Bank and in Assam in central banks. A society's investment of its reserves into another society is particularly objectionable when the central banks themselves are flooded with surplus funds and are seeking for an outlet. During the depression the assets of these societies which invested their funds into other societies or in central banks were frozen and as they did not keep adequate reserves and liquid resources, most of them suffered seriously. Orissa and Madras primary credit societies particularly suffered, for, their funds invested in central banks were frozen due to the unstable financial position of the latter. The investment of primary societies' funds into central banks is objectionable if the latter cannot provide funds to the societies when required. The Mysore Committee on Co-operation recommended that investment of reserves of primary societies should either be invested in gilt-edged securities or guaranteed debentures or may be deposited with central financing agencies. If any portion of the reserve fund is used as working capital, interest thereon at the same rate as for deposits should be added to the reserves. The Townsend Committee on Co-operation (Madras, 1927-28) considered it safe to keep the reserve fund invested in central banks and not to permit the societies to lend to their own members. It recommended that loans to societies should be advanced at concessional rates to the amount to which the reserve funds of societies are invested in central banks.

Reserve funds should be permitted to be used judiciously for primary societies' business as working capital rather than be invested in central societies because our main object is to strengthen financially the base of the movement which will in turn automatically lead to the strengthening of the apex institutions. Adequate working capital and higher percentage of owned capital should be the ideal to make the societies self-sufficient in their financial needs and for their success and prosperity.

"The passing of the various Debt Relief Acts and Moneylenders' Acts placing restrictions on the usual suppliers of credit and restraints on the borrowers, and the change in the economic position of the agriculturists, and their new needs, have all entailed a reshaping of the credit movement." With the gradual disappearance of the private agencies from the field of credit supply, it has become necessary for the co-operative credit societies to fill in the gap created by these agencies by providing adequate and prompt credit to the agriculturists at a reasonable rate of interest. Societies are considered to be the most suitable agency for making advances to the rural people, for, their proximity to borrowers enable them to judge the real position, character and honesty of the borrowers and can control the use of loans advanced.

An improvident rural farmer who is ignorant and illiterate has no escape from the socio-religious obligations and has to borrow for the same. A society has to lend to the agriculturist to meet his domestic and consumption needs. It has also to make advances for unproductive and undesirable but necessary purposes such as marriage and death obligations. A number of Commissions and Committees on Co-operation appointed by the Central and Provincial Governments stressed the need of restricting loans for productive purposes only. Societies are compelled to advance loans for unproductive purposes in some cases lest their members go to the money-lenders for credit. To remedy this, members may be persuaded and advised to curtail their expenditure on those items and may be granted loans with caution and at a minimum.

In recent years, loans are mostly advanced for productive purposes only and loans for unproductive but socially necessary purposes have been on the decline; though this type of advances continue to be made in almost all the States. Since the second World War finance obtained by agriculturists from primary societies has been mainly for productive purposes including the purchase of cattle, fodder, implements, etc. In 1948-50 loans for productive purposes formed more than 95 per cent of the total loans advanced in Madras and about 85 per cent in Bombay. Funds advanced for marketing were common in Madras and Orissa, while loans for purposes of trade were more marked in Uttar Pradesh and to a certain extent in Travancore-Cochin. Mysore societies advanced loans for
redemption of prior debts forming 50 per cent of the total loans issued.

Seasonal and crop loans are more popular and common because the risk of default is less in such cases. Usually, they are advanced against standing crops and are realizable at the harvest. In Madhya Pradesh and Bengal, there are special crop-loan societies, while, in other States, primary societies undertake that business. In Uttar Pradesh, Bombay, the Punjab and Madras attempts are being made to restrict fresh advances for short-term purposes and to link credit with marketing. Short-term loans are also issued to meet the current needs of members such as cultivation expenses, and payment of land revenue and maintenance.

Over and above these, loans are advanced for replacement of cattle, carts and agricultural implements and for minor repairs of houses and land. Such loans are considered to be intermediate loans and are advanced for a comparatively longer period ranging from one to two years. In some cases loans have been advanced for a period of 5 to 10 years for purchase or permanent improvement of land or for construction of farm-houses and redemption of old debts.

A society should make a clear distinction between short-term and long-term loans, between short-period and long-period deposits and should adjust its loan operations in such

a way that its assets are not locked up, liquidity is maintained and that there does not arise a serious situation in the co-operative movement. With gradual realization of the disadvantages of lending for long-term purposes - the freezing of assets and as happened during the depression of 1929-33 - societies have curtailed to a considerable extent the advance of loans for redemption of old debts and for improvement of land or construction of farm-houses; and happily, the function of such loans has been taken over by Land Mortgage Banks in various parts of the country.

To be on the safe side, credit societies should resort to short-term loans and should sparingly advance loans for the replacement of cattle or implements. Intermediate term loan should not in general exceed two years and be made repayable in quick successive instalments and should form a comparatively small proportion of total loans advanced. Limiting the period of loans to two years will lead to greater solvency of societies, by security against accumulation of arrears and prevents conversion of short-term loans into long-term loans.

An analysis of the loans advanced by primary societies in 1949-50 reveals that in general, the bulk of advances have been made for one or two years. Amount of loans advanced for a period of three or more years has exceeded loans for shorter duration in Kysore and Rajasthan during the same year. In Madras loans granted by rural credit societies are in no case
allowed to exceed a period of five years. Grain Banks in Hyderabad which have advanced loans in kind experience an obstacle in the way of their successful working in the absence of proper storage and supervision facilities. In advancing loans the repaying capacity of borrowers are taken into consideration and periods of loans are fixed according to the purposes for which loans are demanded. Usually, for short-term purposes such as cultivation expenses, purchase of seeds, fodder, etc. for seasonal and crop loans, advances are made for a period of 6 to 18 months; for intermediate term loans as for the purchase of implements, cattle or for improvement of land and farm-buildings money is advanced for two to three years; and for long-term purposes such as redemption of past debts and for permanent improvement or purchase of land or farm houses loans are given for 5 to 10 years. The provision of long term credit by co-operative credit societies is now extinct.

Adequacy of Credit

One of the important problems of credit is the adequacy of the provision of credit to the agriculturist. In many cases the amount of loans advanced does not suffice to meet the credit requirements of the borrower and he has therefore to resort to the moneylender nullifying thereby the healthy effect of cheap credit supplied by societies. On the whole, the average indebtedness per member-borrower-farmer is more than

what he gets as loans to finance his cultivation. The Central Banking Enquiry Committee which examined the centrally administered areas were of the opinion that in Delhi, Ajmer-Samwari and North-West Frontier Province, loans advanced to the agriculturists were not sufficient to meet their credit needs.

In 1949-50 the average loan per agricultural credit society-member was Rs. 93 in Madhya Bharat, Rs 86.4 in Sambay, Rs 70 in Rajasthan and Rs 54 in Madras; while in Saurashtra, Hyderabad, Bihar, Assam and Kashmir it did not not exceed Rs 5. For the country as a whole, during the same year, average loan per member of an agricultural credit society was Rs 37.3 only. Such a low figure of the amount of loans advanced does not necessarily mean the inadequacy of loans; for, there are many members who do not borrow, some because they cannot get credit on account of their very low standing. However, it may be generalized that loans advanced to agriculturists are not always sufficient to meet their credit needs.

The borrowing limit of both a society and the individual within the society are fixed under the by-laws. The borrowing limit depends upon the financial security and stability of societies and members and to that reason, by-laws may be modified for the purpose in view. In some instances, the maximum credit limit fixed under the by-laws is inadequate for an average cultivator. In the absence of adequate provision of credit the borrowers have to go to the Mahajans whose

onerous rates vary with the urgency of the needs of the borrowers with the result that borrowers default to their society in paying higher interest charges of moneylenders and this weakens the financial position and repaying capacity of both the members and their society. "Arbitrary and rigid restrictions are undesirable and should be relaxed by making necessary amendments in the by-laws of the society so that the credit limits may be fixed in a more rational way every year with reference to the kind of group crop to be raised, the production costs per acre, the security offered and the repaying capacity of the borrower." In many cases the loans required by the member-farmers are not given at the time demanded for lack of sufficient funds with the society which has to go to the central bank for the same and the latter advances only after carefully scrutinising application for loan through its agents. This involves unnecessary delay and turns the idea of joint responsibility of the members of the society into a myth.

An effective remedy to this is the introduction of the cash credit system on the lines proposed by the Madras Committee on Co-operation. The Madras Committee recommended that in order to facilitate the member to borrow funds as needs arise, cash credit system may be introduced in financially sound societies. Such a system will give loans to a member only when required

according to his legitimate needs charging interest from the date from which he draws the loans thus economizing the interest dues and providing adequate and prompt credit. It will have the further advantage in checking the borrower from spending loans all at a time and then sort to the money-lender for credit.

The greatest weakness of the co-operative rural credit organization has been its failure to regulate credit or to insist on loans being utilized only for productive purposes and to finance their members for all their legitimate needs. "Credit must be sanative and educative" and should be "so obtainable that the act and the effort of obtaining it shall educate, discipline and guide the borrower" and shall raise his economic well-beings. The fundamental objects of credit policy of societies should be to see that the members are supplied with all their legitimate credit requirements and that they should be provided with funds promptly in order to prevent them from resorting to moneylenders. It should at the same time be seen that loans applied for are genuinely required that the number of applicants benefitted is sufficiently large, that they are advanced for short-term and productive purposes only, that they are granted to selected members who

1. For full discussion see the Report of the Committee on Co-operation in Madras (1939-40), loc cit, pp. 170-72.
are not likely to be wilful defaulters, that prospects of repayment are bright and that advances are made on the basis of their moral character, industry, capacity to earn and save and their general economic position.

Property statement of members should be carefully prepared and preserved with up-to-date figures indicating their economic position. The transfer of land without the knowledge and permission of the society should be stopped or controlled or even penalized. If the society is capable to meet all the credit requirements of the member-borrower, it should be made obligatory for the member to borrow from it and any infringement of the obligation should be permitted on pain of expulsion. A member, with the previous sanction of the society may borrow from the outside financing agency in case the former is not capable to meet his legitimate credit requirements.

A society should safeguard itself against degenerating into a mere loan office. A primary society should for its own safety see that loans granted by it to its members do not exceed the period of repayment of funds by it to its financing agency. Co-operative credit society fails in its purpose if its borrower is compelled to sell his property in order to repay his loan. It should therefore take pains to make intensive inquiries into the whole economic position of the applicant before a loan is advanced. A society should exclude those borrowers who are not capable to repay their debts out of the proceeds of their crops in the case of short-term loans, out of their savings in the case of long-term loans and those
who cannot be made solvent by lowering the rate of interest or decreasing their unnecessary expenditure or by improving their character by mutual control.

Though in theory at least advances are desirable to be made on personal security, industry and honesty of members, in general practice, some sort of security against loans is demanded. Short-term loans are advanced against standing crops and are recovered after each harvest. Extensions in repayment of loans are given in cases of natural calamities, such as flood or drought which incapacitate the borrower to repay. Advances for short-term, seasonal and crop loans are desirable and advantageous, for they offer a good security in the form of standing crops and safeguard the short-term loans from degenerating into long-term loans. Such loans can easily and with greater precision be estimated and that immediate action for recovery could be taken in cases of default. The Madras Committee on Co-operation recommended that loans may be advanced on the pledge of standing crops up to 40 per cent of the estimated value of the crops to be harvested in 30 days, produce of members up to 50 per cent of their value in the case of commercial crops and up to 75 to 80 per cent in the case of food crops. In economically backward areas, the borrowers use funds for purposes other than those for which

they are advanced. To check this, after a careful survey of the requirements of the member-borrowers, loans may be advanced in kind, that is, in the form of seeds, fertilisers, implements, etc., and repayments in kind may also be encouraged. With the previous sanction of the Registrar, loans may be advanced by society to its members against gold, silver and ornaments provided there are adequate facilities for their proper valuation and safe custody.

It is necessary to demand security for intermediate-term loans and generally security is taken in the form of mortgage or immovable tangible property to be treated as collateral and not strictly to dispose of in case of default. Such a policy of taking collateral mortgage has the advantage of preventing the alienation of members' property, secures against excessive loans and misapplication of loans by members, facilitates recovery and prevents the reserve fund from being put to danger. Mortgage collateral should be sparingly taken, for, such a security usually involves difficulties as to title as well as in executing the degrees obtained.

In general practice, for the successful and sound working of a society all lofty principles of advancing credit on personal honesty, industry and capacity to save have to be put aside and sureties are demanded in cases of intermediate-term loans. Usually therefore, liability of borrowers should be supported by the endorsement of one or two other men, preferably members of the society, of at least equal standing. The system of sureties operates as a check against the grant of excessive...
loans, adds special supervision of individual members to the general supervision of the society over the proper application of the funds borrowed, facilitates recovery in the event of default by the borrower and secures an additional safeguard against endangering the reserve fund. In default of members' repaying the loans no hesitation should be made in strictly enforcing recoveries from sureties. A non-member who does not come under the discipline and arbitrary procedure of the Co-operative Societies' Act and from whom it is difficult to recover dues should not be accepted as a surety. It is necessary to scrutinize purposes of loans before advance is made and once the loan is out, employment of funds should be supervised, controlled and their recovery be insisted upon in due time.

The Managing Committee and departmental officers should enquire and see that loans are properly utilized and that reluctance in this respect is not tolerated. As all members are responsible for the repayment of debts incurred by the unlimited liability society they may be called upon to make good the default, if any. It is therefore necessary that the general body of members approve the application for loan of the borrower, that they should have a right to supervise the employment of loans and to see that the repayment is effected. It would be risky to reduce the security represented by the general assets of the borrower which consist largely of his

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land by allowing him to borrow from both the agricultural credit society and the land Mortgage Bank. Uncalled for renewals are not only dangerous but such concessions will lead to the cultivation of abusive habit, fatal to any society. Benami loans are frauds committed upon the society and the society should properly safeguard itself against any such loan applications.

Co-operative credit now means "Controlled Credit" because after careful consideration of all relevant factors the loans are advanced. Under controlled credit loans are advanced in instalments as needed on the pledge of produce; recovery is made from the crop proceeds through a close link-up with a co-operative marketing society where the credit society itself does not undertake marketing and only the balance is given to the borrower. "Normal Credit" requires a society to fix the credit limit of each member in advance of the season and to make arrangements for securing the advance in time so that sanctioned amounts may come into the hands of the society for disposal whenever members find it necessary to draw upon, interest being chargeable on the loan only from the time money is actually drawn. It should be seen that normal credit is fixed in such a way that overborrowing by members, chairman, officers of the society and their friends is counteracted. "Cash Credit" system which checks a member's spendthriftness by advancing

him necessary credit when required and not all at a time, charging interest from the date from which the amount actually is drawn, is also a safeguard against short-term loans being converted into long-term loans. Before allowing a fixed minimum cash credit for short-term loans, the honesty, industry, capacity to earn and save, security, surety and the purpose of loans to be advanced by the society should be carefully considered. Once the loan is granted, strict vigilance should be kept and in case of misapplication of loans or default of repayment, the facilities given should be discontinued. In order to prevent cash credits from getting converted into fixed loans, continuing mortgage bonds may be taken as security, annual renewal and cash credit transactions be reviewed every year before granting annual renewal and to see that the accounts are properly operated upon. Credit societies may charge lower interest rates on loans advanced on cash-credit system than on fixed loans to train and attract members to have all their dealings through the society.

The Madras Committee on Co-operation suggested to experiment with what is known as the "Forecast System of Loans" in which short-term requirements of members are forecast by the society. Under this system a society gets applications from its members signed by the central bank to which it is affiliated before the beginning of the season so that it

may draw upon the account sanctioned by the central bank and can advance loans to its members without delay. The "Forecast System" did not prove a success due to initial difficulties in the preparation of the forecast of members' requirements, lack of enthusiasm on the part of supervisors and adequate propaganda among societies by the supervising staff of the union, the advantages of the system. Instances were noted in which forecast loans were pitched high and wasted over unproductive purposes or given over to those who did not apply.

Recently a similar loan system to avoid delay in the issue of loans has been introduced in Madras. Under "Post-sanctioned Loans" scheme societies obtained cash-credit facilities from central banks and issue loans to their members by drawing upon the credit from central banks subsequently. In 1949-50 the amount actually drawn by credit societies without approval by central banks amounted to nearly 22 lakhs. This experiment deserves to be watched with great caution and is dangerous if taken lightly.

One of the greatest benefits contributed by a co-operative credit society is the provision of cheap credit to the poor cultivators. Interest rates were as high as 20 to 25 per cent in most parts of the country in the beginning of this century. With the advent of co-operative credit societies, the private lending agencies which extracted usurious

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rates of interest from the helpless farmers received a severe blow to their business and regarded co-operative credit societies as their keen competitors. As a result, the rates of interest in every part of the country were reduced by the private moneylending agencies.

Interest rates vary in different provinces and even in different districts according to the availability of funds, proximity to the developed money market, character and period of the loan and the financial position of the borrower. They depend upon local conditions, degree of risks involved and the resources of respective institutions. Agricultural credit should not be too costly but sufficiently cheap to render the best possible service to the members who are in need of credit. They should be kept at the lowest possible level consistent with the prevailing interest rates in the money market and should cover management expenses, bad and doubtful debts and should provide for adequate reserves.

In 1949-50 most usual rates of interest charged by agricultural credit societies to their members in Madras were fairly low, 6½ per cent; Bombay had 6½ to 9 3/8 per cent as usual rates; Travancore Cochin 6½ per cent; Hyderabad 3 1/3 to 9 3/8 and Coorg to 8½ per cent. As this contrasted with this, in Bengal, Uttar Pradesh and Assam, interest rates charged by these societies to their members were as high as 12½, 12-15 and 12-12½ per cent respectively.

The rates of interest charged by grain banks are comparatively high. Grain banks advance loans in kind and recover principal and interest in kind from members. In Bihar, Orissa and Hyderabad, lending rates by grain banks are as high as 20 to 25 per cent. Grain Banks in Gwalior and Bhopal also charged heavy interest rates on the loans advanced. It has been explained that when loans are advanced, prices are higher, while when they are repaid, the prices are low because of the harvest season and so real interest rates are not so high as it apparently seems. However, the profits earned by grain banks are considerably greater than those earned by other unlimited liability agricultural credit societies.

Village credit societies usually depend for their supply of funds upon central financing institutions. The interest rate charged by an agricultural credit society to its members on loans advanced cannot therefore be reduced unless the society itself gets funds at a cheaper rate from the central financing institution. The credit society borrows at a cheaper rate from the central institution and lends to its clients at a higher rate keeping adequate margin to meet its management expenses; provides for reserves for unexpected expenses and for bad and doubtful debts. Where a society has a fairly high percentage of owned funds in relation to its working capital or is successful in attracting deposits at low interest rates, the interest is charged at reduced rates, while in the case of
of a society which is dependent on extraneous help in the matter of finance has to advance loans at a higher rate. The Madras Committee on Co-operation held that while endeavouring to keep down the interest rates at as low a level as possible, central banks and credit societies should so regulate their business as to ensure adequate co-reserves for the efficient conduct of their indoor and outdoor operations and maintain unimpaired their financial stability. Cheap credit should not be carried "to the extent of being suicidal."

In some co-operative circles it has been held that low interest rates lead to overborrowing by members, cultivate spendthriftness and inspire them to re-lending of the funds advanced. Low interest rates will mean, it is held, discharging of the old debts by members to private moneylenders, the accumulation of loans advanced by societies without repayments, loss of reserves to meet unforeseen expenses and for the provision of bad and doubtful debts. As a society's profits depend mainly on the difference between its borrowing and lending rates, it is advisable that as long as the reserves are not substantial rates of interest on the funds advanced by the society at its to its members should not be reduced.

A Society usually keeps adequate margin between its borrowing and lending rates to strengthen its financial position and to meet its over-all expenses. In 1949-50, the

different between the borrowing and lending rates of interest of agricultural credit societies was as low as 1½ per cent in Madras; ½ per cent in Travancore-Cochin; 1 to 2 per cent in Coorg and Mysore; 1½ per cent in Bhopal and 2 to 3 per cent in Bombay. In other states the difference between the lending and borrowing rates of these societies was more than 3 per cent.

From this, it may be inferred that on an average the interest rates charged by agricultural credit societies to their members is approximately 9 per cent. In a poor country like India, where farmers hardly get their subsistence income, this interest-rate on the loans advanced for credit needs is rather high. There is room for reducing interest rates on the loans advanced to farmers.

The Gadgil Committee suggested that the rate of interest charged by a society to its members on the loans advanced should not exceed 6½ per cent for short-term credit requirements and 4 per cent on development finance. It suggested that Government should subsidise societies that have higher maintenance costs due to small and uneconomic units to enable them to lend at lower interest rates to members. They held that central banks should lend to agricultural credit societies at 4 per cent allowing a margin of 2½ per cent between their borrowing and lending rates for their economical running. A differential

1. Reserve Bank of India: Review of the Co-operative Movement in India, 1948-50, 1952, the difference is worked out from the statistics given on p 196.

interest rate may be charged in favour of those who make punctual repayments. This will have a healthy and educative effect on other members.

A novel suggestion made by Dr. A. I. Qureshi that primary credit societies should make interest-free loans for socially necessary but unproductive purposes in order to encourage prompt repayment of the loans advanced is neither payable advisable nor feasible on grounds of economic consideration.

Management of an agricultural credit society is democratic and mostly honorary. It is entrusted to two bodies; to a General Body of all members of a society at a General Meeting. At its annual meeting the General Body elects members of the Managing Committee which usually consists of five to nine members; appoints the staff and fixes the remuneration; receives from the Managing Committee a report on the preceding years working of the society together with Statements showing the receipts and expenditure, assets and liabilities, and profits and loss for the year; considers the audit reports and communications from the Registrar; fixes the amount of capital to be raised under the by-law and the maximum normal credit of members; amends the by-laws of the society and takes up for consideration brought forward by any member. General Meeting may be called if a definite number of members or a majority of the Managing Committee or the Registrar so desired.

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to consider special or general problems. Whenever a General Meeting is called, members are previously intimated about the same.

Members of the General Meeting delegate the powers of executive business to the Managing Committee. Each member has only one vote irrespective of his interests in the society. The Managing Committee observes in all its transactions the Act notified rules and by-laws; deals with applications from membership, maintains a register of members up to date; controls the staff, including appointments, remuneration, leave supervision and dismissal; frames subsidiary rules for the efficient conduct of business of the society; deals with loan application for their renewal, extension, watches over their proper utilization; takes legal and authorized steps for their recovery including the execution of decrees and enters into compromises in cases of dispute of just doubt; handles the purchase and sale of properties on behalf of the society; fixes from time to time interest rates on loans and deposits of all kinds subject to limits laid down by by-laws; maintains accounts of sums or monies received and expended and arranges for their regular audit; frames the annual budget, prepares and presents the actual profit and loss account before the General Meeting; invests the funds of the society judiciously; hears and disposes of petitions and complaints and carries on the general executive management in the best interests of the society.

The by-laws of a society should clearly define the allocation of functions between the Managing Committees and the General Meeting. On the one hand, the position of the General Body as the supreme authority in all matters concerning the administration of the society should be confirmed and safeguarded while on the other hand, it should be seen that the powers of executive management of the society are delegated to the Managing Committee. The General Body should not, except in rare cases, interfere in the day-to-day administration and working of the Managing Committee.

For the proper management of a society it is necessary to see that members of the society in general and that of the Managing Committee in particular are qualified, intelligent and enthusiastic enough to participate actively in the management. Members of Managing Committee may be disqualified on grounds of under age; holding office or a place of profit under the society or having relatives who do so; holding less than a specified number of shares or having been a member for less than a specified period; carrying on any business similar to that of the society, such as moneylending etc.; acting contrary to the interests of the society and remaining continuously absent from meetings of the Committee. A member of the Committee may be disqualified if he is a defaulter of the society for a period exceeding six months, if a majority of the members desire his dismissal, if he is insolvent, imprisoned for criminal offence or is an insane.

Every member has one vote and no more irrespective of
his interests involved in the society and management to that extent is democratic. The Chairman elected by the members of the Managing Committee presides over the meetings and has a casting vote in case there is a tie. Usually, except the Chairman and one or two members of the Managing Committee, nobody takes active interest in the management of the society.

Holding a minimum number of shares for eligibility for membership of a Managing Committee is undemocratic and therefore undesirable. It means virtual exclusion of the poor but honest and hardworking members from the management of the society. The primary motive of an agricultural credit society is not to make profit for members but to promote thrift among the members to accumulate sufficient working capital and reserves and to treat every member on an equal footing. From this standpoint, a man with a single share may have as much interest in the efficient working of the society as a member with greater stake in the society.

The General Body should select those whom it considers best fitted to guard and promote the interests of the society. Membership on the Managing Committee of more than one society to a person should be allowed only if the person is capable of doing adequate justice to all the societies in fulfilling his duties and responsibilities.

Though the final authority of the affairs of a society is vested in the General Meeting, it is nominal due to general illiteracy and apathy of the members in the working of the
society. To create interest among the members in the management of the society there should be frequent General Meetings, but in actual practice, even the annual General Meeting is thinly attended. Some societies attract members at the General Meeting by the arrangement of social functions and such other entertainment features. Members' apathy to management of the society encourages, even necessitates, interference of the central banks in the working of the society and sometimes gives undue power and importance to office-bearers leading to favours and corruption in the society's business dealings.

The scarcity of literate persons in villages is a great handicap to societies in recruiting its staff. The knowledge of account keeping is not known to most of the villagers and usually the services of a school master as a secretary of the society is sought for. Some societies because of their small size and limited business cannot afford to have a paid secretary and in such cases a well paid full-time secretary is appointed by a group of neighbouring societies. The system of group secretary has the advantage of economy but the practice should be adopted only as a temporary expedient, for, it leads to the concentration of power in the hands of the secretary and the inevitable concomitants are the malpractices and inefficiency in the management of the society. Under such a system, the group secretary keeps the accounts, does clerical work and conducts meetings of as many a
as ten to fifteen societies. These secretaries in going about from place to place get tired due to overburden of work, and the work, therefore, suffers. Sometimes the result is the manipulation of accounts or misappropriations of the societies' funds. The success of the Group Secretary system according to the Madras Committee on Co-operation depends upon "the conditions of societies to be grouped for the purpose, their proximity to one another, sufficiency of know their resources for contribution towards the maintenance of trained group clerks, honesty of the clerks appointed and proper control and supervision over them." They opined that the system has, in the past led to the abuse of power and may only be introduced as a temporary measure in the economically backward areas. As the conditions for the success of this system advocated by the Madras Committee on Co-operation are difficult to fulfil, it is advisable for a society to have its own well-paid full-time secretary as soon as finances permit. Happily, the system is gradually dying down in most of the States.

As far as possible a secretary should be selected from among rural people. He should be a local man and be entrusted with clerical work, such as the writing of accounts and minutes and should not be allowed to take into his hands any of the functions of the Committee. The management of the bank should be done on the spot by local people, locally trained.

A local secretary capable of performing duties even in an inferior way is preferable to a more competent man brought in from outside. What is necessary is to make strong the base and the management at the apex will take care of itself.

The Secretary of the Managing Committee of a society has to perform a number of duties such as to maintain correct and up-to-date papers and registers; to procure from borrowers the due execution of bonds with security; to prepare all receipts vouchers and documents required by the notified rules or the by-laws, or called for by the Committee; to record the proceedings of such meeting and have them duly signed to prepare the annual statements and to clarify entries in books.

It is a general complaint in all the States that the secretary and other staff members of a society are highly inadequately paid, in relation to the work they have to perform. As far as possible the services of honorary workers are utilised. Only the secretary of a primary society is paid and he also does not always get the remuneration for writing society's accounts and such other duties. A Secretary, if he is not a member of the managing committee receives a pay or an honorarium with the sanction of the general meeting. To ensure efficiency of work from the secretary, she should be remunerated according to the society's financial standing and his general competence. Savings effected by an economy through

low-paid secretary and staff in bad economy will adversely effect the society's finances in the long run. The secretary should be given security of tenure of office to show his mantle and may be appointed for a term of five years.

Views differ regarding period of office on the managing committee of a primary society. Period of office of the members on the managing committee of a society should not, in general, exceed one year. A monopoly of office prevents detection of mistakes and irregularities in the management of the society and fails to educate a large number of the members in the management of the society. What is necessary is the creation of opportunities for more and more members of the society to get an intimate knowledge of the working of their institution and to train them in their managerial duties and responsibilities. Membership or directorship in a managing committee for a period exceeding three years should be prohibited and such a system of "ancestral right" should be abolished. This can be done by amending by-laws of the society providing for the compulsory retirement by rotation of a certain proportion of the committee members, say one-third every year and their replacement by new members should be from young and enthusiastic people coming forward to serve the society.

It has been held in some co-operative circles that continual change in the personnel of the managing committee will mean negation of opportunities to those who have the mantle to show their work and efficiency of management in the
affairs of the society. Constant change will lead to inconsistency in policy and management of a society's affairs. Sometimes lack of qualified managing personnel necessitates the continuance of experienced men on the committee of the society. The Madras Committee on Co-operation preferred "to trust the collective good sense of the members of societies and the spread of education among the agricultural community as adequate checks upon the vagaries of the office-bearers and panchayatiars of societies".

It is true that the interests of those societies who have no permanent staff fully conversant with past transactions as well as with routine work suffer, but this difficulty can be obviated by appointing a full-time paid staff to perform the above duties. The members and the Chairman of the committee should properly supervise and control the work of this staff. Such a policy will have the advantage of experienced paid staff and will serve as an alternative to permanent personnel on the managing committees.

The se vices of the members of the Managing Committee elected every year in many rural credit societies are honorary. The spirit of honorary service has not yet adequately developed and slackness and indifference are noticeable to a great extent in management, when scrutinizing demands, exercising moral pressure for recovery, restricting expenditure, etc.

Members of the committee who are also office-bearers may work honorarily if the work is simple and can be done during leisure hours. Where the work is complicated, heavy and demands much time from members, an honorarium should be paid. The Secretary who is usually overburdened with work should be paid a salary and bonus as reasonable remuneration for his thankless task. The services of members may be solicited for part-time work with some payment. The members may be requested to serve honorarily for definite purposes such as for internal audit, the management of stores and for small and simple work. Bonus or honorarium is also made on a percentage appropriation from the net annual profits of the society. The system of payments on loans outstanding is highly objectionable; for, it induces the office-bearers to adopt malpractices such as the manipulation of accounts, the recording of loans extended as fresh loans, showing outstanding loans as high as possible at the end of the year and inclusion of bad and doubtful debts as loans advanced though no interest is actually realizable on them.

The staff members of the society should be appointed on a fixed salary, particularly in those societies whose business is large and the work to be attended is heavy. The increased business activity naturally draws sufficient funds to maintain the paid staff. For a secretary the remuneration should depend upon the efforts put forth by them in the collection of members' dues in each individual case, subject to a maximum percentage of the net profits earned by the society. The payment of remuneration to a secretary on audit classification
of the society is a better method and the remuneration may be increased or a premium be given to the secretary as the society is promoted from grade to grade in its efficiency rating or audit classification.

The cost of management of agricultural credit societies on an all-India average formed 2.4 per cent of their working capital. The management cost of these societies varies widely in various States and even among individual societies, depending partly on the lines of activity taken up. On an average, the cost of management of an agricultural credit society in 1949-50 in India was Rs 72. For the country as a whole, in the same year the average cost per member of an agricultural credit society was Rs 1.7. Statistics The cost of management per member of agricultural credit societies was as high as Rs 8.4 in Saurashtra and Rs 8 in Bombay; as contrasted with a little more than a rupee in Madras, the Punjab, Mysore, Rajasthan, Travancore-Cochin, Jammu and Kashmir, and Coorg; it was as low as two annas in Hyderabad and Madhya Bharat.

The high management cost of agricultural credit societies may be either due to inefficient management or to the employment of competent staff with high salaries to look after the varied transactions undertaken by the agricultural credit societies into fields other than credit. There is scope for the reduction of management cost in these societies provided gratuitous service of honorary workers with a "co-operative frame of mind" is available. The employment of
qualified and experienced people with proportionately higher salaries will in the long run improve the financial position of the society and decrease the average management cost.

Unsatisfactory condition of the working of a rural credit society is due to lack of trained, intelligent and unselfish members on the managing committee of the society. Contributing factors to the mismanagement of the society are the negligence, partiality, irresponsibility and general apathy of the members. In many societies except one or two active members of the managing committee, the rest are indifferent and wider publicity of the functions and working of the society is neglected. Lack of training and understanding of the principles of co-operation on the part of the members and of local leadership are other contributing factors to the mismanagement of the societies. Frankness and the sense of trusteeship are at times subordinated to individual considerations, ignoring the broader interests of the institution as a whole. The Royal Commission on Agriculture opined that the "members take insufficient interest in the working of their society; they exercise little restraint over their president and committee, and hesitate to evict from office an incompetent or dishonest neighbour."

Because of insufficient interest taken by the members in the business of the society, the office bearers and staff-members cannot resist the temptations of misappropriating loans
by making advances without proper scrutiny, favouritism in the loans granted and indifferent attitude in taking strict action against defaulters. The result is a demoralizing effect and criminal offences and frauds are committed. In Bombay, U.P. and Madras criminal proceedings against such frauds are proportionately great in number. This dishonesty of office-bearers is a bane on the movement.

The Registrar in some States has been given the power to supersede the managing committee of a society if it is found that the working of the society is highly unsatisfactory and threatens its very existence. Either the Registrar or his nominee takes charge of the society until restored to normal working. If it is not possible to put the society on a proper footing, it is ultimately liquidated. The effect of this threat of taking over the management from the managing committee or the society has many a time proved to be very healthy and some societies have shown marked progress which otherwise would have been liquidated. In some cases in Madras the members of the managing committee of societies have requested the Registrar to supersede the societies by appointing agents to bring the former to a better position. Before a society is superseded the Registrar should however give a chance to the members and managing committee of a society to decide what action they intend to take. The Registrar may also approve a society's request to allow it to work on the condition of showing improvement in management.

A society should, for its safety and sound financial
standing see that the funds advanced by it as loans are neither frozen nor misapplied and that repayments are regularly and punctually disbursed. The repayment of the loans may be fixed in consideration of the repaying capacity of the borrower, the yield of crops, the prevailing agricultural prices and his other socio-economic obligations.

A society should take proper safeguards against the non-repayment of loans by its members. Section 19 of the Indian Co-operative Societies' Act 1912 entitles a registered society to enforce its claims prior to any other creditors save the Government as against crops, agricultural produce, cattle, implements and raw materials. This provision acts as a deterrent to the malpractices of the moneylenders in the sphere of agricultural finance, imposes a salutary restraint on borrowing from outside sources, and brings about a partial sterilization of credit from private agencies, besides ensuring prompt repayment of loans to societies and reducing the chances of default. In case of misapplication of loans, the society should immediately recall them and especially when loss is imminent through deterioration in the assets of the borrower or the surety. To effect repayment of short-term loans is easier, for they are advanced against standing crops and the recovery of the sum is made out of the proceeds of the sale of the produce; or, in other cases, out of the proceeds of the use of the loans. For intermediate-term loans the funds are recovered from borrowers in compulsory annual or biennial instalments on each crop in case of loans to agriculturists.

Punctuality in repayment of loans advanced should be
insisted upon by persuasion and not by imposing penal interest. Debts may be given for regular and prompt repayment. The members of the managing committee of a society should be held personally responsible, jointly and severally, for the repayment of loans which by their negligence may become overdue. In some societies, as members of the managing committee themselves are involved as defaulters, they cannot take action against others. Registrar's power of cancellation of a society, the withholding of finance by central agencies in case of mismanagement and the spread of education among the members of the society in the privileges and responsibilities of co-operation will induce the office-bearers of the society to take action against the defaulters.

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The Madras Committee on Co-operation among the safeguards against the accumulation of overdue the supply of credit for all legitimate needs of members; prohibition of outside borrowing; relaxation of individual maximum credit in necessary cases; grant of loans only for short and medium-term purposes; control of unproductive borrowing and of loans for domestic and social expenditure; adoption of forecast system and controlled credit; introduction of cash credits and creation of first charges on the produce of members' holdings. If a member is a persistent defaulter for more than a certain period, say three months, he should be disqualified

from membership of the managing committee. Societies and central financing agencies should thoroughly examine the financial position of the members of the managing committee with special reference to the loans outstanding against them. Supervising authorities and central financing institutions should educate members and insist upon the rigorous enforcement of the by-laws in repayment of loans. In the event of failure to take action against defaulters by the societies, the central banks should take coercive action for the recoveries of outstandings.

While prompt repayment of loans should be rigorously insisted upon for any instalments due, proper regard must be had for any change in the normal circumstances that makes the borrower unable to pay in time. If the borrower is not a wilful defaulter, he may be given a reasonable extension for the repayment of a loan. If borrowers are likely to repay their dues in full provided they are given certain concessions in the form of reduced rates of interest, such concessions may be granted on the condition of future regular payment.

Liberal attitude by co-operative societies towards the laxity and unpunctuality in repayment of loans by members is a dangerous practice. In many cases due to lack of sufficient interest of members in the working of the societies office-bearers advance loans without proper scrutiny. Book-adjustments, that is, nominal repayment and re-advance of a fresh loan on the same debt make it difficult to determine
the real work of the societies. Whenever the repayment and
the re-issue of loans are shown simultaneous there are grounds
for suspicion of fictitious adjustments, for, the time of
repayment and the borrowing of loans normally does not coin-
cide. A remedy to correct this evil practice may be found in
prescribing a suitable interval between the two transactions
(that of repayment and issue of loans) and through vigilance
at inspection to expose all such malpractices. Frequent
renewals of the same loans on small payments are common. In-
sufficient scrutiny of loan applications, greater reliance on
tangible scrutiny than on the productivity of the loan
advanced, defective arrangements for the valuation of the
property and for verification of title, negligence for the
recovery of dues, liberal attitude in the enforcement of
recovery, wilful default and demoralization among the
members are some of the important causes of the accumulation
of heavy overdues. In many societies either the members of
the managing committee themselves were defaulters or their
relatives and neighbours were involved as defaulters. Members
of the managing committee showed an indifferent attitude
in enforcing strict recovery against the recalcitrants lest
they should incur the unpopularity attendant upon such action.
The system of calculating overdues differed from province to
province; in many the interest overdues were excluded from the
principal overdues though the former formed a considerable
proportion of the total overdues. There was a general neglect
of the observance of strict co-operative principles.
All these factors led to the heavy accumulation of overdues, and the freezing of the assets of the societies naturally resulted in the clogging of the business and paralyzed the working of the co-operative movement over large parts of the country. "Mounting overdues raised a problem which became acute during the depression years, when past seasons of overborrowing and under-vigilance, coupled with low prices of agricultural products and aggravated sometimes by successive years of crop failure brought the movement to the very brink of disaster in several provinces and states."  

Strict enforcement of recovery against defaulters was not of much avail since it was difficult for societies and the central banks to dispose of the lands which they had with them as security against the loans advanced.

Effects of the depression of 1929 were very severe for the agricultural credit societies in particular and for the movement in general. During the depression, 93 per cent of the outstandings in Assam were overdues and as a result there developed despondency and nervousness among members of agricultural credit societies resulting in reluctance to pay; in Benar overdues mounted up by capitalization of interest and sharp fall in recoveries; in U.P. societies were burdened with a mass of overdues due to a succession of bad harvests and defective loan policy with repaying capacity almost

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disappeared; in Hyderabad frozen overdues had to be treated as long-term loans and overdues and past debts were sealed down to the limit of recoverable debts by easy instalments spread over a number of years, and, in Bombay, rebates in interest based on graded repayments by members were granted. All profits of the whole year of the agricultural co-operative credit societies in Bombay were distributed as rebates in interest without carrying any portion to the reserve fund. In the Punjab, at the end of the recovery of principal overdues, the interest overdues were transferred to the interest suspense account. It may, however, be noted that the amount in interest suspense account is not necessarily irrecoverable. The co-operative movement would have utterly collapsed during the depression in C.P. and Berar, Bihar, Orissa, Assam, Bengal and other parts of the country had not the Government of the respective areas come to the rescue of the co-operative societies. Strict enforcement of recoveries in Delhi, the Punjab, Berar and at many other places brought the movement into disrepute. Those other than the wilful defaulters were also victimized by the repayment enforcement policy of the departments and in some places due to liquidation of societies defaulting members became so nervous that they altogether left agriculture and their villages too.

In some parts of the country, especially in the Punjab, and Mysore, the Co-operative Departments had to encounter strong resentments of defaulters and village people while
enforcing coercive measures for the recovery of societies' dues. Societies themselves were not prepared to take stringent action against defaulters for fear of unpopularity. The Madras Committee on Co-operation went so far as to recommend that a move against defaulters be made only after three months, giving extensions in all deserving cases and closing the loan accounts in all others. In the Punjab, the Department of Co-operation refused to make further recoveries except for those societies which were under liquidation or were likely to be liquidated.

There, no only did the members conceal information concerning the custody of books but resorted to a criminally aggressive attitude. In 1925, one liquidator was assaulted and badly wounded; in other case, a police sub-inspector had to use his pistol to protect the liquidator in Ferozepur District of the same province in 1930. An execution agent and the nephew of a zealous society president were murdered.

Since the second World War due to a rise in agricultural prices there has been a marked improvement in the total outstandings of societies against members. Much of the larger proportion of the loans considered frozen and irrecoverable before the War was recovered and this liquefaction of the frozen assets placed the societies in a better financial position. Due to prompt repayment of new loans taken, the outstandings against members stood at low figures. The amount
repaid exceeded the fresh finance and as a result the members-borrowers liquidated a good part of their old debts. A large turn-over, early repayments and decline in the overdue strengthened the position of societies. Unfortunately, as soon as the farmer cleared off his old debts because of high agricultural prices, he lost his incentive to save and reverted to his old habit of improvidence. The member-agriculturist, therefore, lost a unique opportunity to save and deposit the same in his credit society and the latter in its turn could not raise its working capital by attracting its members' funds from their inflated incomes.

In recent years the recovery position has been on the whole satisfactory and repayments have kept pace with the increase in the advances. Nearly Rs 17.99 crores were advanced by co-operative societies in Madras and Bombay alone. Outstandings stood at Rs 24.96 crores and overdue (Rs 5.36 crores) formed 21.5 per cent of the outstandings. That the position in general is improving is clear from the fact that in 1945-46 the All-India figure for the percentage of overdue to outstandings in the case of agricultural credit societies was as high as 36.8 per cent. In Madras and Bombay overdue were 17.2 and 18.5 per cent respectively in 1949-50 of the total outstandings. In West Bengal overdue were very high, viz., 67.1 per cent of the outstandings; in Vindhya Pradesh they were as high as 83 per cent and in Bhopal 90 per cent, in the same year.

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1. Reserve Bank of India: Review of the Co-operative Movement in India, 1939-46 (Agricultural Credit Department, Reserve Bank of India, Bombay), pp. 3-4.
According to the Maclagan Committee on Co-operation the causes that necessitate recourse to the power of dissolution are various and include "want of supervision, indiscreet loans, contumacy of borrowers, unpunctuality in repayments, the restriction of a loan to a few individuals, dishonesty and incompetence of society officials, bad selection of members, the extension of a society over too large an area, concealment of old debts, faulty constitution, internal dissensions, insufficient funds or membership, the preponderating influence of one member and general lack of interest by members in the affairs of the society." Dissolution of a society should be taken up only in the last resort, for the liquidation of a society creates a gap in the field of cooperative finance. The arguments that by moral pressure on members the matters should be set right holds good only during fairly prosperous periods. Moral pressure upon members as an alternative to the wholesale execution of awards did not bear any fruits as happened in Delhi, Bihar, Orissa, the Punjab and Sind during the depression. Dissolution should be resorted to only when all methods of recovering arrears, conciliatory as well as coercive are exhausted; most of the outstanding debts are either bad or irrecoverable and conditions are beyond control and cannot otherwise be set right. As had happened during the depression the recovery of dues after liquidation becomes all the more difficult because alienation of

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properties or combinations among villages are common; criminal and aggressive attitude of defaulters have to be encountered and disposal of lands becomes difficult due to a fall in prices. Hasty and indiscriminate dissolution of societies would be a policy of "kill rather than cure."

Mortality among the primary societies had been disturbingly high before the Second World War. Mr. N.L. Darling estimated that by the end of 1934, 24 per cent of all the societies started since the beginning of the movement were liquidated. Since the Second World War, the percentage which the societies under liquidation represented of the total number of societies is steadily on the decline; in 1938-39 it was about 8 per cent of the total societies, in 1946-7, it was about 6.41 per cent and in 1949-50 it was only 2 per cent.

An increase in the percentage of societies under liquidation is not a bad sign provided the aim is to purify the movement by weeding out undesirable and weak institutions so that the remaining ones might grow in a healthy atmosphere. Contribution of war has been the strengthening of those weak societies out of the crisis which threatened to overtake them during the depression.

In 1949-50, 3364 societies out of a total of 169.66 thousand societies were brought under liquidation. In Hyderabad State alone, 2369 societies were actually wound up, representing 14 per cent of the total societies in the State. During the same year for the country as a whole assets of the value of Rs 42,41,6 lakhs were realized and liabilities amounting to
Rs. 28.7 lakhs were paid off. On 30th June, 1950, a sum of 242 lakhs was outstanding under assets in 10,478 societies under liquidation which owed Rs. 79.6 lakhs to their shareholders and Rs. 162 lakhs to their creditors.

Unnecessary delay in arbitration and liquidation of societies is a drawback in the movement. Arbitration for settlement of disputes between a society and its members is necessary to save time, energy and funds of the society. Arbitration serves the purpose of checking litigation by exempting the society from the jurisdiction of the ordinary civil courts and procedure. It is a general complaint that arbitrators delay in their awards and the boards of arbitration are so slow that the Registrar has in some cases to withdraw the cases referred to them. To make arbitration a success what is needed is the right type of adequate staff impartial, possessed of the knowledge of co-operative principles and law and having acquaintance with the court procedure.

Arbitrators may be paid a small fee where necessary to meet incidental charges. Most of the cases referred to them are of simple nature; however, as far as possible, qualified honorary arbitrators may be appointed. In exceptional cases, higher fees, with travelling expenses, if any, may be paid.

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Co-operative departments have not been very fortunate in the matter of selection of liquidators and it is desirable that the liquidators should be well-qualified and appointed preferably from retired officials of the Co-operative Departments. In large number of cases, societies are not taken into liquidation even after they have ceased to function for a number of years. If the societies are to be liquidated as a part of the policy of reconstruction, what is needed is a far more suitable and economic method than the existing one. Greater speed and efficiency of the liquidators would reduce liquidation delays.

It is necessary to see that the societies do not reach the stage of liquidation, but if it is inevitable, it should be carried through before individual defaulters dispose of their property and become insolvent. It is dangerous to let the matters drift in such cases both for the society as well as for the members. Much of the delay that exists to-day in the progress of liquidation work will be remedied if more efficient men as liquidators are appointed and careful watch and control are exercised by the Registrar or his nominee.

To check the destroying of the books and misuse of the cash by the members of a society in the intervening period between its cancellation and liquidation, an inspector should be appointed by the Registrar to take over the charge of its books and cash until the liquidator is appointed. In the

absence of such an arrangement, the possibility of destroying
the books of the society or the refusal to hand them over to
the liquidator is genuine, for, such cases have taken place
in the Punjab where sometimes the officials in charge of the
books of the society, with the support of the members of the
managing committee have refused to produce the books or to
give the necessary information.

Liquidation before cancellation is preferable to the
reverse practice adopted in some States. The Madras and the
Mysore Committees on Co-operation recommended the adoption of
such a practice in their provinces and Bombay is already
following the same. Such a practice has the advantage of giving
the societies a chance of revival. The Registrar, may, in the
last resort, cancel the society after a reasonable time is give
to it to rise to its feet. A provision giving a chance to
societies to improve their position will be an alternative
to the last remedy of all, namely, compulsory liquidation.

No special recovery staff for execution work has been
appointed in U.P., West Bengal, the Punjab, Madhya Pradesh,
Mysore and Hyderabad. In Mysore the employment of special
recovery staff is under consideration; in Hyderabad, inspectors
and supervisors attend to recovery work; in M.P. circles
auditors are empowered to recover arrears. In Madras, there is
a special staff of the grade of the junior inspectors sanctioned
for employment in connection with the execution work. In
Assam, an officer appointed for liquidation work is assisted
by a number of wholetime liquidators. In South Orissa, the
the Assistant Registrars are responsible for execution and they have a number of inspectors under them for the work. Apart from this, there is no separate staff. The Deputy Registrar for Arbitration, Execution and Liquidation in Travancore-Cochin is in charge of the recovery work. His orders are carried out by the inspectors under him. The inspectors who are also sale officers for execution of co-operative decrees have powers of distraint, attachment and sale of properties of debtors. In Bombay, unlike in Madras, the proper recovery of overdues of co-operative societies is effected through civil courts and revenue officers In some cases, however, where large amounts are involved, special recovery officers are appointed to do the task and they are from the staff of the Revenue Department.

The appointment of a special recovery staff in every State will result in greater efficiency in the recovery of overdues and general financial position of the society. A well-qualified and adequate staff is the only effective remedy to increase the recoveries.

Audit, Inspection and Supervision. In India, whatever good qualities an average member of an agricultural credit society possesses, he is usually poor and ignorant of business methods and, therefore, may not be trusted for the suff efficient management of the

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society. Constant and vigilant scrutiny of the accounts and of general management of a permanent nature is necessary in the interests of the members and the society as a whole. Audit, inspection and supervision of societies at regular intervals are therefore necessary to ensure good management of the society.

Audit lays emphasis on accounts, supervision on administration and inspection on finance. There is a good deal of confusion regarding the differentiation of the functions of audit, inspection and supervision. Even if we leave aside audit, which is usually the statutory duty of the Co-operative Department, there persists confusion as to the institution with which the responsibility for supervision and inspection should lie. There is no uniform practice concerning the discharge of these functions. Audit is sometimes delegated to the professional auditors, local auditors, or other auditors appointed by the Registrar. Similarly, in different States, different agencies supervise the co-operative institutions. Provincial Co-operative Institutes and Co-operative Unions take up the supervision and inspection of societies under their jurisdiction where the co-operative department does not carry on these functions. Usually, inspection of co-operatives is undertaken by the Co-operative Department and by a separate staff employed for this purpose. In some States, as in Baroda before its merger to Bombay, all the three functions—audit, supervision and inspection were carried out by the
co-operative department. In some places audit and supervision in some audit and inspection and at other places the supervision and inspection of the societies are entrusted to non-official agencies such as Pro-Visional Co-operative Unions, Supervising and Banking Unions or to central banks.

The overlapping of those functions overburdens the staff, whether official or non-official. In fulfilling their duties efficiently. Such a system of non-separation of functions adversely affects the required degree of independence of their normal duties. Audit should be separated from supervision and control. The Madras Committee on Co-operation recommended that to ensure efficiency there should a differentiation right through between the audit and administrative branch of the department.

Every society entrusted with the money of people should get its accounts audited in the interests of its members and inve-stors. Audit of all co-operative societies is the statutory duty of the Registrar. He may delegate it either to his subordinate or to a non-official agency. For the audit of co-operative societies Section 17 of the Indian Co-operative Societies' Act, 1912 reads:

"(1) The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year."
"(2) The audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.

"(3) The Registrar, the Collector or any other person authorised by general or special order in writing in this behalf by the Registrar shall act at all times have access to all the books, account papers and securities of a society, and every officer of the society shall furnish such information in regard to the transactions and working of the society as the person making such inspection may require.

Sub-sections (1) and (2) (h) of section 43 of the same Act give Local Governments power to make rules prescribing the accounts and books to be kept by a society and providing for the audit of such accounts and the charges, if any, to be made for such audit, and for the periodical publication of a balance sheet showing the assets and liabilities of a society.

Audit, which is one of the most important functions of the Registrar was conducted by himself in the early stages of the movement. With the increasing number of societies and pressure of work it was impossible for him to undertake the work and he was forced to delegate the conduct of audit to his subordinate officers; and, later on, to non-official agencies in some parts of the country.

A person auditing the accounts of a rural society has a
more comprehensive duty to perform; a duty, which requires local knowledge and sympathy towards the village people, as well as a grasp of the aims and objects which a co-operator must steadily keep in view. The auditor must have a "co-operative frame of mind"; should deal tactfully and gracefully with the poor cultivators-members and should have a humanistic touch in his conversation and teaching.

The audit of a cooperative society includes a detailed inspection. The MacLagan Committee on Co-operation defined audit as involving not merely the preparation of the balance-sheets of the societies, but also a sufficient check, in accordance with such rules as the Registrar may lay down, of the list of the material assets of the members. The audit should "...extend beyond the bare requirements of the Act and should embrace an inquiry into all the circumstances which determine the general position of a society. It would, for instance, be the duty of the auditor to notice any instances in which the Act, rules or by-laws had been infringed, to verify the cash balances and certify the correctness of accounts; to ascertain that loans are made fairly for proper periods and objects and on adequate security, to examine repayments in order to check book-adjustments and improper extensions, and generally to see that the society is working on sound lines, and that the committee, the officers and the ordinary members understand their duties and responsibilities.


In almost all the States, audit is the statutory duty of the Co-operative Department. Usually, with the previous sanction of the Registrar, professional auditors are appointed to audit the accounts of Provincial Co-operative Banks, Central and Co-operative Banks and other major co-operative institutions. The rural credit societies are audited on the spot by the local auditors.

Generally audit staff consists of two bodies, the Government or the departmental staff and the other maintained by the societies themselves. Those societies which receive grants from the Government towards their expenses of audit, are superaudited by the Registrar or his nominee. Larger societies and central institutions have their own panel of auditors to audit their accounts; the panel being selected from recognised auditors by the Registrar. Some societies got their accounts audited by qualified and competent local auditors with the approval of the Registrar, where non-official agency audits the accounts of societies, a super audit by the Government is provided.

Audit of agricultural credit societies is usually carried out by the junior audit staff of the co-operative department or by the non official agency. In Madras, most of the co-operative societies are audited by the department officers consisting of junior and senior official inspectors. Sub-auditors normally audit all agricultural credit societies in Bombay. In Bihar assistant and local auditors audit rural credit societies and the divisional auditors conduct a test audit of the societies audited by the former. The sub-inspector
maintained by the Punjab Co-operative Union, some of whom are Government-paid employees audit primary societies and these societies are superaudited by inspectors of co-operative societies every year. The society auditors generally audit primary societies in Madhya Pradesh.

Over and above the audit undertaken by the departmental staff, every society, large or small, should arrange for a continuous daily, or at least weekly, internal audit of the accounts, by the committee or by one or more of its members. The internal auditors may be given a small bonus every year as their remuneration. Such a system of a concurrent internal audit secures increased efficiency in the management of the societies. A society, if it can afford, should have a full-paid audit clerk to work directly under and responsible to the president of the society for checking or auditing of the accounts of the daily transactions. Such an audit should include the verification of cash balances, scrutiny of receipts, examination of vouchers, checking of overdrafts, etc. Such a practice of internal auditing will enable the members of the society to know the working of their organisation, to check errors and irregularities and correct them quickly and give the members a valuable lesson in the general management of the society.

In larger societies, there must be a good system of internal check. If possible, an efficient auditor or accountant must be employed to audit the accounts daily. The accounts including ledgers, balances, outstandings, etc., must be scrutinized at least once a week or a fortnight by the
It is necessary that auditors of primary societies are intelligent, efficient and sympathetic enough to mix with the rural people; are well-acquainted with rural conditions; are not only well-versed in the principles and practice of the movement but also understand the particular nature of the societies which they are to audit and the work upon which the societies are engaged. For the original audit of primary societies, ultimate agency employed should be a purely non-official one drawn preferably from the local areas. The aim should be the utilization of the services of the local people in the shape of selected members of unions and societies. Such men should be remunerated for their services and trained by a federation or other training institute. Registrar or his nominee may superaudit and officially inspect the work at reasonable intervals.

Usually, with the previous consent of the Registrar a primary credit society appoints non-official auditors. They are paid either from an audit fund raised by a levy on the annual profits or working capital of co-operative societies or are paid and controlled by a Provincial Union. Generally, in the case of village credit society a non-official auditor is the resident of the area in which he works. He is sometimes elected from among the secretaries of societies and is promoted to the rank of an official inspector. Non-official local

1. H.R. Crosthwaite, "The Problems of Audit", in Eybark's (editor) Indian Co-operative Studies, 1920, loc cit, pp. 159-60.
workers auditing the societies and other official or executive authority are forbidden to handle the money of the societies. Local auditors are preferable, for, they have more time to examine the proceedings of the society and they can devote their spare time for propaganda and general supervision. Their efficiency with experience is in no way inferior to official auditing staff and it is desirable that more and more audit work of primary societies should be entrusted to them.

The audit of co-operative societies should be gradually but steadily transferred to the non-official agencies. The permanent audit staff maintained by Government Co-operative Departments under the Registrar of Co-operative Societies is likely to audit the accounts of societies in a mechanical way. The permanent Government staff is usually inadequate to audit properly all the co-operative societies due to heavy pressure of work and trying nature of work necessitating prolonged touring from village to village. Departmental staff would look to the audit of the societies from without because non-members of societies might not know so well the instructions intricacies and complexities of the societies' business accounts. Departmental auditors may not have sufficient knowledge of local affairs which is an important factor in the auditing of a rural society. Therefore, audit by Government servants may at best be considered as an unsatisfactory substitute. Servants may at best be considered

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Instead, if the functions of the Registrar and his nominees are confined more and more to teaching and training of co-operators to do things for themselves, there will be an increase in the number of trained non-official auditors, saving of Government expenditure on the whole, and relieving of the Government audit staff from their overburden of work. There may be kept some kind of supervision in the form of a test audit but otherwise the audit business may be relaxed in favour of non-official agencies under the general supervision of the Government.

Auditors whether official or non-official, should not be allowed to audit the societies for more than three to five years. An auditor may be permitted in a particular area, to audit societies for a period of three to five years to ensure continuity of audit desirable to make sure that the instructions regarding audit and other matters given by him are carried out properly. The centralisation of audit for a longer period for official or non-official agencies will be harmful because the monotony and the pressure of work are such that the auditors become careless about the proper and strict examination of accounts and other problems of the society.

For the appointment of auditors, the Registrar, should, after consultation with the societies concerned, make a careful selection of persons with the necessary qualifications, experience and character. The Registrar will fix the remuneration of the auditors on a sliding scale based on transactions, working capital and the net profits of the societies. In addition, any out-of-pocket expenses incurred
in the way of cost of travelling may also be paid to the auditor.

In order to meet the expenditure incurred in maintaining the audit staff it becomes incumbent upon the Government to levy certain fees for the audit of co-operative institutions. In the beginning, when the movement was in its formative stage, the fees for audit of societies were not charged as an encouragement to infant societies. Even to-day audit fees are not charged from societies organized for the welfare of the backward classes, such as societies for Harijans, forest laborers, aborigines and anti-malarial societies. The Royal Commission on Agriculture held that Government should spend money on education rather than on audit and maintained that a charge on the healthy societies is justifiable. Levy of audit fees is now universal and free audit is exception.

Opinions differ as to the number of societies that an auditor can handle satisfactorily. MacCagany Committee on Co-operation were of the opinion that original audits should be conducted by the representatives of the co-operative societies and that there should a super-audit at an interval of every two-to-three year period so that each Government auditor could manage 200 to 300 societies. In many societies the auditors have to take up the supervision and inspection work besides that of audit. The heavy pressure of work due to functions other than audit is the cause of some societies remaining unaudited throughout the year. The present inadequate

staff with the ever-increasing number of societies make it impossible once a year. Co-operative institutions have rightly resented to contribute to the audit fund in those cases where they remain unaudited throughout the year. If it is not possible for the department to make an appreciable addition to the existing audit staff the Registrar, should entrust the audit of Central Banks, big societies, etc., to registered accountants and fee-paid auditors. The Saraiya Committee recommended that there should be two supervisors and one auditor for every group of 50 societies. Audit staff should be separate from and independent of the inspection staff. The staff should be adequate, well-trained and properly controlled. The motto should be, as the Reserve Bank has put it, "audit, more audit and better audit." In conclusion, arrangement for concurrent, interim, final and test audit should be adequate and thorough.

Classification of societies on the basis of the annual audit findings is a sure indication of the success of the movement provided it is not itself based upon low standards of work and over-optimism of the classifier. Classification is undertaken with a view to ascertain the standard of working of the societies in various parts of the country. The basis of classification is not strictly comparable as it is arbitrary between states and as between one year and the other in the same state. Standardization of the basis of classification will be a better alternative and will give an exact picture of the working of the societies in various parts of the country.

Societies are classified according to their merits and
financial stability. The classification is generally guided by the standards laid down by the Registrars' Conference of 1926 with local modifications wherever necessary. The Reserve Bank has classified societies into the following categories:

"A" or model society, sound in every way, really good and working on co-operative lines, independent of external aid save in annual audit;

"B" generally sound and healthy, managing its own affairs, but with a certain number of defaulters and somewhat lacking in co-operative spirit and education;

"C" a mediocre type, pulling on anywhere with its shortcomings (they are subdivided into C1 and CII in some provinces where CII is a little better than C);

"D" a bad society waiting for its liquidation if it does not improve its working within two years and ineligible for any financial assistance from the financing institution;

"E" for liquidation, having no possibility of revival and showing utter hopelessness.

Conditions are so widely divergent in different parts of the country in regard to economic and administrative factors governing the co-operative movement that such comparisons are likely to be vitiated owing to the operations of causes peculiar to every State. Standards insisted upon in different provinces for the inclusion of a society into a given audit

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1. Reserve Bank of India: Review of the Co-operative Movement in India, 1939-40 (Reserve Bank of India, Agricultural Credit Department, Bombay, 1941), p.89.
class are not the same and it is therefore necessary that measures should be adopted to have a uniform system of classification which would cover all important elements of the co-operative method and assign due weight to each. The numerous factors mentioned above explain much of the apparent disparity in the State audit classification figures of the societies.

A number of societies remained unclassified in many states in the year 1949-50. In the same year, unclassified primary societies formed 37.4, 49.2, 44.4, 41.8, 40.7 and 32.4 per cent respectively of the total societies in Hyderabad, Delhi, U.P. Bihar, Madhya-Pradesh and Jammu and Kashmir respectively. If so many societies in States remain unclassified, the significance of classification is meaningless. In Assam, there is no practice of classifying co-operative societies.

In 1949-50, greatest number of societies under class "A" and "B" was in Coorg representing 94.8 per cent of the total societies in the State, followed by 57.6 in Bombay and 50 per cent in Mysore. Punjab and Bihar had 36.7 and 30.8 per cent of "A" and "B" class societies respectively of the total societies during the same year. As contrasted to this, West Bengal, Bihar, U.P. Hyderabad and Madhya Pradesh had not more than 2.5 per cent "A" and "B" class societies out of the total societies in the respective States.

The rapid increase in the number of societies without proper safeguards against risks of mushroom growth, the unprecedented fall in prices due to depression, the general mismanagement of the societies due to lack of qualified
personnel and lately the partition of the country affecting the working of the societies in the border States - all these have contributed to the increase in the number of "D" and "E" class societies. Elimination of "D" and "E" class societies may temporarily arrest the growth of the number of total societies due to a steady weeding out of unnecessary societies, but this liquidation of unwanted societies will in general enable the staff to devote more time to those whom ultimate success is the greatest hope of co-operation. The weeding out of the weak societies will save time and energy of the supervising staff which may be better utilized in strengthening and consolidating the position of other societies.

Reserve Bank's policy of giving short-term accommodation at concessional rate of interest to "A" and "B" class societies will inspire other societies to improve their working.

Inspection is an occasional process seeking to find out that a society is working efficiently and properly. It essentially means an enquiry into the financial status and condition of a society. It is in the interests of the societies to have their constitution, working and financial conditions thoroughly examined at regular intervals. Inspection is either carried out by the Co-operative Department or by a special staff appointed for the purpose. The object of inspection by the Departmental staff is to see that the work of a society is satisfactorily carried out by the managing committee in accordance with co-operative principles and to give them advice when needed. In the case of a credit society
the inspector is to ascertain that the credit of every borrower is properly assessed, that loans are covered by adequate security, that no favouritism is shown to borrowers, that receipts and payments are duly forecast and that recoveries are regular and punctual.

Inspection is now a recognized function of the central financing banks. As the financial interests of the central banks are involved in the primary credit societies, it is their duty to inspect the books of primary societies indebted to them. The Central Bank may take its own detailed inquiry into the society's affairs and take steps to safeguard its financial interests. It should act in an advisory capacity without interfering into the internal affairs of the society.

Financing agencies in Bombay and Madras maintain a staff of inspectors who generally look into the working of societies. In Bengal, over and above inspection work, the inspectors are entrusted with the duties of supervision propaganda and super-audit. Sub-Inspectors of the Punjab Co-operative Union take up the inspection of these societies in the Punjab. In Mysore, the inspector is expected to organize, supervise, inspect and audit the societies in his circle; he may therefore be rightly considered as the guide, friend and philosopher of the Movement.

There is a complaint that the staff in connection with inspection is inadequate in most of the States. The Saraiya Committee recommended one inspector for every group of 100 societies. They recommended better pay-scales for inspectors
in comparison to those of the auditors and supervisors. They held that inspection should continue to be performed by the Registrar to keep himself in close touch with the movement, though they would prefer the transfer of this function to non-official bodies generally.

One of the predominant causes of the failure of the societies is the lack of adequate supervision. Supervision involves constant administrative assistance in routine work, advice on financial matters, and general guidance, both from the business and co-operative aspects. Since the failure of a large number of societies is the result of the neglect of instruction at the beginning and subsequent slackness in supervision, it is now accepted that societies should be organized only if proper supervision facilities are available. Supervision is a continuous duty.

The Committee on Co-operation remarked, "The supervisor is concerned to see that the work of the society is not only businesslike and up-to-date, but genuinely co-operative. While satisfying himself that the accounts are in good order, and that business is being conducted regularly and prudently, he would refrain from varying the figures in detail, and would set himself to test the knowledge of the committee and members, to advise them with regard to difficulties and disputes, to explain and remedy mistakes, and to impress upon them the principles which societies should always have before them."

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What is of real importance is not what sort of agency is supervising the working of societies but the right type of men who take up the onerous duties and responsibilities of supervision. The Bombay Supervision Committee of 1933 were of the opinion that supervisors should have experience and knowledge and of rural conditions, local influence, if possible ability to get close to agriculturists; enthusiasm, integrity and knowledge of accounts and co-operative principles.

It is generally agreed that the present arrangements for supervision are unsatisfactory, defective and inadequate especially in the case of rural societies. The movement suffers a setback owing to excessive official interference in supervision. The supporters of Governmental supervision hold that efficiency and effectiveness are lacking in supervision by non-official agencies. However, the trend is towards non-official agencies. In the case of rural societies, supervision largely comes from departmental officers. But even here, the ultimate aim should be to entrust the work of supervision in its proper sense of administrative assistance, financial advice and general business guidance to non-official agency where this is available, preferably to persons chosen by themselves, either individually, in groups or in federations. Mysore Committee on Co-operation opined that non-official supervision, associated with the work of propaganda and advice is likely to succeed if local associations representative of co-operative societies in every district and functioning as branches of the
reconstituted Provincial Co-operative Institute are established.

It is a general complaint from most of the States that the supervising staff is inadequate and is required to do most arduous and unpleasant work with insufficient remuneration and with insecure and unattractive terms of service. The pay-scales of supervisors are so low that their posts carry no prestige to make an impression on the members of the society. They are not sufficiently educated in the theory and practice of co-operation. Instead of spending lakhs of rupees on the rehabilitation and reorganization of weak societies, it will be economical to spend a much less sum on the education of supervisors and effect the economy in Government expenditure and ensure soundness of the movement.

In India, strict control and supervision of co-operative institutions are necessary. The need for supervision is recognized and recommended by a number of Committees and Commissions on Co-operation. There is no uniform practice followed for supervision in the country. Due to diversity of existing practices and different conditions prevailing in various parts of the country, it is not possible to have a uniform policy to adopt; it should at least be seen that there should not be overlapping agencies of supervision, giving perhaps conflicting advice to societies.

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The direction of supervision varies in different States. In Bengal and Orissa supervision is under the direction of the central banks; in Coorg, the supervising union directs the supervision of affiliated societies; in Madras there are local unions assisted by central banks, while in Bombay for supervision of societies there are the District Supervision Committees under the control of the Provincial Board of Supervision; in Assam, supervision is carried on by the departmental staff and by the staff maintained by the financing bank in Punjab, the duty of supervision is being mostly performed by sub-inspectors of the Punjab Co-operative Union and the Government staff; in U.P., the U.P. Co-operative Union recruits trains, and maintains a staff of supervisors for the supervision of societies. In Travancore, the Travancore Co-operative Institute is charged with the work of inspection and supervision of societies.

In view of the fact that the requisite trained staff is not available in every village, it is not easy to develop within every society the machinery for internal supervision over the management, but, since last twenty years attempts have been made in several provinces to evolve a local supervising agency representative of and responsible to the constituent societies. A local union serves as a valuable agency for mobilising supervision and securing mutual control especially in those areas where a central bank with a wide area of operation is the financing agency for the primaries. This view was endorsed by the Royal Commission on Agriculture holding that the success achieved in securing federal control through local unions was satisfactory enough to merit the extension of the system and its furtherance by the grant of
State aid.

A small and well-paid staff working in a compact area keeping continuous personal contact with the people of the locality and watching the growth of the movement with a clear understanding of local condition and guiding along right and sound lines is an absolute necessity for efficient supervision. For effective supervision the Sairaya Committee suggested the organisation of federation of societies at the provincial level with an adequate staff and also substantiated the view held by the Gadgil Committee that cost of supervision of co-operative societies should be borne by Government. But it should be noted that more help from Government necessarily means more official control from which the movement to free itself. Societies at present contribute to the supervision fund in the form of fees to enable the supervising agencies to meet their cost. The deficiency, if any, and usually there is, is met by the central financing agencies and in exceptional cases by Government subsidies. In some parts of the country, financing agencies do not charge fees from their clients—societies.

The average number of societies that a supervisor has to look after is much greater in number than he can efficiently and properly supervise. The Sairaya Committee recommended one supervisor to every group of 25 societies; earlier the Madras

Committee on Co-operation held that for intense supervision of Agricultural credit societies there should be one supervisor for every 15 societies. Actually there are many more societies put under a supervisor for the same work.

Division of Profits: Societies 33 and 34 of the Indian Co-operative Societies Act provide for the disposal of profits as under:

"No part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members;

"Provided that after at least one fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits of past years available for distribution may be made among the members to such extent and under such condition as may be prescribed by the rules or by-laws.

"Provided also that in the case of a society with unlimited liability, no distribution of profits shall be made without the general or special order of the Local Government in this behalf.

"Any registered society may, with the sanction of the Registrar, after one fourth of the net profits in any year has been carried to a reserve fund, contribute an amount not exceeding 10 per cent of the remaining net profits to any charitable purpose, as defined under section 2 of the Charitable Endowments Act, 1890."

The aim of co-operative societies should not be to
accumulate profits and to amass fortune for distribution of dividends. If the returns are very high, some sort of remuneration may be distributed among the members as bonus or rebates according to the volume of their deposits. In some States, dividends on unlimited liability societies are not allowed. Accumulation of reserves is a greater safeguard than frittering away of profits in the form of dividends, rebates, and bonus. Under the by-laws of the societies, the maximum rate of interest for distribution of net profits is fixed for both limited and unlimited liability societies.

Indian Co-operative Societies' Act, 1912 provides for 10 per cent of the net profits of a primary society for expenditure on common good purpose with the Registrar's permission. It is fixed at 20 per cent in Bombay Societies' Act 1935; 15 per cent in Mysore and 7½ per cent in Travancore; so it varies in various parts of the country according to the by-laws.

Since ancient times, India is famous for its traditional charitable endowments. In old days, the village roads and tanks were repaired and constructed, wells were dug, planting of a shed-tree beside the road, provision of water to travellers from one village to the other and the erection of rest houses for the travellers - all these types of community welfare works were running either on charitable endowments or by self-help among the village people. Co-operative societies in India, have unfortunately not contributed liberally for the common good fund from their profits. In European countries the co-
operative institutions have contributed generously for the social amenities of the rural people. It is true, that, in some cases, societies could not afford to contribute to such funds on account of a very narrow margin of profits. But, even in those cases, where they have earned sufficient to enable them to pay something for the provision of education, social and other welfare works in villages, they have refrained from doing so perhaps to safeguard their financial stability by crediting more profits to the reserves. On the whole, they have lagged behind in the cause of the uplift of the rural people so far, save in a few cases.

The by-laws of a society in some of the States include among the objects of a society besides the provision of credit, encouragement of thrift, contribution to sanitation, medicine and recreation; creation among the members a "spirit of service of mutual help and tolerance among all castes and creeds; utilizing all occasions when help and service are needed, undertaking joint work for common village needs, such as the excavation of a tank or a well for drinking water or the construction or improvement of roads. But what is needed is not the writing of good intention and objects but to put them into practice.

Lalitadripur, Co-operative Society in Mysore offers an exquisite example of the working of a credit society for the enhancement of social amenities and general socio-economic

uplift of the area it serves. The local grain bank represented all families in the village, was liable for supply of credit had affiliated to it a building branch, a grain branch, a milk-supply society and carried on social and welfare activities including adult education classes, village improvement works, medical assistance and propaganda against the evil of drink. The society advocates the curtailment of social expenditure organizes shajans and maintains a library. These activities are mostly self-supporting. It assumed all the work of a village panchayat, arranging for the clearing and lighting of roads, settling disputes, etc. The members made contributions for different activities.

In Madras, Alamaru Rural Cooperative Bank Limited, is a success story of another society which has besides providing credit contributed generously to the common good fund for education, medical relief and sanitation. The Bank collects public funds for Rural Reconstruction, for the purpose of education and propaganda. It has helped co-operative cattle breeding society, contributed for repair and raising of bunds of the Nagula Tank at Alasaru; contributed for the co-operative life library and maintains a water-panda for the public during the summer. To fulfil the objects in by-laws, the Bank is organising public meetings on all festive occasions and carries on education and co-operative propaganda.

1. N. Satyanarayana: Co-operative Experiments in Rural Banking, 1949 p. 18 passim. The booklet is in the form of a report narrating the progress and the work done by the Alamaru Rural Co-operative Bank Limited, Madras State.
In U.P. and Bihar, some cane marketing societies have undertaken village welfare activities, devoted their common good funds to the improvement of roads and for water supply, medical aid, education and thrift promotion. In Bombay, such examples are very rare.

Credit institutions should provide more funds for objects such as village sanitation, rural education and for the general welfare of the rural areas. They should subscribe for philanthropic funds raised for relief in areas other than their own. It is in fact by devoting more attention to such activities that the societies can become more popular and function as live institutions.
Table I

Agricultural Credit Societies in 1949-50

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number</td>
<td>1,16,534</td>
</tr>
<tr>
<td>2. Membership</td>
<td>48,17,545</td>
</tr>
<tr>
<td>(Rs. in Lakhs)</td>
<td></td>
</tr>
<tr>
<td>3. Owned Capital</td>
<td>1,529.33</td>
</tr>
<tr>
<td>4. Borrowed funds</td>
<td></td>
</tr>
<tr>
<td>(a) Deposits from members</td>
<td>238.13</td>
</tr>
<tr>
<td>(b) Deposits from non-members</td>
<td>154.77</td>
</tr>
<tr>
<td>(c) Other borrowings</td>
<td>1,599.52</td>
</tr>
<tr>
<td>5. Working capital</td>
<td>3,521.75</td>
</tr>
<tr>
<td>6. Loans issued during the year</td>
<td>1,798.69</td>
</tr>
<tr>
<td>7. Loans recovered during the year</td>
<td>1,350.36</td>
</tr>
<tr>
<td>8. Loans outstanding at the close of the year</td>
<td>2,496.07</td>
</tr>
<tr>
<td>9. Overdues</td>
<td>535.72</td>
</tr>
<tr>
<td>10. Bad and doubtful debts</td>
<td>15.50</td>
</tr>
<tr>
<td>11. Non-Credit activities</td>
<td></td>
</tr>
<tr>
<td>(a) Sale of goods to members</td>
<td>1,552.28</td>
</tr>
<tr>
<td>(b) Purchase of members' products</td>
<td>1,444.00</td>
</tr>
</tbody>
</table>

Note: Source: Reserve Bank of India: Review of the Cooperative Movement in India, 1948-50. (Reserve Bank of India, Agricultural Credit Department, Bombay, 1952), p. 130