

**THE
BOMBAY STATE CO-OPERATIVE BANK, LTD.**

**REPORT
OF
CROP LOAN EVALUATION COMMITTEE**



PART I

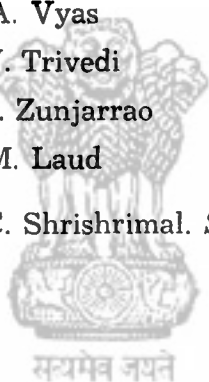
Price: Rs. 5/-

CROP LOAN EVALUATION COMMITTEE

MEMBERS OF THE COMMITTEE

- | | | |
|-----|----------------------|-----------------|
| (1) | Shri D. G. Karve | <i>Chairman</i> |
| (2) | Shri V. P. Varde | <i>Member</i> |
| (3) | Shri D. R. Gadgil | <i>Member</i> |
| (4) | Shri C. A. Vyas | <i>Member</i> |
| (5) | Shri R. N. Trivedi | <i>Member</i> |
| (6) | Shri D. J. Zunjarrao | <i>Member</i> |
| (7) | Shri G. M. Laud | <i>Member</i> |

Dr. W. C. Shrishrimal. *Secretary*



FOREWORD

The Bombay State Co-operative Bank Ltd., adopted in 1950 a new policy of financing agriculturists, the basis of such credit being the requirements of the farmer for production of his crop and not his landed assets. An attempt was made to secure flexibility as well as promptness in the provision of loans and to provide adequate finance for the production of crops to the cultivators, be they landlords or tenants. The loans were expected to be repaid from the sale of the crops, wherever possible, through a co-operative agency. An attempt was thus made to bring within the fold of the Integrated Credit System all the creditworthy agriculturists through the co-operative movement. In view of the large financial commitments involved in the scale of operations so envisaged, the State agreed to contribute towards the share capital and the capital structure of the Bombay State Co-operative Bank, Ltd., was strengthened from time to time with a view to enabling it to meet the growing needs of the farmers.

The Board of the Bank felt that the time had come to review the working of this system and asked me to appoint a Committee to evaluate the working of the crop loan system within the area of operation of the Bombay State Co-operative Bank, Ltd. It was felt that it would be useful to review the working of this system of crop finance, as it would provide valuable lessons both for the State of Bombay and for other States where a similar system is followed.

I am grateful to the members of the Committee who have furnished a valuable report after a personal tour throughout the area served by the Bank and studying the actual working of the crop loan system. We were fortunate in having Prof. D. G. Karve, who was for some time Director of Programme Evaluation of the

(ii)

Planning Commission, as Chairman of the Committee, and Prof. D. R. Gadgil as one of the members. The other members are also Directors of the Bank with first-hand experience of its working. This report is being submitted to the Board of the Bombay State Co-operative Bank, Ltd., and also released for publication in view of the importance of the subject it covers.

R. G. SARAIYA,

Chairman,

Bombay State Co-operative Bank, Ltd.

**Bombay,
25th April, 1958.**



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INTRODUCTORY

Appointment of the Committee

1. The Committee was appointed by the Chairman, Bombay State Co-operative Bank Ltd., on 28th August, 1956, in terms of the following resolution of the Board of Directors passed at their meeting on 15th October, 1955:

“The Chairman be authorised to appoint a special Committee of the Board

- (i) to evaluate the working of the crop loan system within the area of operation of the State Co-operative Bank and the progress made so far;
- (ii) to devise further measures for the application of the crop loan system more effectively in the whole of the State;
- (iii) to give general directives for the expansion of the volume of credit for production through co-operative organizations;
- (iv) to consider the likely effects of the Tenancy and other agrarian Legislations on the short and medium term credit provided by agricultural credit societies and;
- (v) generally to advise the Board on matters of policy regarding agricultural and marketing credits.”

The Committee consisted of

1. Shri D. G. Karve (Chairman)
2. Shri V. P. Varde (Member)
3. Shri D. R. Gadgil „

4. Shri C. A. Vyas (Member)
5. Shri R. N. Trivedi „
6. Shri D. J. Zunjarrao „

By a further letter of 7-9-1957 the Chairman appointed Shri G. M. Laud to be a member of the Committee. Dr. W. C. Shrishrimal was appointed Secretary of the Committee as from 5-9-1956.

At the Committee's request Shri Y. B. Gaitonde, Manager of the Bank, has been assisting us throughout the course of our inquiry and deliberations.

2. In view of the directives contained in the second and the third terms of reference to the effect (a) that the committee was to devise further measures for the application of the crop loan system more effectively in the whole of the State, and (b) to give general directives for the expansion of the volume of credit for production through co-operative organizations, we had to review the working of the crop loan system in the area of operation of the State Co-operative Bank as well as in the rest of the State where the system is in operation. To help us in our inquiry we issued a questionnaire to all Central Financing Agencies, to Sale and Purchase Unions and Marketing Societies, to Inspectors of Branches of the State Co-operative Bank and to some primary societies. We received copious replies from most of these. At our request detailed statements and notes on the working of the crop loan system were prepared by the Secretary and by other Officers of the State Co-operative Bank.

3. In all we held 33 meetings, the first on 12-9-1956 and the last on 30-3-1958. During the period April to December, 1957, we paid visits to twelve districts, visiting a number of C.F.A.s, Sale and Purchase, and Marketing societies and other societies. We met.

representatives of all these bodies who were good enough to discuss things with us. In some places, we had conferences with members of societies as well. In all these districts a certain number of societies were selected for first hand study of the operation in their areas of all the significant aspects of the crop loan system. According to a scheme approved by the Committee the studies were conducted by our Secretary, Dr. W. C. Shrishrimal and Dr. M. G. Bhagat, of the State Co-operative Bank. We have found all this data very valuable.

4. We have to place on record our sense of deep appreciation of the wholehearted co-operation given to us by all on whom we called for assistance, especially by the authorities and officers of the C.F.A.s and the Societies which we visited.

5. Shri Y. B. Gaitonde has shared with us all the efforts of the Committee's work, and Shri M. H. Bhadbhade has also assisted us almost continuously. Our best thanks are due to all these members of the Bank's staff.

6. In particular we wish to place on record our sense of appreciation for the industry and devotion with which our Secretary Dr. W. C. Shrishrimal, Dr. M. G. Bhagat and several other members of the staff of the State Co-operative Bank have helped throughout the long period of the work of the Committee.

CHAPTER I

CROP LOAN SYSTEM

Historical Review

7. As early as in 1925 the Royal Commission on Agriculture after careful examination of the agricultural industry held the view that "the greatest hope for the salvation of the rural masses from their crushing burden of debt rests in the growth and spread of a healthy and well organised co-operative movement based upon the careful education and systematic training of the villagers themselves." (pp. 436)

8. The ameliorative measures such as the Bombay Agricultural Debtors' Relief Act of 1939 and the Bombay Money-Lenders' Act of 1947 failed to give the required relief to the farmer; on the other hand they resulted in the drying up of the sources of credit to the farmer. Need for the creation of an alternative agency to provide credit to the farmer on reasonable terms and on a more systematic basis was, therefore, keenly felt.

9. The problem of providing such an agency assumed importance especially in the context of formation of agricultural policy of the Government of India. In 1944, the Agricultural Finance Sub-Committee of the Policy Committee on agriculture, forestry and fisheries, under the Chairmanship of Shri D. R. Gadgil went into the question of the indebtedness of the farmer and suggested ways in which this indebtedness could be reduced and finance both short-term and long-term provided under efficient control for agriculture and animal husbandry. The Committee came to the conclusion that the creation of institutional agencies

was the important means for providing finance to creditworthy cultivators, as an alternative agency to the private money-lenders, and suggested the establishment of an Agricultural Credit Corporation. It observed: "After the completion of the process of adjustment a single financing agency which covers the entire field of all credit to the agriculturist-producer would appear to be the most logical solution of the problem. The advantages of this are obvious. The control over credit of such a system would be complete. The volume of credit as well as the uses to which it is put could be co-ordinated and regulated to the highest degree and the whole system could properly implement the social policy of the State and the working of economic controls." (pp. 30). The process of debt adjustment was to be accompanied by a complete reconstruction of the financial structure.

10. The main object of this reconstruction in the immediate future was to provide to solvent agriculturist-producers in all areas with an agency alternative to the private money-lenders, from which the producers would be sure of obtaining finance for all reasonable purposes on reasonable terms.

11. The Committee examined the possible alternative agencies and concluded, "the existing co-operative banking organisations cannot be utilised as the alternative agency of credit; because they are not equally strong in all the provinces and also because they are essentially autonomous bodies ruled largely by their own members." The Committee, however, was in general agreement with the view that "the spread of co-operation would provide the best and the most lasting solution for the problem of agricultural credit in particular and of those of the rural economy in general"; but stated that "the present position of the movement is, however, not such as to inspire much hope that it can be made to play a substantial part in financing agriculture, much

less to become the sole supplier of such finance in the immediate future. Nor is it possible to depend on voluntary co-operation for achieving definite results within a specified time which planning involves." (pp. 47).

12. The Committee, therefore, recommended that in Provinces where co-operative agencies are strong and have a wide scope, there should be no objection if a separate State Corporation is not set up, provided, however, some means are found for making finance through co-operatives available to all credit-worthy borrowers.

13. The genesis of the provision of agricultural credit to the cultivator for raising of crops on a more systematic and regulated basis can thus be found in the recommendation of the Agricultural Sub-Committee of the Policy Committee. The essential features of the system as far as they relate to co-operative credit organisation as indicated by the Gadgil Committee are summarised hereunder: (pp. 85).

1. The primary credit society should try to finance all the short-term needs of its members and also, subject to certain limitations, their intermediate term needs.
2. In a co-operative society the credit-worthiness of a member should be assessed on the basis of his repaying capacity.
3. The security for advances should ordinarily be personal. But the society should have a statutory charge on the crop as an additional security for all its seasonal finance, the wilful breach of which charge should be made a criminal offence. Mortgage security may be justified when the size and period of the loan require it; but it should be only collateral.

4. The delay in clearing loan applications should be minimised. For this purpose:
 - (a) borrowing limits for each member and for each society should be fixed each year;
 - (b) societies with sound management should be allowed cash credit arrangements with their financing institutions;
 - (c) societies of good standing might be permitted to keep some cash in hand for making small loans;
 - (d) the system of "continuity mortgage bonds" in Madras, might be profitably looked into and adopted wherever conditions permit;
 - (e) the system of running credits to individuals may be adopted wherever practicable; and
 - (f) authority should be granted to specified office-bearers to sanction loans not in excess of specified amounts in emergency.
5. Loans should be advanced only as and when they are actually required.
6. Regular repayment of loans should be insisted upon. Extensions may continue to be allowed in cases of temporary difficulties. For wilful defaults there should be no hesitation in resorting to coercive measures.
7. The system of giving the co-operative department powers for coercive processes etc., may be extended to provinces where it does not exist.
8. Every effort should be made to reduce the rate of interest on short term and intermediate term finance charged to the ultimate borrower as much as possible, so as not to exceed $6\frac{1}{4}$ per cent in any case.

9. The Co-operative Banks should develop their banking methods, on sound business lines so that they could raise funds cheaply and pass on the benefit to the members of primary societies.
10. The efficiency of co-operative finance should also be improved by ensuring the proper application of loans (1) by supplying as far as possible the requirements of members (in kind) through direct arrangements with purchasing unions and consumers' stores, and (2) by a constant and careful supervision of the operations of societies and their members through an efficient supervisory staff.

14. The Co-operative Planning Committee appointed under the Chairmanship of Shri R. G. Saraiya in 1945 carefully considered the question of organisation of co-operative credit after taking into consideration the recommendation of the Gadgil Committee in the context of a plan for the development of co-operative institutions in all spheres of economic and social activity. The Committee, while generally agreeing with the analysis and conclusions of the Gadgil Committee held the view "that not only in some provinces where the co-operative movement has attained a high degree of development, but also in other provinces and States, the provincial co-operative bank or other central co-operative financing organisations can provide the agriculturist with all the facilities which are intended to be given by the Agricultural Credit Corporation." "Some measure and type of aids as those recommended to be given to the Agricultural Credit Corporation" should be given to the provincial co-operative bank and there would then be no need to start a separate organization for this purpose." (pp. 71)

15. These recommendations of the Gadgil Committee and the Saraiya Committee were of considerable

importance more especially in considering the entire concept of Governmental policies in the sphere of agricultural credit, which was severely affected by the legislative measures undertaken by the Government. The Government of Bombay, therefore, referred the question to the Bombay Co-operative Banks' Association with a view to ascertaining its opinion as to whether the central financing agencies in this province should participate in the arrangements for re-organisation of the system of agricultural credit on the lines recommended by the Gadgil Committee.

16. The Congress Ministries, after they had assumed office, had already accepted a certain policy in the matter of regulating and restricting money lending before it relinquished office in 1939. This policy was three-fold—protective, preventive and constructive. The first aspect was represented by the Bombay Agricultural Debtors' Relief Act, the second by the Bombay Money Lenders' Act and the third by extensive development of the machinery of rural co-operative credit. The Government of Bombay had thus recognised the importance of the co-operative agency for executing its programmes of rural reconstruction.

17. The Banks' Association had before it two alternatives, viz., whether the co-operatives should continue to function as fully autonomous associations, with only such external assistance from Government as was available in respect of crop finance under the B.A.D.R. Act, or whether the Bank should accept the responsibility of providing credit to every creditworthy agriculturist without setting up an alternative agency like the Agricultural Credit Corporation, and approach Government for the same measure of assistance as was contemplated for the agricultural credit corporation, as recommended by the Saraiya Committee.

18. The Co-operative Banks' Association having convened a special meeting of representatives of the

Bombay Provincial (now State) Co-operative Bank and the central financing agencies on 14th December, 1946, and after considerable deliberations adopted the following Resolutions:

RESOLUTION NO. I:

“This joint-session of the Boards of representatives (central financing agencies and urban banks) of the Bombay Co-operative Banks’ Association is of the opinion that, in view of the development of co-operative banking in the province, a separate organisation on the lines of the Agricultural Credit Corporation recommended by the Agricultural Finance Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries (the Gadgil Committee) of the Government of India, is not necessary in the Province of Bombay. It is convinced that, with the same measure and type of assistance which may be required for the proposed agricultural credit corporation and some modification in their constitution, the Co-operative Banks of the province would be able to meet the requirements of credit-worthy agriculturist-borrowers.”

RESOLUTION NO. II:

“In order that an agency other than the private money-lender may be available to the solvent agriculturist-producer for the provision of credit and in view of the opinion expressed in resolution number I, above, this meeting requests the Government of Bombay to appoint a representative committee to recommend the terms and measures of Government assistance and association to be provided to the co-operative banks of the province and to suggest amendments and modifications in the constitution of the apex financing agencies, the central banks and the land mortgage banks, which may be considered necessary for the purpose.

RESOLUTION NO. III:

“This meeting further agrees with the view of the Gadgil Committee that special State machinery is necessary for the provision of relief and rehabilitation in backward areas, in tracts where distress conditions almost form part of the cycle of production, in areas where famines are frequent, and also in areas of solvent economy, where particular communities suffer from a depressed condition.

19. The Government of Bombay agreeing with the view expressed by the Bombay Co-operative Banks' Association, appointed a representative committee—the Agricultural Credit Organisation Committee (1947) under the Chairmanship of Shri Manilal B. Nanavati, to examine and consider “the questions raised by the Association and to recommend the terms on which and the extent to which Government assistance should be provided to the Co-operative Banks in this Province, and to suggest amendments and modifications in the existing constitutions of the apex co-operative financing agencies, the co-operative central banks and the land mortgage banks to enable co-operative banks provide agricultural credit on the lines envisaged by the Gadgil Committee.”

20. After reviewing the working of the co-operative movement in the Province the Nanavati Committee opined: “We have come to the conclusion that there is no need for the setting up of an agricultural credit corporation as recommended by the Gadgil Committee, and that if the co-operative movement is suitably re-organised, it can fulfil the functions instead of the Agricultural Credit Corporation, *viz.*, to provide finance to a fairly large number of creditworthy cultivators at reasonably low rates of interest. The movement has ample funds at its disposal, which in the absence of fuller employment within it, are finding a par-

tial outlet through non-co-operative channels....The Co-operative movement, with over forty years of experience and the financial strength it has gained during these years, has been able to cover only a small fraction of the agricultural population. We are equally sure that if an agricultural credit corporation is started to supplement the efforts of the co-operative organisations it will be unable to achieve even a portion of the results that stand to the credit of the co-operative organisations. The only alternative is, therefore, to make full use of the existing co-operative organisations. We should concentrate our attention on the development and consolidation of the co-operative structure and so modify the organisations and expand them as to absorb most of the creditworthy agriculturists. At the same time it should be seen that the co-operative character of these organisations is not lost in any way." (pp. 45)

21. The Nanavati Committee, indicated changes in the constitution of the Apex and Central Banks, providing for contribution to their share capital by the State and its association with their Board of management, to enable them to undertake the responsibility of providing institutional credit to the creditworthy agriculturists, on the basis of the main recommendations of the Gadgil Committee.

22. The recommendations of the Nanavati Committee were discussed by the Board of Directors of the Bombay State Co-operative Bank on 9-1-1948, and a detailed memorandum on the proposals made by the Agricultural Credit Organisation Committee was proposed to be submitted to the Government of Bombay. The Board of Directors of the Bombay State Co-operative Bank Ltd., was of the opinion that "in order to be able to effectively and expeditiously implement the recommendations of the Agricultural Finance Sub-Committee, the constitution, functions and powers of

the Provincial Co-operative Bank, in so far as they relate to the effective organisation of the Agricultural Credit Movement, and as the Apex Institution and the balancing centre for the co-operative movement in the province should be laid down by the statute or by specific provision in the Bombay Co-operative Societies' Act and that all Government assistance including the capital and working funds, as recommended by the Agricultural Finance Sub-Committee in respect of the Agricultural Credit Corporation, should be made available to the Provincial Bank and through it to the co-operative credit movement." (Letter dated 15th January, 1948, from the Managing Director to the Secretary, Revenue Department, Government of Bombay).

23. The Government of Bombay accepted the principal recommendations of the Agricultural Credit Organisation Committee, *viz.*, that there was no need to create a new Agricultural Credit Corporation and that the co-operative credit institutions in the State were able to undertake the responsibility of providing agricultural credit to creditworthy agriculturists, and passed orders on the various recommendations of the Agricultural Credit Organisation Committee, under Government Resolution No. 2148/45 Revenue Department, dated 12th March, 1948, and 25th June, 1948.

24. The Government Resolutions embodied proposals for the re-constitution of the Board of Directors of the Bombay Provincial (now State) Co-operative Bank to make it broadly representative of the central financing agencies and other co-operative credit and marketing institutions and suggested amendments to the Bye-laws of the Apex Bank in order to enable it to undertake inspection and supervision of the central financing agencies in so far as it related to the agricultural credit organisation. Similar provision in the Bye-laws of central financing agencies were also suggested in order to make them more representative of co-ope-

rative institutions in the district. Financial assistance by way of contribution to the share capital of the Provincial Co-operative Bank to the extent of Rs. 50 lakhs, and to the central financing agencies to the extent of Rs. 25 lakhs subject to a maximum of Rs. 5 lakhs to any single central financing agency, was accepted by Government, and subsidies for un-economic branches opened by the central financing agencies for facilitating extension of agricultural credit in the rural areas on certain conditions, were agreed to be given.

25. A deputation on behalf of the Provincial (now State) Co-operative Bank and central financing agencies waited on the Hon'ble Minister for Finance on 13th August, 1948. The deputation pointed out that the co-operative banks were required to provide short and intermediate term credit to all creditworthy agriculturists, and made out two points in respect of financing assistance, viz., that power to frame and impose By-laws would strike at the very root of voluntary and democratic character of the co-operative institutions and that mere financial assistance from Government by way of share capital was not sufficient to build up an efficient agricultural credit organisation, and provision for working funds or at least a definite assurance by Government of additional financial assistance whenever needed was necessary in view of the limitations in obtaining accommodation from the Reserve Bank of India.

26. The Hon'ble Minister assured the Deputation that the provision of finance to all creditworthy agriculturists was an accepted policy of the Government and by subscribing to the share capital of co-operative institutions, the Government was also sharing the responsibility for supplying funds and for the sound and efficient management of co-operative organisations. If co-operative banks at any time found themselves in need of Government's assistance, Government would

consider on merits of the situation either further subscription to share capital or supply of working funds. The Hon'ble Minister further pointed out that as the co-operative banks had volunteered to undertake the responsibility to provide institutional credit to all creditworthy agriculturists in partnership with Government, it was necessary that they should surrender some of the rights to Government to implement the accepted policy of Government. This was necessary if the co-operative banks wanted to play an important part in the planned development of the country. To ensure institutional credit to creditworthy agriculturists, it was necessary for the Government to assume reserve power to enable it to discharge responsibilities towards agriculturists. However, as an alternative to the reservation of power by Government to impose bye-laws, it was agreed that the object of Government to safeguard agriculturists' interests could be secured by the financing agency accepting a bye-law or bye-laws leaving to the decision of Government questions relating to the interpretation and implementation of the policy of agricultural finance.

27. This in effect was the background which led to the central financing agencies in the Bombay State to undertake the responsibility of providing institutional credit for seasonal agricultural and marketing operations to creditworthy agriculturists as their accepted policy. A policy directive to the co-operatives in general and the central financing agencies in particular in the new undertaking was framed by the Board of Directors in consultation with Prof. D. R. Gadgil. It embodied the basic principles of the system and laid down a procedure for providing crop finance to the cultivators for raising of crops. The Policy Statement was further discussed in the meeting of the representatives of central financing agencies held on 12-4-1950 and was adopted as a guide for organising rural credit through the integrated structure of co-operative credit.

Policy Statement:

28. The Policy Statement laid down the procedure with a view to securing a fairly uniform system of integrated finance in relation to general obligations of the movement towards creditworthy agriculturists. The statement did not envisage any restriction on the financial accommodation which any central financing agencies might be providing to its affiliated societies. This precaution was deliberately taken to remove the apprehension which some of the central financing agencies had with regard to the introduction of the new system.

29. The Policy Statement indicated that persons owning lands of their own or those who cultivate agricultural lands, either as owners or tenants or both, including restricted tenure-lands, lands in possessory mortgage and lands given for maintenance, and who are entitled to the produce or proceeds thereof, were eligible for agricultural finance.

30. Restrictions of the size of the agricultural holding, economic or otherwise, entitling a member to a loan were deliberately avoided. The Policy Statement supplied only a general description in as much as it implied that creditworthiness consisted in the total receipts from the crop of the farmer being more than enough to repay the loan, irrespective of his overall family commitments.

31. The Policy Statement for the first time divided the loans made by co-operatives, into two distinct categories, *viz.*,

- (a) Finance required for the agricultural operations of the year and therefore repayable out of the crops of the year; and

- (b) Intermediate term loans for purchase of bullocks, small implements, petty repairs to wells or bunds, etc., repayable within three years.

Security for loans for crops:

32. The Policy Statement attempted to link creditworthiness of the member, in so far as his requirements of the crop were concerned, directly with his production. It was a shift towards 'production-nexus' instead of 'asset-nexus'. In case of intermediate term loans the security was linked with the real assets which were declared by the borrowers under Section 24-AA of the B.C.S. Act. The shift in the nexus from assets to production was an improvement over the old annual loan system which suffered from many defects, and lacked flexibility and promptness; under that system loans were often inadequate for cultivation purposes as credit was directly linked with physical assets. Tenant-cultivators were at a disadvantage in such a system, as they could be financed to a limited extent only on their furnishing personal sureties. The new system was much more elastic and liberal as it was based on actual production requirements of each crop and was related to crop acreages. Loans for specific purposes and return of the loan on the harvesting of the respective crops were other important features of the new system.

Eligibility for Loans:

33. The quantum of finance was dependent on actual crop acreages of different crops cultivated by the borrowers and scale of finance per acre of different crops was determined by the financing agencies in different tracts in consultation with the representatives of the societies. Once a member is considered credit-worthy as having a definite acreage under a crop, he

was entitled to credit at the accepted scale. Besides, the new system gave statutory base, *viz.*, the crop on which finance could be granted to even tenants.

Procedure for fixing agricultural credit:

34. It was laid down that the Normal Credit Statements should be prepared once in three years and should show the limits ordinarily required for crop finance and intermediate term loans. The central financing agencies should fix limits for the societies on the basis of total limits sanctioned by the societies for the members. Powers were to be delegated to Agents of Branches of the central financing agencies to sanction loans within these limits.

35. The Policy Statement also indicated that there should be no attempt at cutting down arbitrarily the loan limits to which a member was entitled on the basis of crop acreages. In suggesting preparation of normal credit statements once in three years, it was envisaged that the local Agents of the financing agencies should have the discretion to disburse loans within the limits so that delays could be avoided and promptness of finance be ensured. The Policy Statement further attempted definitely to link credit with marketing of the crops through sale agencies.

36. This policy and procedure, it may be stated, were in large measure a re-statement and an elaboration of the principle of crop loan which was being gradually evolved by the Bombay Provincial Co-operative Bank in its earlier years.

37. The origin of crop loan system can be traced to the early periods of co-operative credit institutions, when the system of fixing normal credits for individual borrowers was first introduced as early as in 1924. The system of fixing normal credits of members and sanc-

tioning maximum credit for the society as a whole, on the basis of requirements assessed on the strength of the details given in the normal credit statement had developed in all the areas. But except in respect of certain crops like the sugar-cane, the assessment of credit was not made on a fuller basis of crop requirements or the total acreage under cultivation, as there were limitations both on total individual borrowings and on the borrowings by the societies.

38. The annual reports of the Bombay Provincial Co-operative Bank indicate that at the beginning of the season for every tract the policy of finance was laid down at the Field Workers' meeting in consultation with the Assistant Registrars. Attempts were made from the very beginning to link credit with marketing. In some cases this was done by establishment of Bank's own shops in the early days of development until purchase and sale societies came to be organised. Branch banking was also developed to facilitate flow of credit at cheaper rates to the borrowers, for maintaining closer contact with the members of the societies, and for mobilising rural savings. The central financing agencies also adopted a similar policy for evolving a systematic and widespread development of rural credit.

39. The most important departure which the revised policy provided was in respect of the basis for determining the finance to be provided. The Mehta Bhansali Report (1938), while admitting that greater insistence on the character of the borrower rather than on his economic holdings or ownership of land was necessary as the basis for fixing normal credit of an individual, considered that "his need for short term requires to be based not on the outturn he expects to produce in a particular year, but on his capacity to make repayments over a cycle of years which would include good and bad years."

40. However, the terms "Crop Loan" came to be used for the first time in relation to the loans made to Agricultural Debtors for "financing of crops" under the Bombay Agricultural Debtors' Relief Act of 1939; under Section 78 of this Act, co-operative societies were recognised as agencies to advance loans to persons who are parties to proceedings before Debt Adjustment Board. The term "financing of crops" was defined in the Act as "advancing of loans for the raising of crops during the ploughing season or later for ploughing, sowing, harrowing, weeding, harvesting, purchase of seeds, manure or for such other purposes as may be prescribed, such loans being repayable during the season when the crops for which the loans were advanced are harvested."

The revised Act of 1947 replaced the word "financing of crops" by "seasonal finance". Rule 3 defined seasonal finance as under:

- (a) Raising of crops during the ploughing season or later, ploughing, sowing, harrowing, weeding, harvesting, purchase of seeds and manure.
- (b) Labour charges.
- (c) Transport charges.
- (d) Purchase of fodder.
- (e) Intercultivating.
- (f) Threshing.
- (g) Hire or purchase of plough cattle and agricultural implements.
- (h) Maintenance of the debtor and his dependents and of his cattle and repairs to agricultural implements.
- (i) Current expenses of running agricultural machinery, e.g., pumps, or engines, including fuel charges.

41. Prof. D. R. Gadgil, speaking at the meeting of representatives of central financing agencies on 13th March, 1954, explaining the system of agricultural credit as was envisaged in the Policy Statement observed: "It would be quite clear that what is being attempted in this State is not merely an extension of co-operative credit. It is a Co-operative Credit Organisation being deliberately adopted towards certain ends of the policy which has been accepted by the State Government. That has very necessarily to be borne in mind before we can judge what we are trying to do here. Another thing, one would like to emphasise in this context is the very considerable importance not only in this State but all over India, of the policy of what we are attempting in this State Some three years back, the Reserve Bank adopted a policy of helping the agricultural credit throughout the country which is essentially a policy based on principles of Bombay experiment." Commenting on the crop loan system in the Bombay State the Rural Credit Survey Committee observed: "The system of crop finance assumed new significance when in 1948-49 the co-operative credit movement in the Bombay State was re-organised with the active support of the co-operators of the State. Under the new arrangements, the re-organised Bombay State Co-operative Bank and central financing agencies, together with the primary credit societies, were expected to provide short-term finance to all creditworthy agriculturists. Instead of fixing credit limits on the basis of landed security, special attempts were made to provide short-term finance on the basis of crop acreages and to link the time of repayment to the harvesting season. This important new responsibility, viz., of financing all creditworthy agriculturists in the State, was not one which the co-operative banks of Bombay just acquiesced in; it was fully and deliberately accepted by them as both appropriate and inevitable if co-operative credit was to play its due part in planning and development." (pp. 238).

CHAPTER II

CO-OPERATIVE CREDIT STRUCTURE

42. The Co-operative Credit Movement in Bombay State has been evolved during the last 50 years on the pattern of a three tier structure. The primary credit societies provide the base, the central financing agencies the centre and the Bombay State Co-operative Bank the apex. Since the Bombay State Co-operative Bank and the central financing agencies accepted the responsibility of providing institutional credit to creditworthy agriculturists, this structure has been strengthened from within by the inclusion of the elected representatives of the central banks and the representatives of the latter on the Board of management of the apex bank, thereby creating more or less a federal structure. This has enabled the co-operative credit movement to create an integrated structure both from financial and operational points of view and the state partnership in the apex and central banks has further imparted strength and cohesion to the movement to take the place at an Agricultural Credit Corporation which the Gadgil Committee had recommended, for creating an institutional agency for provision of rural credit.

43. The extent of the resources of the co-operative credit movement and the level of their operations is indicated in the following table:

Primary Credit Societies

44. The primary credit societies were originally, organised on the "Raiffesan" model. Till very recently, they were based on un-limited liability of the members. But in the thirties the principle of multi-purpose activity in the primary societies was accepted and primary

AS ON 30-6-1956

(Rs. in lakhs)

Particulars.	Agricul- tural Credit and M.P. Societies.	Central Financing Agencies.	The Bom- bay State Co-opera- tive Bank Ltd.
Numbers	11,597	24	1
Number of Branches.	—	241	63
Membership:			
Societies	—	11,661	6,034
Individuals	10,66,888	36,913	4,178
Share Capital	Rs. 510.43	158.62	61.46
Deposits	Rs. 102.05	2058.07	1285.97
Reserve & Other Funds	Rs. 308.99	118.46	55.03
Other Borrowings	Rs. 948.10	61.85	11.86
Loans due from Members	Rs. 1558.16	1025.23	562.06
Of which overdue	Rs. 504.74	165.95	75.61
Working Capital	Rs. 1953.37	2486.95	1539.91

village or group credit and Multipurpose societies with limited liability came to be organised. The credit and multipurpose society usually operates within the area of a village or its neighbourhood enabling the members to have intimate knowledge of each other. The supreme authority vests in its general meeting which elects the Committee of management annually and decides the borrowing limit for the society as a whole and for the individual members as well. Funds are raised by means of deposits and loans. Short term loans are granted to members for productive purposes. Profits are used to build reserves. The primary society is the channel through which credit for agricultural operations to the farmer permeates and therefore the resources and financial as well as operational efficiency of the primary societies is of real importance for the success of the crop loan system. The following table indicates the growth of the primary credit societies and their resources since the crop loan system came to be introduced in 1950.

The agricultural credit societies have shown an increase of 2168 during 1951-56, despite a policy of con-

**PROGRESS OF AGRICULTURAL CO-OPERATIVE
CREDIT SOCIETIES**

(Rs. in lakhs)

Particulars.			1950-1951.	1955-1956.
Number of Societies	..	..	9,429	11,597
Number of Members	..	..	6,99,082	10,66,888
Share Capital	..	Rs.	226.44	510.43
Members' Deposits	..	Rs.	141.17	102.05
Reserve & Other Funds	..	Rs.	216.05	308.99
Loans to members	..	Rs.	719.94	1558.16
Working Capital	..	Rs.	1069.35	1953.37
Average Membership per Society.	..	..	73	92
Average Working Capital per Society.	..	..	11,341	16,833
Average loan per member.	..	..	124	145

solidation and weeding out inefficient units followed by the Department. During the same period the membership has increased by 367806, i.e. by 53 per cent, the average membership having increased by 19 per society. There has been a substantial increase of Rs. 283.99 lakhs in their share capital between 1951 and 1956 while the loans made to members have increased by Rs. 838.22 lakhs, though the average per member recorded only an increase of Rs. 21.

45. The crop loan system has been found by experience to have been more effective among the societies, where commercial crops like the sugarcane, cotton or potato are financed and where the marketing organisations are efficient and the link with marketing operations is in evidence. The qualitative as well as quantitative working of the primary societies has improved and there is greater awareness among the members as well as the leaders of the movement of the importance of co-operative credit for raising the productive standards of farming operations. The coverage of rural population in the membership of the primary credit and

multi-purpose societies has increased from 16.3 in 1951 to 24.1 per cent in 1956. As observed earlier, where the commercial crops are predominant coverage is larger, as for example 47.8 per cent in Kolhapur, 36.7 per cent in East Khandesh.

46. Though there has been an appreciable increase both in the number of societies and their membership, the primary societies except a few old societies, have to depend upon outside resources for a very substantial portion of their working funds. The primary credit societies for various reasons, have not been able to mobilise rural savings except perhaps in the form of share contributions. We have, however, noticed in several parts that whatever savings were available to the farmer were ploughed back by the cultivator in improving his agriculture by taking to land improvement, or expanding his holdings or by installing agricultural machinery, such as pumping sets for irrigation. There has, therefore, not been any appreciable increase in cash deposits of members in spite of increase in membership as also in the number of societies. On the other hand, proportion of deposits shows a declining tendency and now forms only 5 per cent of the total working capital. One important reason for this is the inability of the rural primaries to maintain required fluid resources for timely return of deposits and to attend other essential features of an efficient system of deposit banking.

47. While the owned capital of the primary societies has increased by 66 per cent during 1951-56 from Rs. 442 lakhs to Rs. 735 lakhs, their working capital has increased by 82 per cent from Rs. 1069.35 lakhs in 1951 to Rs. 1953.37 lakhs in 1956. While the total loans outstanding with members have increased by 115 per cent from Rs. 920 lakhs to Rs. 1558 lakhs, the dependance on the central financing agencies for additional resources has not been markedly higher, because the drawings

from the central financing agencies have not increased materially, being in 1956 Rs. 969 lakhs as against Rs. 438 lakhs in 1951.

PRIMARY CREDIT SOCIETIES

(Rs. in lakhs)

Year.	Owned Capital.		Members' Deposits	Loans Outstanding		Percentage of drawings from C.F.A.s.
	Amount	Index		Amount	Index No.	
30th June						
1951	442.49	100	141.17	719.94	100	60.9
1952	454.81	103	81.82	961.00	133	63.4
1953	506.37	114	76.71	1107.51	154	64.7
1954	576.30	130	77.65	1221.64	169	62.0
1955	639.35	144	84.54	1385.10	192	61.6
1956	735.50	166	102.05	1558.16	215	62.2

Central Financing Agencies

48. The Central Financing Agencies have, since they assumed the responsibility for providing agricultural credit under the new system and created an integrated credit structure, made fairly remarkable progress in mobilising their resources and providing credit not only to the Agricultural sector, but also to the processing, marketing and industrial co-operatives, as is indicated in the table on page 27.

49. At the close of 1956, there were 25 Central Financing Agencies in the former Bombay State, including the State Co-operative Bank. Of these, 16 District Central Banks were operating for whole of the districts and five were operating for parts of the districts. Besides, there are three Banking Unions and two Taluka Banks. The State Co-operative Bank is functioning as a central financing agency in 8 complete districts including Greater Bombay and in parts of six other districts.

RESOURCES OF C. F. A.s

(Rs. in lakhs)

Central Financing Agencies.	1951	1952	1953	1954	1955	1956
No. of C.F.A.s (including B.S.C. Bank Ltd.)	25	26	25	25	26	25
No. of their Offices.	231	245	254	272	282	304
No. of affiliated Societies.	12,954	14,069	14,763	15,443	16,887	17,695
Paid-up Share Capital. Rs.	140.23	160.65	169.35	182.14	198.32	220.08
Reserve & Other Funds. Rs.	111.26	124.87	148.47	157.50	171.66	174.49
Deposits. Rs.	1919.48	1809.57	2124.18	2263.40	2709.44	3344.04
Loans due from Co-operative Societies. Rs.	958.69	1074.41	1019.36	1083.37	1144.81	1394.14
Working Capital. Rs.	2552.83	2703.71	2766.37	2989.19	3342.08	4026.86

Source: Annual Reports of Bombay State Co-operative Bank, Limited.

Note: In pursuance of the policy adopted by the Board of Directors of the Apex Bank during the period from 1955-56, the Bombay State Co-operative Bank closed its branches in Ahmedabad, North and South Satara and Panchmahals Districts and transferred those areas to the local central banks. During the same period new District Central Co-operative Banks came to be established in Kaira, North Satara, Panchmahals and Nasik Districts. It may be of interest to note that the District Central Co-operative Banks have more recently been established at West Khandesh and Ahmednagar and more or less firm plans for District Co-operative Central Banks at Kolhapur, Ratnagiri and Thana have been made. Thus in the near future the State Co-operative Bank will almost completely cease to operate directly in the Districts.

Membership:

50. The central financing agencies except the Ahmedabad Central Co-operative Bank which has a federal constitution with co-operative institutions as only members have mixed membership of individual share-

holders and co-operative institutions. There is a significant rise in membership of affiliated societies, the number of affiliated societies having increased from 12954 in 1951 to 17695 in 1956.

Financial Structure:

51. The following table on page 29 shows the growth of the financial resources of the central financing agencies including the Apex Bank during 1951-56:

52. The owned funds of the central financing agencies including the State Co-operative Bank have increased by 57 per cent. from Rs. 251.49 lakhs in 1951 to Rs. 394.57 lakhs in 1956. The share capital particularly has shown an increase of about 58 per cent. during this period. The contribution from the Government of Bombay to the share capital of the Apex Bank and other Central Co-operative Banks as at the end of June 1956, stood at Rs. 43 lakhs.

53. The ratio of owned funds to working capital is 1:10. The Bombay State Co-operative Societies' Rules, impose restrictions on the limit for outside borrowings and require the co-operative banks to maintain a particular standard of fluid resources for their deposit liability. Such restrictions, though they are wholesome for established banking institutions, put limitations on programmes for expanding the volume of credit to credit-worthy agriculturists. There is, therefore, an urgent necessity not only to increase the share capital of Central Financing Agencies but also to increase their deposit resources.

Deposits:

54. Deposits held by the central banks, including the Apex Bank, have increased by about Rs. 424 lakhs during the period between 1951 and 1956. Out of the total deposits of Rs. 3334 lakhs held by all the central

FINANCIAL RESOURCES OF APEX BANK							(Rs. in lakhs)
Year.	Owned Funds.		Deposits.		Working Capital.		Percentage of Deposits to Working Capital.
	Amount	Index	Amount	Index	Amount	Index	
1950-51	251.49	100	1919.48	100	2525.83	100	76
1951-52	285.52	113	1809.57	94	2703.71	107	67
1952-53	317.82	126	2124.18	111	2766.37	110	77
1953-54	339.64	135	2263.40	118	2989.90	118	76
1954-55	369.98	147	2709.44	141	3342.06	132	81
1955-56	394.57	157	3334.04	174	4026.85	159	83

banks including the Apex Bank in 1956, the Apex Bank alone accounted for Rs. 1300 lakhs or 39 per cent. of the total deposits. The Apex and central banks despite their jurisdictional and operational limitations, with their expanding responsibility for providing crop loans, have made every effort to raise their deposit resources.

55. In spite of the keen competition from commercial banks, the deposit resources of the Apex and central banks, form 83 per cent. of their working capital, which is indicative of their efforts to raise local resources as far as possible and supplement their resources whenever necessary from the financial accommodation available to them from the Reserve Bank of India. In spite of the inroad of commercial banks in the urban and semi-urban towns and in spite of their more attractive rates of interest on deposits and other banking facilities provided by them to their depositors, it is creditable to the central financing agencies to record an increase of about 74 per cent. in their deposits during 1951-56 as compared to an increase of 19 per cent. in the deposits of scheduled banks during the same period. The central banks have undertaken a programme for establishing branches in the rural areas and by experience it has been observed that such branches not only enable the central banks to supervise their loan operations but help them to tap rural savings in an increasing measure. This will be indicated from the very substantial rise in the deposits of the following central banks: (See table on p. 31).

Reserve Bank Credit:

56. Until 1950, that is, before the crop loan system was introduced, the central financing agencies were able to meet the demands from co-operatives out of their deposits resources. Since 1950, as indicated earlier, the volume of agricultural credit as also finances for non-agricultural co-operatives having increased very considerably, the central financing agencies were required

DEPOSITS

(Rs. in lakhs)

Name of the Bank.	1950-1951			1955-1956		
	Socie- ties.	Indivi- duals.	Total.	Socie- ties.	Indivi- duals.	Total.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Ahmedabad C.C. Bank	51.21	8.70	59.91	80.03	44.61	124.64
Baroda C.C. Bank ..	13.67	8.30	21.97	43.83	45.59	89.42
Broach Dist. C.C. Bank	22.71	47.70	70.41	63.38	78.43	141.81
Kaira Dist. C.C. Bank ..	16.98	9.54	26.52	36.06	50.39	86.45
Surat Dist. C.C. Bank ..	38.13	170.85	208.98	160.46	190.10	350.56
E. Khandesh C.C. Bank	35.80	150.16	185.96	38.57	202.96	341.53
Poona C.C. Bank ..	21.30	98.08	119.38	47.45	157.55	205.00

to supplement their resources by availing themselves of the financial accommodation for seasonal agricultural operations and marketing of crops from the Reserve Bank of India, under Section 17 of the Reserve Bank of India Act.

Reserve Bank Credit

57. The extent of financial accommodation obtained by the Apex Bank and the central banks from the Reserve Bank of India during 1951-56 is indicated in the following table:

RESERVE BANK CREDIT

(Rs. in lakhs)

Year.	State Co-op: Bank.		Central Financing Agencies.	
	Limit sanctioned	Maximum drawings	Limit sanctioned	Maximum drawings
	Rs.	Rs.	Rs.	Rs.
1951-52.	335.00	285.00	220.50	215.50
1952-53.	200.00	150.00	312.00	193.53
1953-54.	270.00	164.00	389.00	233.69
1954-55.	220.00	170.00	274.00	245.35
1955-56.	250.00	170.00	390.50	277.42

As a result of progressive expansion of institutional agricultural credit the volume of advances for seasonal agricultural operations has been steadily increasing. As a result of the introduction of Pilot Schemes in East Khandesh and Broach Districts, to work out a fuller scheme of institutional credit as envisaged by the Rural Credit Survey Committee, including credit for marketing and processing institutions, the volume of credit required from the Reserve Bank of India by the central financing agencies in these districts, has also increased substantially.

58. Aggregate limits sanctioned by the Reserve Bank to the central financing agencies during the year 1956 were Rs. 640.50 lakhs as compared to Rs. 555.50 lakhs in 1951-52. Though during the same period the advances of central banks to co-operatives have increased by 120 per cent., the increase in the Reserve Bank accommodation has been only 20 per cent.

59. Financial accommodation from the Reserve Bank for seasonal agricultural operations and marketing of crops is available at a concessional rate of interest, i.e. 2 per cent. below the Bank Rate. The Apex Bank charges to the central financing agencies $\frac{1}{4}$ % higher on drawings against Government Securities, provided such advances are utilised for financing seasonal agricultural operations and $\frac{1}{2}$ % higher on advances against co-operative paper. Since July, 1957, the Apex Bank has reduced its charge to $\frac{1}{4}$ % irrespective of the nature of security.

CHAPTER III

APPRAISAL

Main Features

60. The steps taken by the Bombay State Co-operative Bank, in September 1950, for the organization of agricultural credit to creditworthy borrowers had a background and a purpose. The background was supplied by the Agricultural Finance Sub-Committee (Gadgil Committee) and the Co-operative Planning Committee (Saraiya Committee). The Gadgil report has to be read as a part of an outline of policy for the development of agriculture. Years before the Planning Commission was actually set up, a policy of planned and publicly supported development had come to be accepted by the State. The needs of industrial development emphasized by the two Wars and the long and strenuous efforts made by leaders of Indian thought to awaken Government to its elementary responsibilities in regard to the material welfare of the people had combined at last to force the hands of the then Government of India to chalk out a planned and consistent course of action. To utilize all the resources of the nation, of land as well as of capital, of labour as well as of enterprise, was the purpose of the new phase of policy. With a view to maximising the productive effect of the large number of people engaged in agriculture the Gadgil Committee considered it essential that every cultivator, irrespective of the size of his holding and of his status in law, should be supplied with adequate means of production including credit. That Committee felt that the urgency of the developmental effort was so great that the responsibility for an adequate and equitable supply of productive means to agriculturists must in the last resort be undertaken by the State itself. The Com-

mittee recommended that in States where the co-operative movement was sufficiently advanced and where the leaders of the movement and the Government of the State felt inclined to use the co-operative institutions for mobilizing and channelling agricultural credit they may with propriety do so. But the Gadgil Committee's accent was on planned developmental credit to agriculturists. This accent continues to be as strong as ever in the context of the requirements of our national plans.

61. The approach of the Saraiya Committee was more specifically from the co-operative side, that is from the standpoint of the needs and prospects of the co-operative movement itself. The co-operative movement in Bombay, in common with the rest of the country, has never been an effort designed merely to promote the interests of an individual section or of a class. The movement has a social purpose, that of carrying to the handicapped sections of the community a legitimate share of the available resources of the nation, so that all may have an equal opportunity of participating in an effort at promoting national progress. The Saraiya Committee took stock of the achievements and difficulties of the co-operative movement, and suggested what they considered to be a desirable and feasible next step in a planned programme of cooperative expansion. Both the Gadgil and the Saraiya Committees' Reports supplied to the Government of Bombay, and to the co-operative workers of the State an opportunity to define their respective attitudes towards the new lines of development of co-operation as a part of national planning. The Nanavati Committee offered the means whereby such a process of joint consultation could be gone through with the necessary thoroughness. The recommendations of the Nanavati Committee gave a lead to the Government as well as to the co-operators of Bombay State. The proposals submitted to the Government of Bombay by the Provincial Co-operative Bank and the Bombay Co-operative Banks' Association were in the nature of an

offer to participate in the national effort at development on certain conditions. These conditions are substantially incorporated in the Government Resolution on the subject which marks a new era of intimate partnership between the State and the co-operative agencies for the fulfilment of the purposes of national development. Any appraisal of the working of the scheme of integrated credit, worked out on the basis of this resolution, will have to take account primarily of the goal of co-operative development to which the Resolution and the Policy Statement of the Provincial Bank supplied the means.

62. Our terms of reference make a specific mention of crop loan system. This is the name by which the relevant phase in the development of integrated system of credit came to be known. The significance of the new name consisted in the emphasis put on the crop, rather than on the land as a basis of credit. On the side of recipients a crop loan could with justice be made to one who grows the crop, either on his or on hired land. So also with regard to the quantum and form of credit the needs of cultivation came in greater prominence than the area and value of land. To make the most productive use of land and of cultivating labour feasible, other measures such as disbursement in kind, supervision over proper utilization, organization of institutional sale and purchase, and the consequent adjustments in periods and rates of lending were thought out. As a necessary accompaniment to this programme of improved coverage and effectiveness, steps towards reorganizing the co-operative credit structure, as well as the Co-operative Department of Government were outlined in the Policy Statement of the Bank and in the Government Resolution. An evaluation of the crop loan system would involve assessment of results and methods bearing on all these aspects.

63. It is, however, not our intention, nor would it fall within our legitimate field of inquiry, to undertake an overall survey of agricultural co-operation in recent

years. We have considered the broader contexts of agricultural and co-operative policy, such as those involved in recent agrarian legislation, only to the extent to which they have a bearing on the system of short and medium term credit which the Government Resolution and the Policy Statement sought to introduce. Our area of inquiry had naturally to extend over all the parts of the present Bombay State to which this scheme has been made applicable since 1950. The benefits of the system are intended for all agriculturists, and they are to be made effective through a network of central financing agencies, marketing societies, multipurpose societies and other co-operative institutions. We have tried by obtaining written evidence from all these bodies, and by paying visits to a fair number among them, to acquaint ourselves with the exact state of facts and opinions. In more than thirty villages spread over twelve districts, with their own central bank as well as those which have to rely on the State Co-operative Bank as their financing agency, we have carried out a detailed survey of the progress of integrated credit since 1950. A large part of this material is being appended to this report, and the rest which would be available with the Bank will, we feel sure, supply a very valuable source of information to any one who would want to study the operation of the system in greater detail. For the purposes of our inquiry, under our terms of reference, we have utilized all our information, oral as well as written, to offer a considered appraisal of the system introduced in 1950 and to make recommendations for its improvement with a view to making the crop loan system more effective in the whole State.

Coverage

64. The change in emphasis from land to crop as basis of credit would naturally be reflected in the number as well as the composition of members of primary societies. In particular one would be justified in ex-

pecting that most, if not all, of the smaller holders and tenant cultivators would be attracted to the co-operative institutions by the prospect of adequate credit. We find that with very few exceptions this promise does not seem to have been fulfilled anywhere. Even on average between the years 1950 and 1955 membership per agricultural society has increased by only 28%. While the normal pace of expansion has gone on in most areas, there are quite a large number of societies, even among those classed as A and B, which have an almost steady, though small, membership throughout these years. In fact there is reason to believe that once the spurt for increased membership, drawn mostly from among the beneficiaries of the "Debt" adjustment proceedings, had spent itself societies settled down to drawing somewhat better benefits for and supplying better services to their limited number of members. In several districts, among them in the co-operatively developed district of East Khandesh, small holders and tenants are even now excluded, either under bye-laws or under an unwritten convention, from membership. As we shall state later in several places of this report a variety of causes are responsible for this result. But we cannot escape a feeling that almost at all levels a lack of adequate understanding, and even a greater lack of earnest appreciation of the merits of the scheme have persisted right upto the date of our appointment. Some recent spurts in expansion are visible in a few areas, but by and large we feel that unless a new awareness of opportunities and responsibilities in regard to carrying credit and marketing services to all agriculturists is created by intensive efforts the effectiveness of the co-operative system for supplying legitimate needs of agricultural credit may come in for serious and justifiable criticism.

65. While primary responsibility in this matter devolves on those connected with village societies, it is obvious that policies adopted by financing agencies go a long way in influencing the pattern of expansion. From

this standpoint special attention may be drawn to the recent efforts made in areas directly served by the State Co-operative Bank to attract small holders and tenants. But in at least three districts served by the State Co-operative Bank, Ratnagiri, Kolaba and Thana, tenants are still not admitted as members in any large proportion. Where tenants are admitted, often they are given no credit at all, or lower credit limits are prescribed for them. Granting that there has been some recent liberalization in these respects the wide-spread discrimination against small holders and tenants reveals the strength of inhibitions drawn from a tradition of relating recovery of loan to sale of assets in rural areas. In the process of securing general acceptance of the newer ideas of integrated credit for productive purposes an initial step is to re-emphasize the basic value of the co-operative principle of personal credit. If honesty and character are to be the effective basis of credit an appraisal of the crop results of the industry and enterprise of an honest cultivator must be considered to be the measure of his credit. We are realizing this in increasing measure every day. But the progress made hitherto has been slow. It must be accelerated.

66. In this context a recommendation regarding membership of co-operatives made by the Rural Credit Survey Committee's Report assumes specific importance. According to the famous Rochdale principles open membership is considered to be an essential feature of co-operative organization. Where co-operatives have been given, and they have undertaken, the responsibility of reaching all eligible persons admission to them must not only in name, but in actual fact, be free and open. We have come across several instances of exclusion of otherwise eligible applicants for membership on quite untenable grounds or on no grounds at all. Apart from personal dislike, often for reasons having no relevance to the functions of membership, considerations such as those of community, faction or political affilia-

tion have also frequently weighed with managing committees in refusing admission. Exclusiveness of this type is inconsistent both with co-operation and democracy. With it, the system of integrated crop loan cannot be worked at all. Recent modifications in Co-operative Societies Rules have improved the situation to some extent by providing for an appeal to respective federal bodies against rejection of application for membership of primaries. In the case of credit and multipurpose societies the federal body concerned would be the central financing agency, which in many cases may be trusted to ensure that membership is not denied on insufficient or irrelevant grounds. But knowing as we do the organization and working of central financing agencies, which are closely associated with the primaries in their districts, it is only natural to surmise that in some cases at least full justice may not be assured unless a second appeal to some independent body is provided. Co-operative opinion in the State has already expressed itself in favour of making the Chairman of the State Co-operative Union the final judge of merits of rejection. We consider it desirable that in this case a final appeal to the Chairman of the Union should be provided.

67. There are cases of large scale exclusion from membership which has occasionally been used a justification for forming more than one society in a village. Whatever justification existed for this type of co-operative organization when it had assumed no responsibility as an agency for realizing economic and social objectives affecting the whole community, nobody can now be allowed to enjoy the luxury of having select company in co-operatives at the cost of the community. Moreover, the entire effort at civic and economic planning would be rendered fruitless if the fissures in our social life are permitted to be hardened in duplicate, and often rival institutions. With the growing accent on full servicing of economic needs in a businesslike way these small societies would be found to be inefficient, unsatis-

factory and uneconomic. From this standpoint we must also revise our approach to the old restriction on maximum membership of 100, per society, as in East Khadesh. In no case should be a single village be divided into more than one multipurpose society, and in fact subject to contiguity and cohesion more than one village may have to be brought within a single society for effective service.

68. The manifestation of the spirit of faction and exclusiveness has another bearing on the system of co-operative institutions. Faction and an integrated system of co-operation are mutually incompatible, and it should be a part of the positive approach of all co-operators at all levels to check the evil of factions and to promote corporate action. The ultimate end of factions will come when more obvious and convincing opportunities of co-operative progress through collective action are provided. But while such a structure of opportunities is being reared the climate for its smooth and successful working must be created by constructive work. One such contribution to positive co-operative aid to counteracting faction is to ensure that no bona-fide cultivator is denied access to socially sponsored services, as for instance co-operative credit, for no fault of his own. While steps such as ensuring membership and overcoming faction must be provided by rules, a situation in which somebody in authority can abuse his position to withhold from a fellow-citizen his right of joining a socially sponsored organisation or of receiving the benefits of membership must be effectively forestalled. The immediate responsibility of making the necessary advance to an aggrieved party, pending lawful and regular relief, must be squarely placed on the next higher financing agency. Where credit is being unfairly withheld by a society, the central financing agency must make it available. If the central financing agency is responsible for causing the alleged exclusion, the apex bank must take a direct interest. In other words for

rendering services as well as for maintaining a high standard of public spirit the federated structure of co-operatives must work as an integrated whole.

69. Here we would draw particular attention to some instances of the advantages of multi-village units in mitigating the influence of factions which have come to our notice. There is no doubt that multi-village units at the primary level have their own problems of administration, and hence when more than one village has to be brought within the scope of action of a single society for the purpose of ensuring efficient and adequate service, it is not desirable even on that account to transgress certain maximum limits of area or of members. This is borne out by the record of our co-operatives, old as well as re-organized. But it is encouraging to see that in the same area in which several single village societies are suffering from the evil effects of faction, some multi-village primaries, such as those with offices at Khadol and Joshi-Kuwa in Borsad taluka of Kaira district, are reported to be conspicuously free from that evil. This instance is mentioned merely for the purpose of drawing attention to one constructive aspect of co-operative organization which may facilitate the way for a general system of agricultural credit through co-operatives. A common pattern having been approved for the federated and integrated co-operative structure, particular cases of divergent circumstances requiring special action would occasionally arise. While principles which have their justification in wide experience ought not to be disregarded merely because an area is classed as backward a rigid pattern should not be enforced in all areas regardless of their special features. Modifications of the general pattern to suit such special conditions should always be permitted, though it should be the effort of all to remove the causes of backwardness as quickly as possible.

70. The influence exercised by recalcitrant persons and unsocial influences getting control over co-

operative institutions must be effectively provided against. The continuance in office of defaulting members is a very serious evil affecting the morale as well as the efficiency of co-operatives. We are of opinion that a much more drastic provision must be made against it than is contained in the present bye-laws. It is a common practice in several types of social and civil organizations to refuse the benefits of membership to those who have not carried out its obligations. There is a special responsibility that attaches to directors of co-operatives in this respect, and we see no reason why a director who has not paid his dues should be permitted to continue as director. The membership of the board of management of a director who commits default should cease automatically, i.e. without any further formal proceedings. It is only such an automatic removal from office of defaulting office-bearers that will minimise the evil of a few persons in authority colluding with irregularity, instead of promoting correct and loyal conduct which it is their duty to do.

71. There is an even more important aspect of corrective action in the interest of keeping credit lines available to all bonafide members. That the Co-operative Department should give an erring institution a long enough opportunity to improve by its own and by other co-operators' efforts is, no doubt, quite desirable. But once a case for drastic action is made out by facts in the possession of the Department the procedure of temporary administration pending reorganization should be sufficiently expeditious and effective to prevent the evil influences affecting the society from doing further harm to the institution and from thwarting legitimate efforts at improvement. Apart from observing principles of organization involved in dealing with sick societies, the main purpose of institutional credit, that of supplying productive resources to bonafide cultivators, must on no account be frustrated. A *prima facie* case of the emergence of this risk would be easily made out if the

performance of a borrowing society in its relations with the financing agency is so bad, that the latter is constrained to refuse further credit. Such a step would amount to a break down of a credit system, to prevent which institutional remedies must be supplied.

72. We are of opinion that whenever a financing agency reaches that stage in its relations with a constituent society at which the latter's credit line is in danger of being suspended, the situation should be treated as one of emergency. On being satisfied that suspension of credit is proposed on valid grounds, which if necessary may be referable to the Chairman of the Co-operative Banks' Association, the Department should proceed immediately to appoint an interim administrator. This action should in no sense prejudice the course of normal inquiries into the working of the society, which should be fully restored if it is proved that the bank's proposed action was unconnected with the administration of the society. Pending the sequel of normal inquiry proceedings, however, the interim administrator should have all the powers of the Board of management. He should have the legal status of a public functionary, so that immediately on his appointment he can proceed to take possession of the office and its records, and to carry out his duties with the same assurance of legal support as is available to a public servant. It will materially help to keep the normal credit lines working if the interim administrator is chosen from among the officers of the central financing agency itself. For expeditious action, as well as for strengthening the position of the Departmental officer on the spot, powers of appointing an interim administrator in supersession of the normal governing authority of a society should be vested in the Assistant Registrar who would naturally be expected to report his action to higher authority so that normal inquiry proceedings may be initiated.

73. While the number of societies which have succeeded in bringing a large percentage of eligible per-

sons within the scope of their operation is relatively small, it is sufficiently significant to be suggestive of future lines of progress. In fact in making our suggestions in this as in other parts of our report we have been guided principally by experience of successful operation of the crop loan system in some areas. It is our finding that given similar conditions of operation, greater success will be reached elsewhere as well. Especially in the areas of intensive cultivation of commercial crops this expansion has been more reassuring. Where, as in co-operative sugar factory areas and in cotton or tobacco districts having co-operative sale societies, disposal of members' produce could be channelized through associated agencies the extent of co-operative credit, by number of members as well as by amount, is much more satisfactory than in the rest of the State. Productive use, improving standards of cultivation, dependable calculation of economic expenses, disbursement in kind, watchfulness in utilization, timely recovery, institutional marketing, good management, these and other desirable features of the crop loan system could be more easily implemented in these favoured areas than in others, where more dispersed, dry and mostly cereal production prevails. These physical and environmental differences are a permanent challenge to our determination. As with co-operation generally, so with the crop loan system as a part of a programme of co-operative expansion, enough success in coverage and service has been achieved in a few places to make it worthwhile to try and reproduce comparable conditions in other areas as well so that wider success may be assured.

Adequacy of Finance

74. The record of co-operative financing institutions in respect of making adequate crop finance available is even more unsatisfactory than their performance in extending their services to all cultivators. Even good societies in co-operatively developed areas, like A

class societies in East Khandesh, agree to lend amounts which are only a fraction of the cultivator's needs for production. The inevitable result of such inadequate service is almost knowingly to throw the member into the cultches of private traders and moneylenders. These classes continue to charge high rates of interest, and to keep the borrower's business within their system of trading which is unfair to the legitimate interests of the cultivator. Often the private financier and dealer make out of their remaining business with the borrower, what they would have obtained if the whole business had been transacted by them. Inadequate finance thus defeats the whole purpose of the crop loan system in as much as it neither helps the member to grow better crop, nor does it help him to realize a good price. The comparatively poor participation by borrowing members in institutional purchase and sale is primarily due to the fact that the co-operative system still compels them in most cases to resort to the private dealer for a large part of their production requirements.

75. Inadequate finance thus does less than justice to the borrowing member as well as to co-operative institutions. We have heard it said occasionally that the co-operative agencies cannot give adequate credit because their resources are scanty. On scrutiny such explanations have been found to be baseless, and we know that the system of integrated credit from the Reserve Bank to the primary society has now been furnished with adequate resources for meeting all the cultivation needs of the farmer provided the organization for ensuring productive use and institutional sale is sufficiently strong and efficient. Thus in so far as the reluctance to grant adequate finance is not due to some ignorance of this point, it really stems from a still lingering sense of hesitancy and niggardliness, which is wrongly cherished as banking caution. To choose a reliable borrower and then to render him sufficient service to make a success of his business is the real function of a good

bank. Much more constructive and developmental ought to be the outlook of a co-operative bank. We are convinced that unless ideas about adequate finance are brought in line with the full requirements of cultivation, we cannot claim that the crop loan system has really been put into operation. The single most important step forward in the progress of the crop loan system, therefore, is that of ensuring that all members get adequate finance needed for good cultivation.

76. Recently in three types of areas more or less adequate finance is being made available to members. In the areas of direct financing by the State Co-operative Bank there are branches like Kolhapur and Shrirampur where, for sugarcane cultivation, substantial loans are being issued. Especially in villages falling within the purview of co-operative sugar factories finance is made available on progressive lines. The services of the agricultural officer employed by the factory ensure that the loan is productively used, and the automatic disposal of cane through the factory for sugar-making helps in realization of the dues. The significance of items like production programme, supervision of standards of cultivation and recovery through institutional sales is best brought out by the sizeable difference which is still maintained between the loan limits sanctioned to cane growers in factory areas and those who are outside it. Some of the central financing agencies have cane growing as well as factory areas, and they are following principles of adequacy similar to those adopted by the State Co-operative Bank, though the degree of adequacy reached by them is in many cases less satisfactory than that which now prevails in the sugarcane and factory areas still served by the Apex Bank. Besides cane, there are other commercial crops like potato in Poona, cotton in Broach and tobacco in Kaira for which substantial finance is issued by the central financing agencies concerned. The Kaira District Bank has offered, we were told, a general scheme for ade-

quate credit to all societies which would submit their normal credit statements on a systematic crop-wise basis. We were further informed that about half the number of societies have already taken advantage of this offer.

77. Since last year the Government of Bombay have initiated a scheme of intensive paddy cultivation in parts of Thana, Kolaba and Poona. What is called the Japanese system of paddy growing is being introduced in these areas under the supervision of the agricultural officers, who are actively assisted by co-operative officers as well. Some interest is also being evinced by Government in ensuring proper sales, though no institutional arrangements for the requisite processing and marketing have yet been initiated. Under this scheme the central financing agencies concerned have issued loans at the rate of Rs. 125—150 per acre as against the usual limit of Rs. 50 or so per acre. In spite of the fact that the last monsoon season was far from satisfactory and that the initial administrative and supervisory arrangements did not work smoothly in all cases, the results of this scheme have been sufficiently encouraging to warrant its further extension in the same and other areas. The readiness with which the central financing agencies agreed to play their own part in this effort at planned and publicly sponsored development of production is in line with the principles of the crop loan system. This experience only proves that if all aspects of the crop loan system, from production to marketing, are properly attended to adequate finance would be not only a safe but even an inviting proposition.

78. A little more foresight and determination on the part of co-operative institutions, including central financing agencies, is called for at this stage. The prevailing situation, with one or two solitary exceptions noted above, of almost complete neglect of the real needs

of cultivation finance for other than the principal commercial crop in selected areas, and of almost all crops in other areas is a sad commentary on the extent of enterprise at present available within the co-operative sector. Meagre finance is the result of incomplete understanding of the implications of crop loans or of excessive caution or of both. That some supporting action by the State, in regard to advice on improved methods of cultivation, supply of seed and fertilizers etc. as in its intensive programme in paddy areas, can evoke more enterprise from farmers and co-operatives has now been proved. In substance all these features are included in the crop loan system, and if they are made available for all the principal crops in all areas of the State through appropriate institutions there is no reason to apprehend that the co-operative financing agencies may not play their own appropriate part in making a success of these programmes. Adequacy of finance would then be a necessary part of a scheme which in all its parts is under suitable scrutiny and guidance.

79. At least in some parts of the State misunderstanding about the nature of the crop loan system has been promoted by the practice of confining the use of the term 'crop loan' to loans granted to members under the Bombay Agricultural Debtors' Relief Act. At least in one area as many as four types of current loans were listed. These are, ordinary loans, i.e. loans granted on the older scale based on assets; adequate loans, which are liberalized version of the first; pilot loans, which are granted in the area chosen for introducing a pilot scheme based on the Rural Credit Survey Committee's Report; and *Crop loan*, which is loan granted as per scale approved by the Collector for purposes of the Bombay Agricultural Debtors' Relief Act. Presumably, crop loans in this sense would be lower than adequate and pilot loans. Thus a crop loan so called would not be a crop loan at all. While such a misconception about loans under the crop loan system initiated jointly by

the Government of Bombay and the Bombay Co-operative Banks' Association may not exist in all parts there is little doubt that the scales fixed under the Bombay Agricultural Debtors' Relief Act have now become inoperative and irrelevant, except in the few cases where it is reported that the Collector adopts the rates approved by the central financing agencies. In most of the districts the Bombay Agricultural Debtors' Relief scales have tended to become only formal, and most of the banks' transactions proceed on the basis of scales independently adopted by them.

80. The original formulation of the rates to be sanctioned under the Bombay Agricultural Debtors' Relief Act had allowed for inclusion of almost all the items which would be normally expected to figure in a schedule of production expenses. But as some Government guarantee was involved in the sanctioning of these limits of credit and as in addition to current expenses an instalment of the adjusted debt amount had to be repaid, the Collectors' limits usually fell short of real needs of good cultivation. Whatever further utility such rates may have from the standpoint of limiting Government's liability for guarantee to the central financing agency there is no doubt that for purposes of promoting best productivity among cultivators credit limits based on those rates have no relevance at all. It is necessary that all credit limits should now be firmly based in systematic calculations about the needs of good cultivation under the actual conditions of each area and each crop. Such an analytical, scientific and competent inquiry into the needs of cultivation can alone supply data on which suitable credit limits can be based. In some areas efforts at such a systematic approach to crop loan limits are made with real success. But in most of the areas this effort leaves much to be desired.

81. The agency devised for the purpose of ascertaining the exact needs of crop expenditure is intrin-

sically sound. At an annual meeting of field workers, that is of representatives of societies, supervising unions, and financing agencies, and of representatives of the Agricultural and Co-operative Departments, to be held well in advance of the principal sowing season, consultations are to be held to determine what would be the correct quantum and composition of the production resources to be made available to different crop-growers of the area. Other details such as the proper time of issue of instalments of cash and material requisities are also to be settled in these meetings. Properly worked, the institution of field workers' conference should supply a well-informed and responsible forum of yearly consultation which should have produced wide satisfaction with the results of its labour. In a few areas where the required amount of co-operative leadership and official response are forthcoming reports of the working of the field workers' conference are encouraging. But the general impression left on our mind after a perusal of evidence gathered in several places is that this conference has tended to become a more or less formal affair. In fact sometimes it has been used for purposes having little connection with crop loans. Not all the persons who are expected to attend have in fact been attending the conferences regularly.

82. From the standpoint of the quality of the results reached by the conference, the most regrettable absence has been that of the agricultural officer, who alone would be in a position to say what a desirable programme of good production for each crop in the area would entail in respect of cash expenditure and use of other resources. Probably, at some time or other such discussions did take place, and since then the figures tended to be taken for granted. Occasionally and in a few areas, according to the interest evinced by official and non-official workers, the conference appears to be revived as an active instrument. Sometimes this interest is fanned by quite extraneous considerations such

as the promotion of a new sugar factory. But by and large the working of this conference tends to be of a routine character, and the rates of lending per acre of each crop tend to be determined by reference to traditional and general considerations in which the viewpoint of financing agencies predominates. In some of the areas of intensive cultivation of commercial crops the annual assessment of needs is more realistic than the somewhat superficial attempts which are common in regard to dry cultivation, especially of cereal crops. Even oilseeds like groundnut seem to have attracted little systematic attention.

83. In its origin real interest in all stages of finance commencing from the field workers' conference, seems to be related to the prospects of profitable cultivation and sale. A standard pattern of cultivation, such as usually exists for sugar-cane and cotton, is rarely worked out for the more common crops such as groundnut, jowar or pulses. Paddy has latterly attracted more notice, and hence discussion at field workers' conference in paddy growing areas chosen for intensive development are more purposeful, and they evoke prompt action on the part of financing agencies. Thus it will be seen that unless there is a production programme in terms of which needs of good and profitable cultivation of a crop can be systematically ascertained, discussions at field workers' conference are reduced to a tug-of-war between the financing agency on the one hand, and the borrowing society on the other, with officials on the sidelines encouraging either party as occasion would suggest. As a rule the societies' representatives do not possess trained and professional assistance such as is available to the central financing agencies. There is need to have the cultivators' viewpoint represented by a better type of office-bearer than most societies can at present employ. A more confident and purposeful approach to agricultural improvement on the part of the agricultural department, and active participation by officials of that

department in determining the pattern of cultivation and its costs in intimate consultation with representatives of farmers are *sine-qua-non* of a comprehensive scheme of crop loans. The institution of field workers' conference must be a real partnership between the expert, the co-operative financier and the farmer all combining to make the best possible use of the resources of land, labour and finance available to the agriculturists.

84. Once the rate of adequate expenditure on productive items has been fixed full credit calculated at these rates should be available to all needy farmers. The institutional structure set up for the supply of this credit, without direct reference to fixed security, entails as an essential feature, the disposal of product through co-operative channels. The orderly disposal of produce is one stage, but an essential stage, of a process in which issue of adequate credit in cash and kind are earlier steps. The responsibility of borrowers to comply with their obligations in respect of sales must, therefore, be scrupulously enforced. But some of the procedures occasionally adopted by financing agencies to emphasize the importance of co-operative sales appear to be misconceived. For instance, in some districts a certain fraction of the previous year's sales through co-operative channels is considered to be a valid measure of credit for the current year. Such calculations are, however, most inconsistent with the principle of providing adequate crop finance. It would be more justifiable to reward exemplary compliance with obligations of membership of integrated credit structure by such means as issuing more than the general limit of crop credit for the purpose of undertaking intensive cultivation or for other needs of provident expenditure.

85. As regards the measure of adequate crop finance it is common ground that all cash outlay needed for purposes of cultivation, including labour and material requisites, should be covered by it. As to the labour of

the cultivating family itself the tendency has been to exclude its wages, or even maintenance expenses from the calculation of cash needs. While some plausible arguments can be produced in support of this practice, it is undeniable that if the marginal and sub-marginal farmers with whom we would be dealing are left without adequate credit for their own maintenance during the cultivation season they would as surely fall into the hands of money-lenders, as if credit were denied to them for the more obvious requirements of seed, fertilizer or hired labour. The more realistic among financing agencies have, therefore, agreed to a limit which besides the cash outlay would include the cultivating family's maintenance during the crop season. Wherever such a rational and realistic policy has been followed the productive response of farmers, and recoveries of their dues have been distinctly better than in areas where the more restrictive policy of excluding maintenance expenditure is followed. We are definitely of opinion that maintenance expenses should form part of essential crop finance, along with cash outlay on the more obvious items.

86. There is a school of thought which has a more or less sneaking confidence in its theory that after all farmers have some resources of their own and, therefore, a little cut here or there does not matter much; that in fact it brings out the reserves of the farmer into productive use. It is desirable to follow up the element of truth in such reasoning. The average farmer in most dry areas is really devoid of all reserve. His state of under-employment coupled with the small size of his holding does not permit of any real saving which might be considered as available for productive expenditure. For fair-sized cultivators in irrigated regions a presumption of savings being available for productive expenditure would be fore justifiable. In each area it should be possible to work out a size of farming unit for which the full measure of estimated productive expenditure

should be allowed as a crop loan limit. For farmers cultivating large areas proportionately less credit per acre should be made available as it would be reasonable to expect that the bigger farmers would have some resources of their own out of which they can meet some at least of their cultivation and maintenance expenses.

87. We have not come across any such reasoned scheme of restricting the amount of credit to ascertained needs in individual cases. On the contrary we have come across at least one case where the central financing agency allows credit at a higher rate per acre to the bigger farmers. Probably the real significance of this case is that the smaller farmers are getting much less than they need. In any case we consider it as much a logical and necessary implication of the crop loan system that every member should have adequate credit for his cultivation expenses as that no cultivator should have more out of the publicly sponsored integrated system of credit than he actually needs. Some years ago the Bombay State Co-operative Bank had introduced a scheme based on this principle in its area of operation in the Ahmednagar district. This practice was later on suspended for quite extraneous reasons. We feel that the implications of a policy of giving no less, and no more, than is actually needed in each case should be more analytically worked out for each area before it is incorporated into the working practice of co-operative finance.

Procedure

88. The whole process of calculating what would be a legitimate limit of borrowing for purposes of crop cultivation by each member is essentially an analytical one. Working on very general averages has no place in a system which makes adequacy of finance its purpose, and the crop to be raised with such finance its real

source of repayment. To ensure that a loan sanctioned under the crop loan system has been the result of a careful weighing of all the relevant considerations, it is essential in each case to get all these factors on record before proceeding to a consideration of the loan. It is requisite, therefore, that every member of a primary society who desires to have a loan should be asked to supply in the form of an application for crop loan all the relevant particulars. Besides some elementary information about the family, assets and borrowings of the applicant, the form should contain as exact data as possible on items like area under each crop, during the current and the coming season, sales effected through co-operative agency during last year, land revenue paid on each holding and full particulars of indebtedness to the society. Even when the cultivator himself is incapable of exactly knowing or of writing down these details the necessity to put down all this information on his behalf in the initial loan application would serve a good educative and informative purpose for all connected with the loan transaction. Absence of such a form has given rise to a general vagueness and misconception about the nature of the system. Much of the hesitancy, abrupt action and uneven treatment of members which one comes across in the current administration of the crop loan system is undoubtedly due to the lack of a regular thinking throughout each transaction on its essential merits. We attach great importance to the initial step of having a specific application from each member for a loan, and of having a record in this application of all the facts relevant for the purpose of assessing eligibility for a crop loan. It is possible that some particulars of an application for this purpose may vary in different areas, but the pro-forma of an application attached to our report (appendix 3) should serve as a good basic form for all areas.

89. We do not intend this form to be a mere formality to be filed as a matter of routine in the records

of a society. We expect that the secretary of the society verifies, to the best of his knowledge, such particulars given in the form as are capable of verification, and makes concrete suggestions, if any, on all doubtful points. This stage of scrutiny and verification is an important part of the process and one of the essential services which a professional wholtime secretary would be able to offer is to operate the basic steps in a crop loan procedure with competence. It is not impossible that in some places honorary or part-time workers would be found who also would attend to operative duties connected with crop loan procedure with competence. But the system cannot be made generally operative without the services of a whole-time professional secretary, who at all stages would be required to carry out essential functions about making, disbursing, supervising and recovering a loan. The last date for receiving applications for loans related to the crop concerned should be fixed well ahead of the time when the first instalment out of the loan will be required for use. Normally, this date should not be put off beyond say, three months before cultivation operations are scheduled to begin. Actually, members should be encouraged and helped to send in their applications much earlier. This would enable the secretary and other persons involved in assessing the programme of cultivation, to give due thought to the merits of the application and place it before the managing committee with all relevant particulars. We expect that the managing committee of a primary society can meet frequently so that even before the last date for the receipt of applications, several applications would be attended to. In any case after such last date the secretary should complete his verification and obtain the managing committee's recommendations on all applications. Members of the managing committee are expected to apply approved standards to the consideration of each application, along with their personal knowledge about the merits of the proposal. If for some reason they feel called upon either to reject an application

or to depart from approved scales of credit per crop acre they should ordinarily record such reasons on the application. No doubt such a record may occasionally cause some embarrassment, but on the other hand in most cases it will serve a good educative purpose.

90. A *normal credit* statement embodying the relevant particulars from the original application forms, along with recommendations of the managing committee should be prepared by the secretary. Such a statement will have to be approved by the managing committee of all societies, and also by general meetings of members in the case of societies with unlimited liability. In the course of our inquiry we have come across a number of unexpected features of the preparation and processing of these statements. Of these unexpected features two are noteworthy. The simpler one is that they are like so many records which the secretary or the supervisor prepares more for reasons of office routine than for really ascertaining all the relevant particulars. Not only is the member not made aware of the importance of the items to be included in the statement, but no particular effort is spent on maintaining exactness of quantitative data. This feature is only a manifestation of the general trait of conforming more to form than to substance from which many administrative procedures suffer. But there is another feature which is both more unexpected and less simple. Almost universally the central financing agencies play a controlling role in setting the standards of all loan limits, as it is from or through them that almost all of the outside borrowings of societies flow. But not all central financing agencies dominate the societies to the extent of getting them to make only such recommendations as they know to be acceptable to central financing agencies. This evidently happens in a few cases. In some normal credit statements, fortunately very few, this influence extended to the point of introducing notional acreages for individual crops derived from the total loan which the central

financing agency was prepared to sanction and the rate per acre at which it claimed to do so. Either the recommendations of the field workers' conference and the societies are set aside by the bank, or the acreage figures and recommendations of societies are presented in the manner acceptable to central financing agencies. All these features only indicate that normal credit statements are not at present uniformly treated with necessary seriousness. We are convinced that unless at both the society's and the central financing agencies' end the normal credit statement is accorded the importance of a vital and authoritative credit document an essential link in crop loan procedure would be found to be too weak to support its weight. Such weakness, which unfortunately does exist in at least some areas, would be fatal to the strength of the whole system of crop loan. If a normal credit statement prepared, approved and forwarded to the appropriate branch of the central financing agency, as recommended by us, is available the requirements of judging both adequacy and soundness would be fully met. We are appending a proforma of what we consider would be a suitable form for a normal credit statement.

91. Hitherto supervising unions, representative of primary societies in each taluka, have been expected to play a useful role in the procedure of recommending, supervising and recovering a loan. These bodies belong to a phase of our co-operative history when selective membership and joint unlimited liability were considered to be necessary foundations of credit structure. Even before these features were discarded for the more democratic and businesslike pattern of open membership and limited liability these bodies had begun to suffer decay due to lack of adequate support from public spirited and competent membership. They had come to depend almost exclusively on the activity of their secretaries, who in due course were incorporated into a government cadre. In fact at about the time when

the district co-operative Boards were organized the process of winding up supervising unions was actively supported. For several reasons the trend was later slowed down. Thus, though supervising unions in some form exist in several parts of the state, so far as the major portion of the old Bombay State area is concerned, supervising unions exist only in name, and the secretary, who to all intents and purposes, is a government servant acts for them. We are not concerned in the present place with the question about the general future of supervising unions. So far as the crop loan system is concerned, with all the further improvements suggested in the course of this report, neither the secretary nor the members of supervising unions, we feel, would have any contribution to make to the process of improving its operation. On the other hand what we have in view is a regular incorporation into the structure of co-operative finance of representatives of societies on a nearer and more operational level than the central financing agency which usually has its headquarters at the district place. We suggest that in all districts the central financing agency should have at least one branch in each *tahashil*, and that as a part of the organization of each branch there should be an operative committee composed mainly of representatives of primary societies. The functions of this committee should not be only advisory; within prescribed limits it should have responsibility for initiating action and taking decisions.

92. Our inquiries have shown that with very rare exceptions reference of normal credit statements to supervising unions, even when made, is for the most part being treated as a formality. Officials of the central financing agency play such a dominant role in the whole process that as a rule the normal credit statement is prepared as per their instructions. In a few cases practices other than sending the statements to the union have begun to be followed. In areas of national extension blocks there are instances of block level co-opera-

tive officers being asked to approve a normal credit statement. In one or two other places the normal credit statement is sent to the sale and purchase union which is asked to approve it in the light of last year's sale and current year's prospects through the member. Considering that the sale unions themselves often grant what in effect are production loans such a reference of credit statement to that body becomes all the more unwarranted. We do not deny that the extension staff as well as the sale union personnel have a contribution to make in the process of making and recovering crop loans. In appropriate form and at the appropriate stage these should be included in the institutional structure of crop loan administration. But referring a normal credit statement prepared after all the care recommended in this report to either of them is likely to serve no useful purpose. At best they would cause delay, and quite often they would give to the whole procedure a twist which would be inconsistent with its normal working. We would definitely suggest that the normal credit statement after it is approved by the managing committee, or in the case of societies with unlimited liability by the general meeting, should be forwarded to the central financing agency at the appropriate branch, at which the bank officials and the branch committee should dispose of it as suggested in the following procedure.

93. When the principal official at the branch has received the normal credit statement he will have it scrutinized by the inspecting staff, which should then carry out such further inquiry or verification as it considers necessary. The statement, with remarks of the inspector should be put up before an early meeting of the branch committee. Neither at the branch committee, nor at the Head office should individual cases, as a rule, be dealt with. The relevance of individual credit limits is only for the purpose of central financing agency finding out whether the accepted principles of the system are carried out and for supplying a justifica-

tion for the overall limit asked by the society. As a rule, therefore, all normal credit statements of A and B class societies within its area should be sanctioned at the branch level itself with the concurrence of the branch committee. These statements with the decisions of the branch committee thereon should be reported to the Head office for confirmation. The Head office should not be expected to reconsider the statement for the purpose of arriving at a fresh decision. It should, however, have an opportunity further to satisfy itself that no general principle of soundness has been violated in any case. It should be open to the branch committee as a whole, or to the branch official representing the central financing agency on the committee, to refer any particular statement for decision by the Head office with or without recommendation. Statements of C and D class societies should be subject to final sanction by the Board of the central financing agency after recommendation by the branch committee. Besides these cases, there would be some others involving specially high advances. These also should go to the Board for decision with recommendation by the branch committee. Such an intimate association of representatives of societies in the process of administering the loan system will make for a higher sense of responsibility among the societies at one end, and for a greater appreciation of the role of societies themselves on the part of the central financing agency at the other. No limit on individual borrowing under the crop loan system should be placed either by bye-law or by resolution of a society. Such regularization of procedure will also put an end to the present practice of some of the central financing agencies keeping societies, and by necessary implication their members, in constant suspense in regard to the limit of available credit. The practice of giving a small initial limit, or no limit at all, and holding out a vague promise that a supplementary or final limit will be granted later on if it is found to be justified is undesirable and it should be stopped immediately.

94. Delay involved in obtaining sanctions of central financing agencies for their normal credit statements is a frequent cause of complaint on the part of societies. That in some cases these complaints are justified is seen from the fact that in a paddy area, situated near the headquarters of the State Co-operative Bank itself, normal credit statements have occasionally not been sanctioned till the month of May, or even June. It is not an adequate answer for such a complaint to state that in any case some amount on the basis of last year's limit has already been issued, and the final decision would be known early enough after the season has started. The society concerned must be in a position to assure to the member the finance which he needs for a particular programme, the adoption of which by the member would depend on such assurance. We have more and more to appreciate that schemes of improved agricultural practices will be a normal feature of our cultivation under extension and developmental plans. Financing agencies have to see that they order their procedure so as to facilitate the adoption of progressive plans by cultivating members. While, therefore, we would put in general and urgent plea for expediting sanctions, we must at the same time emphasize that wide coverage of membership and adequacy of financial accommodation are dependent on assurance about so many essential features that unless these are carefully scrutinized and verified at appropriate stages the entire strength of the crop loan system would be endangered. Time taken for making out applications, scrutinizing and verifying them, making specific recommendations, having them examined by branch committees and, if need be, by the central financing agencies is time well spent, and the only way to avoid eventual delay is to start the process early enough.

95. We suggest, therefore, that from the last date on which the final sanction of the central financing agency is considered to be desirable, by working back-

wards through time needed by the branch committee and by the society itself a date would be indicated as the last date for the receipt of loan applications from members. As stated earlier the society should receive and dispose of applications as they are received so that after the last date no more than a fortnight at the most is needed to forward the statement to the central bank's branch office. As a general schedule we feel that a total period of not more than a month need elapse between despatch of a society's demand and its sanction by branch committee in the case of A and B class societies. In other cases referable for sanction by the Board of the central financing agencies a month more may be needed. If all the steps are properly staggered, if throughout the relevant period frequent meetings are held, and if a sense of urgency is kept up by Board and committee members as well as by officials there would be no delay. Only reasonable time needed to go through essential procedures would be taken. Moreover in all cases where branch committees have either sanctioned a statement, or have made a positive recommendation it should be open for the society concerned to draw its due instalments.

96. We attach extreme importance to legitimate claims of members of societies being fairly considered at all levels. Admission to membership would have no significance if a member is not assured of his privileges of membership. By misunderstanding, and also occasionally by misguidance, claims of an individual member may not receive proper consideration from the authorities of the society. Whenever a member feels aggrieved at the decision of the society on his application for a crop loan, it should be open to him to appeal to the branch committee, which as a body representative of all societies in the area and as a responsible part of the central financing agency organization ought to be able to decide whether any serious mistake has been made. Where a branch committee is really convinced

that a major deviation from accepted principles has been made it should be open to the committee either to modify the statement to that extent or to refer the case for reconsideration by the society. Pending such reconsideration operation on the initially recommended limit should, however, continue.

97. In a few years' time by the trend of final decisions taken on appeals a more helpful and detailed code of procedure would emerge, which would supply guidance to all concerned. To ensure that a common practice in all essential respects is maintained within its own area it is desirable that where a member has appealed to the branch committee, second appeal to the central financing agency itself should be available. Our idea of these appeals is more of giving occasions for legitimate regularization than of creating a structure of authorities. We recommend that the State Co-operative Bank and the Co-operative Banks' Association should keep itself informed of the trends in the actual operation of the crop loan system. It would be appropriate for these bodies in no distant future to supply a manual of crop loan administration which would generally operate in all areas of the State.

Disbursement

98. Apart from the timeliness of the initial issue of a loan sufficiently in advance of the cultivation season and the adequacy of the total amount to meet all the cultivation expenses there are a number of other aspects of the method of disbursement which are equally vital for the success of the crop loan programme. But most of these depend for their smooth and economical operation on the existence of institutional agencies for the purpose of sale of the cultivator's produce. By an institutional agency we mean an organization which carries on business with its own members so as to promote their legitimate economic interests as a part of the

social system of economic activity sanctioned by the national plans. Besides a co-operative sale and purchase agency, only a publicly owned and conducted agency can claim to be institutional in this sense. Even where the Government desires directly to regulate distribution of some goods, or to enter a field for purchase, our opinion based on a fairly prolonged experience of the good and evil in both governmental and co-operative agencies is that well organized and suitably supervised co-operatives are on the whole capable of giving more satisfactory and more economical service than departmental organizations. In more than one contexts responsible official declarations in support of this view have been made, and, by and large, the Government of Bombay have given a good enough proof of its earnestness in support of this view. We refer to this aspect in the present place only for the purpose of pressing on the attention of the co-operative workers themselves that unless with due support from Government they equip themselves with co-operative sale and purchase agencies full benefit of other aspects of their activity such as the crop loan system cannot be expected to flow.

99. The existence of institutional agencies for purchase and sale can alone facilitate issue of loans in kind and at appropriate times. Both these features are essential for productive and economical use of the loan. In the absence of such facilities, credit and multipurpose societies are occasionally tempted to extend the scope of their activities to making loans for processing and other operations preliminary to marketing of the produce like the expenses for setting up a *gurhal* for the purpose of making *gur*. Howsoever well intentioned this effort may be it cannot be held to be a feature of crop loan system. Either a separate processing society or a marketing society doing processing as well must be the agency for such loans. Even though the same central financing agency may be supplying funds to both the marketing or processing and the multipurpose socie-

ties the agencies chosen for the two purposes must be normally differentiated. In point of period and security, and also, therefore, in point of the terms of lending the two types of loans are of a different character.

100. As the multipurpose societies doing crop finance for periods extending to a year should not treat on the more short-term and commercial type of lending involved in processing and marketing as a normal feature of its production finance. On their side marketing and processing societies should not extend their activity to making production loans. While the dividing line between advances against sales and loans for primary production is occasionally difficult to draw anybody who is in the business knows full well what he is financing. We are aware of the fact that in several areas for valid historical reasons practices which blur the dividing line between commercial finance and agricultural finance have grown almost naturally, and in their present form and proportions are not found to be positively harmful. But even in these areas it is clear that if the business of farming as well as processing and marketing is to be co-operatively organized on a more or less universal basis one and the same type of institution will not be able to cope with either the financial or the managerial responsibilities involved in the business. Programmes of future expansion are taking to the more rational differentiation between agricultural and commercial finance. The central financing agencies on whom a continuing strain will be caused by both types of demand will also do well to guide future progress along properly differentiated institutional lines.

101. It is in the interest of the crop loan system as a whole that as much part of the loan reaches the cultivator in the shape of a production requisite as possible. In the somewhat precarious balance which most cultivators have to maintain between their income and their total needs, issue of loans in kind is one of the means by which productive use is ensured. Besides, there are

considerations of price and quality which apply to all cultivators big as well as small. Cash loans, reduced to the minimum should be issued in two or three appropriate instalments, one for preparatory operations, another for mid-season cultivating expenses, if necessary, and the last at the time of harvesting. This indeed is not a schedule indicated for all cases. It only enumerates the most frequent occasions on which cash loans would be justified. In many areas issue of some loan for maintenance of cultivating family towards the latter part of the season is found to be necessary. Wherever this can be managed in the form of household requisites, like grain, the loan may with benefit take that form. Otherwise, maintenance expenses would have to be issued along with the mid-season instalment. All other items, e.g., seed, fertilizers, implements, and in some cases oil and insecticides should be issued, as a rule, in kind and through an appropriate agency.

102. We have come across one or two peculiar cases of apparent incompatibility with crop loan principles, which we would mention here to avoid their repetition or extension. As a rule the larger growers should not only have less in per acre loan out of the total crop loan funds, but they should draw more of their requirements in the shape of essential supplies. We have, however, noticed in one or two important areas that the bigger cultivators get more by way of per acre loan, as well as by way of cash portion of the same. In another place, while very strict, in our opinion more strict than absolutely necessary, arrangements have been made for the supply of seed and fertilizers through the sale and purchase union, useful town compost available through municipal channels is not being included. Strictness is more justified if it is accompanied by both adequacy and due discrimination. One case of discrimination in applying crop loan principles is supplied by places which are inaccessible over a large part of the season. Quite naturally, the timetable for issue of loans,

both in cash and kind, would be different in these places from the general one, though even here the extension of branches of central agencies would go a long way in overcoming what are at present considered to be insuperable difficulties. All concerned with the extension of the crop loan system to cover all cultivators should give to a programme of progressive expansion the highest place in their active policy.

103. In many districts actual disbursement of cash loans is at present being made in the shape of cheques drawn in favour of individual members. There is nothing wrong in this procedure, and in fact it is very convenient and progressive inasmuch as it minimises the movement and use of cash. In areas where the number of branches of the central financing agency are limited this practice is apt to prove inconvenient and costly. As, however, our recommendations in regard to the opening of many more branches come to be implemented the use of cheques can be universalized. In fact, by then, with the progress of wider coverage, more adequate finance and co-operative sales all banking practices and habits will be better appreciated than they are at present.

Utilization

104. As crop loans are given specifically for the purpose of productive use according to an approved programme or pattern of cultivation a follow up by way of assurance and guidance on the essential points of such a purposeful use are necessary. The primary responsibility for this important function lies on the members themselves whose mutual assistance in these and other respects constitutes the special characteristic of co-operative as distinguished from other forms of organization. We expect that the more systematic arrangements for receiving and attending to applications for loans suggested by us would give to members generally, and to members of managing committees in parti-

cular, fuller opportunities of appreciating the positive contribution which each part of the loan sanctioned by them is expected to make towards the cultivating activity of their fellow members. Living in close proximity it should be possible for them to ensure that correct use of loans is being made by all members. But here as in other parts of their activities, they must be able to draw on the trained and continuous assistance which only a professional secretary can give. Even some of the reputedly good societies, which are lacking in arrangements for a follow up of utilization of loans are occasionally seen to show up undesirable features, such as a marked divergence between crop acreages adopted in normal credit statements and actual condition in the field. Outside the sugar factory areas, wherever an attempt has been made to verify actual crop acreages by reference to conditions in the field considerable disparities have been noticed. How much of this variation is due to unavoidable physical factors, and if it is caused by such factors what consequential adjustment needs to be made in the quantum and composition of the loan, are items which require constant and urgent attention. While members generally, and especially the managing committee, may be expected to know these items and to care for them, they will have to be given an appropriate opportunity to act by the initiative of the secretary himself. Having a reliable, competent and whole-time secretary assumes crucial importance from this aspect of the crop loan system, as from several other aspects noted in the course of our report.

105. The qualifications and training of the secretary have to be suited to the several aspects of his work, and we trust that the system of training, devised by the State and all-India organizations concerned, will take due note of the special duties involved in an intelligent application of the crop loan system in this State. There is, moreover, some responsibility in this matter which may increasingly be shouldered by the appropriate staff.

of the agricultural department. As has been mentioned earlier, the programme of good or improving cultivation for which the crop loan system supplies a source of credit is essentially the concern of the farmers and their expert advisers. These latter in our conditions are mostly the departmental personnel, who at initial stages, such as the field workers' conference, are expected to participate in discussions regarding suitable credit limits for each crop. Their continued association with the technical aspects of the use of loan resources is an inestimable advantage which both the cultivators and the financing agencies would appreciate. In fact, it is the purpose of extension organization to supply such continuous contact.

106. But on their side the financing agencies themselves will do well to have sufficient staff to acquaint them at all stages with the progress of activities which are the occasion and the justification for all the loans sanctioned by them, short as well as medium. Besides the inspecting staff, which is drawn from what may be termed the office class, and which naturally cannot afford to be visiting village societies too often, there is need to employ a new type of personnel of the level of trained and experienced fieldmen. There should be at least one such fieldman attached to each branch. The fieldmen should necessarily be drawn from personnel having a direct interest in the rural areas, and they should be trained further in enough of both agricultural and co-operative practice to be able to carry out their duties with confidence and efficiency. It is not our intention to suggest that this staff should act in any advisory capacity so far as the techniques of agriculture are concerned. These are matters which the cultivators and their technical advisers, including the departmental staff concerned, should decide for themselves. But it would be the duty of this staff, as indeed of all the operative staff of the branch of a central bank, to know what the credit implications of these programmes are,

and then to satisfy themselves that they are being duly observed. The fieldmen will not be expected to carry out anything like supervision, which even from an administrative standpoint would fall within the proper field of the secretary of the society. But the fieldman, by means of frequent visits and sample inquiries, will keep himself well posted with facts which the central financing agency is vitally interested. All such things as crop acreages, use of farming requisites and sale of produce, which are vital to the crop loan system can be ascertained with sufficient accuracy only by instituting a direct link with field activities. Incidentally, the fieldman will be able to convey to societies any specific suggestions which the central financing agency feels require timely notice. But the fieldman will in no sense be an assistant, or sub-assistant inspector, and he will not be expected to have administrative contacts with individual members. His utility will consist in the assistance which he gives to the central bank in regard to accurate and most recent information about all the essential features of crop loans and their utilization.

107. While we do not intend the fieldmen to have any administrative responsibilities towards the staff and office-bearer of societies we have every reason to believe that their services will bear considerable indirect advantage in broadening the knowledge of facts as well as of correct procedure at both ends of the line of communication, the central financing agency and the society. The importance of the fieldman staff both for the current crop loan system and for medium and other loans in which the State and all financing agencies are interested is so great that their appointment should be considered as part of the minimum staff of a branch. Where for any area, for any length of time, the resources of the central financing agency are not expected to be adequate to enable it to pay for the full expenses of the staff including fieldmen a suitable grant should be made by Government.

Repayment and Recovery

108. Assessment of credit in terms of the needs of each crop and the repayment of the loan out of the proceeds of sale of the particular crop financed out of the loan are both equally vital features of the crop loan system. Both these have been extensively disregarded, but the insistence on repayment out of proceeds of the crop concerned has been almost completely forgotten. Another aspect of a comparatively loose approach to the implications of the crop loan system is to be found in the prevailing practice of fixing a due date for the recovery of almost every loan at the end of twelve months even when the crop has a much shorter maturity and an early marketing season. This practice encourages postponement of repayment which sometimes leads to an eventual inability to repay. Another evil, which is partly facilitated by the yearly limit, is the more or less nominal interval which is permitted between repayment and fresh issue of a loan. In some form or other this practice is to be seen in many areas. If the loans intended for a particular crop are measured and issued according to the requirements of each crop, and are also recovered at the normal time of its harvesting and sale, a habit of regular repayment will be promoted in the borrowers and the society's efforts at channelling the produce of members and recovering dues through co-operative sale agencies will meet with greater success. The almost deliberate tendency to allow dues to accumulate towards one yearly point of repayment irrespective of crop seasons should be discontinued, and loans made for each crop should be recovered out of the proceeds of the same crop, unless the failure of an earlier crop has to be compensated by the proceeds of a later one.

109. There is a certain internal correlation between the attitude towards adequacy of loans on the one hand and that to satisfactory recoveries on the other. By

satisfactory we mean full and timely recovery of dues. That recoveries at present tend to be unsatisfactory is not very surprising in as much as the whole policy and procedure of loans has hitherto been based on the assumption and expectation that a fair share of the loan will not be recovered in time. Here is a genuinely vicious circle. Because recovery is not assured, less than the needed amount is loaned, with the expected, if not the calculated, result that the borrower still remains under the effective influence of the private creditor and dealer. This in turn affects the economy of the borrower and the working of co-operative sale agencies, which are, therefore, not in a position effectively to help in recoveries. The net result is that actually very often there are poor recoveries, which fact in turn is made the basis of an argument against more adequate finance. The whole situation is so transparently untenable that we would place at the very head of our findings regarding recoveries our observation that unless loans are made in adequate measure of productive needs the very first condition of full recovery, that the borrower should be helped to produce enough to be able to repay the loan, will not be satisfied. We do not rely on mere general reasoning in support of this conclusion. Actual experience in all areas where anything like adequate finance has been issued, such as Anand, Cambay, Kolhapur and Shirampur, proves the truth of the proposition: the more adequate a loan is, the more likely it is that it will be repaid satisfactorily. We have to approach the implementation of the crop loan system from a mentality of "*full finance fully recovered*", and with a view to making this constructive and business-like policy fully effective all parts of the crop loan scheme including marketing, supervision and due process of co-operative law require equal attention.

110. On account of a somewhat tolerant attitude towards recoveries, matched by a hesitant approach to loans, a certain degree of default has come to be looked

upon as normal. In such an atmosphere of half hearted action on the part of society and central financing agency officials, as well as on the part of Government officers concerned, recalcitrant debtors do not earn that disapproval from their fellow-members and officers which they really merit. In fact in several instances the office-bearers themselves commit defaults and on account of the tardiness of legal procedure they remain in office long after they have broken their bond. We have already suggested that this at least should happen no more, and a defaulter should automatically cease to exercise the authority of an office. We feel, however that when all that the co-operative institutions by themselves are expected to do has been done, and some one, member or non-member, still wilfully commits or abets an infringement of his contract, he should be liable for treatment reserved for offenders against society. Co-operative institutions, with the large developmental as well as social stake which the State has in their success, must in this respect be treated as being analogous to public organizations, and obligations owed to them should be similarly enforceable. In principle this position has always been conceded, though on each occasion the divergence from the position allotted to purely private parties has been limited to the necessary minimum. In view of the growing size, variety and complexity of co-operative transactions, the subject of co-operative dues and appropriate methods of their legal recovery has recently attracted the attention of two committees on Co-operative Law, one set up by the Government of Bombay, and the other by the Government of India.

111. For our present purposes, we are particularly interested in all the implications of legal recovery. Under our recommendations, co-operative societies assume all responsibilities as an agency for realising some important economic and social objectives affecting the whole community. All farmers, big or small, cultivat-

ing lands have to be admitted as members and adequate credit has to be granted to them for their productive activities. The beneficiaries, in their turn, have, therefore, the obligation to repay the loans in time out of the sale proceeds of the crops. To the extent to which they wilfully fail to do this, they weaken the co-operative organization and defeat the purposes of national development. Again, co-operative agencies function largely under conditions of State partnership and all the means of legal recovery available to the State should also be available to co-operatives, which constitute a socially sponsored service.

112. Matters, therefore, like priority of co-operative dues over State dues, or over dues of land-lords and other private creditors, penalties for dealing in crop produce on which a co-operative has a prior charge, continuing nature of the charge on the produce or a member's land and similar question have been comprehensively dealt with in the report of the Bombay Committee on Co-operative Law. We are in general agreement with their recommendations on the subject, particularly those contained in paras 175 to 188 of their report. An early implementation of these recommendations will go a long way in stopping some of the major loopholes which appear to facilitate the way of the wrongdoer at the cost of honest members of a society.

113. In Chapter X, para 29 of the Second Five Year Plan certain recommendations, which are intended to strengthen the working of co-operative societies and the central financing agencies, have been made, and we urge on the Government of Bombay to enact early legislation on the lines recommended by the Planning Commission.

114. The hesitancy and half-hearted approach to recoveries which characterizes co-operative management affects the State machinery as well. Actually this

may be said of almost all levels of the administration. Once the co-operatives have been incorporated according to the special law intended for them, the operation of that law should be at least as assured and regular as the operation of other laws. Officers of Government, high or low, are not expected to be influenced in the course of their official actions by their own opinion as to the wisdom or expediency of any law which it is their duty to administer. This is true of laws which create benefits, as well as of those which inflict penalties. Under co-operative law a variety of benefits, individual and corporate, are created for members of co-operatives. These benefits are on the increase, and we ourselves have recommended a further more just and more liberal implementation of lawful advantages created for members of co-operatives. But there can be no more binding character for these beneficent provisions and recommendations than should attach to those aspects of co-operative law and procedure which empower and require the officers of Government to grant expeditious relief according to law to co-operative managements. There is no justification for any misunderstanding or squeamishness on the part of institutional or government officers in this respect. It is economic democracy operating in its twin aspects of creating legitimate advantages for the common man, and effectively preventing the wrong-doer among common men from frustrating the operation of a structure created for the benefit of honest people. As with managers of co-operative agencies so with officials charged with the responsibility of executing the law a consciousness that they are doing their best to give every-body a fair deal should strengthen their resolve to uphold the law in all circumstances. Unless this is done, the defaulters and law-breakers will make the functioning of the service impossible, as in fact they have done in some cases.

115. An essential requisite of successful operation of the crop loan system, including satisfactory recovery

is the existence of an adequate number of co-operative sale and purchase agencies. We have referred to this aspect of the system at several places in our report. In the present context our emphasis is on having as widespread a co-operative sale service as possible. Every *mandi* or small sized market, whether it happens to be a taluka town or not, should have a sale agency. The need for having such institutions is so great, and the variety of commodities dealt in, as also of the normal channels of their distribution, is so large that at least for some time to come there appears to be room enough not only for local but also for commodity-wise sale unions. In fact it would be desirable in suitable places even to encourage the larger multipurpose societies to market the produce of their own members and, if possible, of members of other societies which have no access to normal marketing facilities through other co-operative organizations.

116. A rigid territorial pattern of what may be described as co-operative marketing jurisdiction is incompatible with the nature of our markets and with the present stage in the progress of our co-operative marketing societies. We do not suggest by any means that a wasteful duplication of publicly sponsored institutions should be tolerated. The central financing agencies would by their experience and first hand knowledge be in the best position to judge whether any expansion of marketing activity is likely to cause an undesirable type of overlapping. So long as a society appears to be dealing in produce of members who are naturally associated with it, and so long as the credit issued to these members by their societies is being institutionally recovered as per arrangements approved by the central financing agency, all expansion of co-operative marketing through marketing societies or otherwise through co-operative institutions, should for some time be encouraged. Once adequate credit and marketing facilities are set up the stage may become ripe for considering whether by

amalgamation or reorganization a more rational and economical pattern can be evolved.

117. Even more than the banking section of co-operative business, marketing societies and processing societies are in need of developing a competitive and expansionist approach to their activity. Unlike a credit or multipurpose society, which at present has almost a monopoly of lending to cultivators at reasonable rates, a marketing society has to compete for its custom. At both ends, that of bringing within its fold as large a number of producers as possible and of reaching the largest number of consumers or buyers, it must carry on a constant campaign for more and more business. An attitude of sheltered or privileged business will be inconsistent with the real interests of the community. We have seen how in Broach and Surat cotton sale societies by sustained effort have succeeded in reaching as many as about 90% of growers in some areas. This commanding position has helped them to find a profitable market. Such instances, and several others to be found in other countries, underline the need for marketing societies to place accent on efficiency and competitive service to the producer. The staff of co-operative societies and of financing agencies as also of the concerned departments of government would no doubt do its best to encourage sales through co-operative channels. But the pull must come from the attractiveness of the service, and on this point, as we shall have occasion to say in greater detail in a later part of this report, much constructive progress has yet to be made. Experience in the Bombay State during the last War has proved how an assured market at reasonable rates, such as the one for paddy procured in the Thana District, makes for the smooth and efficient working of the system of productive credit. The State Government may even now supplement and strengthen the work of co-operative agencies by utilizing their services for a normal system of procurement and distribution in selected areas.

But even if this development of institutional trade in essential commodities takes some time, the sale and purchase societies of all commodities and in all areas must prove their worth to the satisfaction of their members. Thus alone will they have good business for themselves and earn good, that is reasonable, prices for their clients. The financing agencies should support all legitimate efforts at making efficient marketing services available to members of borrowing societies.

118. In more than one context we have felt that in several areas there is not enough evidence of a recovery mindedness. This in some cases is reflected in the staffing arrangement as well. While it is true that members should be expected scrupulously to honour their obligations, and that other members and especially members of the managing committee should exert themselves to see that each member does in fact discharge his obligations regularly, it is necessary that somebody whose duty it is to remind all members of their respective obligations at the appropriate time, and if need be, to follow the movement of their produce, should be on the staff of each society. Wherever the secretary by himself can be trusted to attend to this work perhaps no more special staff is needed. But it would be well worth the expense to have additional temporary recovery staff, chosen from among suitable persons, appointed during the recovery season. In any case, such arrangements should be tried on an experimental basis, and they should be confirmed, if their experience proves to be satisfactory.

119. At the end of each recovery season, the secretary of a society should prepare a list of overdue loans and submit it with all particulars to the managing committee. The committee should then consider each case on all its merits and should take such further action by way of influencing the borrower as it may consider necessary and feasible. If after all such efforts have been made the member does not repay what the managing

committee feels is a reasonable sum, he should be posted as a defaulter. In the alternative, if a member repays all that the committee feels he legitimately may be expected to repay the rest of his dues should be certified as authorized arrears. As a first step against all declared defaulters further issues of credit should be automatically stopped, and in all cases of serious default reference to the Assistant Registrar for action under Section 59-B of the Co-operative Societies' Act should be made, as per standing arrangements with the Department. We do not suggest, nor have any responsible co-operators ever suggested, that minor or occasional cases of default should be referred to the Assistant Registrar for coercive action. The Department and the co-operative financing agencies should have a clear understanding as to the types of cases which should be normally sent to the Assistant Registrar for action under Section 59-B. All such cases should be dealt with by the Assistant Registrar in the normal course of his duty. He should not treat the cases as a mere reference for discretionary or selective action on his part. There is no greater abnormality about procedure under Section 59-B than action involved in any other part of the crop loan system. In fact only such action in cases which deserve it would make the crop loan system possible. Let there be a prior agreement by all means as to the principles for sending up cases. Such an agreement would influence credit policies of societies and central financing agencies. But any cases as per agreement sent up for implementing a section of the law must be dealt with under the law. No discretion or selective choice of action on the part of officers concerned is either permitted in law or is desirable in practice. If the wilful default of members is matched by the wilful disinclination of officers any system of credit would soon break down.

120. It has been represented to us that certificates for recovery of arrears of crop loans granted by the

Registrar or the Assistant Registrar, as the case may be, are not promptly executed by the revenue authorities. The law empowers the Collector or the revenue authorities to take precautionary measures authorised by Sections 140 to 144 of the Bombay Land Revenue Code, 1879, for recovery of the arrears of crop loans, but these measures are in most cases not taken and timely recoveries are not effected. The result is that working of societies providing crop loans is seriously prejudiced. In order that defaulters may not be encouraged to endanger or cripple the serviceability of co-operatives providing crop loans, we would suggest that the revenue authorities should be directed to implement, unhesitatingly the provisions of law on the subject and effect timely recoveries of arrears of crop loans, in respect of which certificates under Section 59-B are issued.

121. We are very keen on ensuring that the credit normally needed by bonafide members should not cease on account of the recalcitrance of a few members. This is one of the reasons why we take such a serious view of slackness of action against wilful defaulters. So long as such normal action continues to be taken there would be no justification for the central financing agency to suspend issue of credit for members in good standing. But if recalcitrance reaches a limit beyond which a central financing agency would consider issue of further credit unsound, then, as suggested earlier, the Assistant Registrar should take steps to appoint an interim administrator. Once the administrator is appointed the central financing agency should continue to lend enough money to cover the approved credit limits of the bonafide members. Thus due action under the law against recalcitrant members should be invariably matched by positive assurance to the others that no lapse on the part of any member, for which a legal remedy exist, would be allowed to affect the rights of the rest adversely. In the unequal and comparatively disorganized society in our villages the principle 'one for all', and 'all

for each' has often to be implemented with a much bigger unit of social life in mind than the single village or even a group of villages. Unless all the good elements in the community combine for joint action, the full benefits of co-operative effort are not likely to be realized.

122. The principles which should guide a society in authorizing arrears are capable of being reduced to general rules of guidance. Such rules, as we have suggested earlier, can be prepared by the Co-operative Banks' Association and be communicated to all societies. Further, it may be suggested, that any authorization of arrears from members which leads a society to ask for a similar relief from the central financing agency should be subject to the latter's approval. Most of the serious cases of unauthorized arrears should then go to the Assistant Registrar for suitable action. If due action is taken by all concerned at appropriate stages of a transaction there is no reason to doubt that genuine overdues, that is amounts which in the opinion of the managing committees or central financing agencies can and ought to be recovered, but are actually not being recovered, will be seen to be very much less than what some current figures indicate.

123. We have noticed in many quarters much avoidable misunderstanding as regards the nature of the entry in co-operative accounts described as "amounts outstanding". This entry corresponds to that of "loans and advances" in the accounts of other banks. But whereas one looks at the latter entry as a measure of the total business done by the bank, and, therefore, on the whole as a reassuring entry, the appearance of the heading "amounts outstanding" almost looks like a warning, as though it is just a thinly veneered version of "amounts overdue". We think that it is desirable to conform to normal banking practice and call all loans, old and current, by their proper name. In fact, a more business-like approach to the balance sheets of co-operative cre-

dit institutions would show many other facts, which may appear to be of a minor character, but which are at least moderately suggestive. For instance, it is noteworthy that high as is the figure for overdues,—and on this we have commented earlier—much higher is the figure for additions to owned funds of societies including share capital and reserve fund. Apart from the structural, procedural and policy implications of high overdue amounts mentioned earlier, we have also a feeling that if the amounts debited to members by way of compulsory share contributions were not so high recoveries could, perhaps, be more regularly enforced. We have already expressed our views on this subject, and we have every hope that with a more rational attitude towards benefits and obligations created by the crop loan system the balance sheets of financial soundness of co-operative institutions will be better assured.

Scarcity

124. A specially important aspect of crop loans refers to calamitous situations created by unusual events like a famine due to nature or a severe fall in prices. The latter situation is clearly beyond any normal calculation of financing agencies. It is only to be hoped that with the operation of a planned scheme of investment and prices such severe depressions as have characterized our past agricultural history may no longer recur. Modest and sectional movements of prices have, however, to be met by the margins and continuous adaptations which the financing process must always provide. Unusually bad seasons which hit the agriculturist both as producer and consumer have, however, to be guarded against by financing institutions which must adopt special procedures designed to meet the peculiarities of each area. Some of the central financing agencies have expressed an opinion that famines are social calamities and the responsibility of meeting the situation arising out of them should be met by the Government and the

community. Obviously, such expressions of opinion are based on a misunderstanding both as to the nature of the calamity and of the special position of financing institutions in relation to it. In so far as Government itself is concerned it not only comes out with suspension and remission of its dues in suitable cases, but in extreme cases it would also provide *tagai* loans for fresh cultivation. The benefit of these reliefs granted by the State will be received irrespective of whether a cultivator is a member of a co-operative institution or not. So also, if the distress is acute and prolonged even famine relief measures provided at the cost of the community will be undertaken. But these would in no way absolve the co-operative financing institutions from their responsibility of continuing to play their appropriate role throughout the period.

125. Subject to overall social action in cases of grave calamities, the normal vicissitudes caused by bad seasons must be met by appropriate financial procedure. Most of the vulnerable areas have by now been located. In these some variability, though not an identifiable time cycle, of good with indifferent and bad seasons is noticeable. With growing economic strength of members and societies it should soon be possible for both to take the indifferent periods in their stride, that is, absorb the shortfall in produce, by drawing on reserve margins either of member or of society, or of both. Pending the development of a strong economy, however, some well-thought out scheme must be ready to enable members and societies to meet an indifferent or a bad season with confidence. The main approach has to be made from the standpoint of a bonafide borrower. If on account of extra-ordinary circumstances he is judged as unable to repay all or any of his current dues, it should not automatically follow that for the next year's season, which in all probability would be a better season, he should be deprived of the means of good cultivation. But this is exactly what happens at present.

Either no fresh loans are made, or very scanty finance is made available. As is obvious, bad as this lack of adequate finance is for the member, it is equally bad for the financing agency, as the prospects of recovery of its loans are thereby dimmed. In all legitimate cases of postponement of payment due to bad seasons, it should be clearly understood that the adequacy of the new season's crop finance is in no way endangered.

126. According to the exigencies of each individual case arrears arising out of such causes should be spread over one, two or three years, so that they no longer press on the borrower as a crop loan, but are treated on an intermediate term basis. But in no case should the legitimate inability to repay be equated with recalcitrant default by grouping both together in the common heading of overdues. In areas where variability of seasons is frequent members should be encouraged to make deposits during good years, so that they may have less need to borrow after bad ones. Procedures of societies and of financing agencies in such areas should be deliberately adjusted to peculiarities of the economic conditions of the people depending on the nature of seasons. Thus, if fresh borrowing for the season after a bad one is hampered by maximum borrowing limits not permitting what would in extreme cases amount to nearly two year's crop loan suitable provisions permitting this additional borrowing of an exceptional nature must be incorporated into the bye-laws of both. Obviously, we cannot adjust our seasons to suit our system of co-operative finance; we must suit our system to the seasons.

CHAPTER IV.

ORGANIZATION

Central Banks and Societies

127. The Bombay State of pre-reorganization days had a fairly developed structure of central financing agencies in most of the districts. The few districts which were being served directly by the State Co-operative Bank through its branches are being rapidly encouraged to establish their own central banks. In two or three districts by the side of central banks a banking union catering for the needs of a smaller area within the district also exists. It is seen that a union has some advantages in the shape of closer contact among borrowing members, but almost all unions have failed to mobilize fully the resources of local savings and capital. While rural deposits generally at branches of central banks are going up at an appreciable rate, deposits in unions show no comparable increase. In particular with the rapidly increasing demand for rural credit for a variety of co-operative activities of an increasing number of members unions are discovering how difficult it is to keep pace with their obligations, financial as well as managerial. Attention may in this connection be drawn to the relevant tables for deposits of central financing agencies attached to this report. The future progress of co-operative finance for crop loans and for the linked activities of marketing and processing is vitally dependent on the growth and husbanding of the resources of central co-operative banks.

128. In the perspective of current needs as well as of future growth of central financing agencies an initial step forward is to minimise and eventually to eliminate their advances to individuals. It is unlikely that de-

posits from individuals will in future contribute the same proportion of the total deposits of central financing agencies as they have done in the past. Several circumstances affecting co-operative business on the one hand, and the general state of the money-market on the other, will, in our opinion, result in a much more rapid growth of institutional deposits than of individual ones. Even to the extent to which central financing agencies continue to attract individual deposits their continuance and expansion are not necessarily bound up with the terms of lending to individuals. The role which the central banks are designed to play is not that of being primary lenders to individuals but of supplying credit to societies formed of individual members. This is true of rural as well as of urban clients, and of agricultural as well as of non-agricultural business. As far as agricultural finance is concerned we are convinced that legitimate occasions for central financing agencies to lend to individuals can only arise in temporary or special circumstances where the requirements of the crop loan system themselves may suggest that such action on the part of a central financing agency is essential for the growth of the integrated and federated system of co-operative institutions.

129. It is both the duty and the interest of co-operative institutions at all levels actively to promote the objective of a general co-operativization of rural economy. It is their contribution to the achievement of this purpose which earns for them the moral and the material support of the community. With a view to ensuring that no transaction of theirs is inconsistent with their essential duty as co-operators individual advances should be limited to recognized and approved cases, as follows:

- (a) In areas of the district where on account of special difficulties some time is expected to elapse before efforts undertaken to form co-operatives bear fruit;

- (b) Areas where on account of economic and other reasons established societies have become stagnant and have ceased to act or to grow in regard to increasing membership and loans;
- (c) Where on account of the highhanded behaviour of some members the legitimate needs of some other members are being flagrantly disregarded, or some persons are being prevented from joining the society; and
- (d) For meeting unusually large demands of individual members of a society, where the bye-laws or resolutions of that society contemplate direct finance by the central financing agency.

We would urge that it should be the endeavour of central financing agencies as well as of other co-operative organizations to see that even situations like those listed above do not arise, or do not last long. But so long as they do last central financing agencies will be acting in the best interests of cultivators and of co-operative progress by meeting in full the legitimate requirements of member-individuals who are victims of such an unfortunate situation. At present not all central financing agencies have confined their loans to individuals to these permissible cases. In some respects, as for instance, the minimum shareholding in relation to borrowing, the terms on which central banks agree to make loans to individuals are occasionally even more favourable than their terms to societies. They have thereby limited their usefulness to co-operatives and have at least to some extent diverted resources intended for a co-operative purpose to one which is not so palpably co-operative. This practice should, in our opinion, cease as soon as possible.

130. We have already recommended that in each taluka of a district there should be at least one branch of the central financing agency. This may not necessarily be in the headquarter of the taluka unless it hap-

pens to be a sufficiently active centre of business. It is the expected size of business which should determine the initial location and further expansion of branches. The programme of linking credit with marketing will receive considerable support if *mandi* or small and big market places, which are likely to be chosen as centres of co-operative sale and purchase unions, are also chosen by central financing agencies to locate their branches. Branch expansion by central banks should be an integral, and in point of time slightly advanced, part of the programme of co-operative expansion chalked out for each district. A basic need of the structure of crop finance is to keep the cash resources of members within the co-operative system, and to augment their savings to the maximum. The capacity of primary societies, of even the fair-sized amongst them, to keep deposit accounts and to attend to simple banking business such as collecting or transference of funds is bound to be very limited. But if all fair-sized societies are within easy reach of branches of the central financing agencies the societies can play a very important and effective role as the basic units of a comprehensive structure of co-operative finance. Such a development has significance even beyond the sectional interests of the sector represented by rural economy. An active and well designed programme of expanding branches and of developing their business should find a prominent place in the plans for progress of central financing agencies. As we have already recommended, these branches should operate as points of common action of the decentralised agency of the central banks and of the representatives of local societies in the branch committee.

131. The capital structure of the whole body of federated financial institutions from the primary society to the apex bank is extremely important as a factor which determines their capacity to participate effectively in a comprehensive programme of crop loans. This

fact has already been recognized by the institution of some relationship between the size of business, that is of borrowing and lending, on the one hand and of capital on the other. But the manner and extent of achieving a desirable relationship between the two have been far from uniform, and often they have led to undesirable results. The lack of co-ordinated planning in this respect has been most noticeable in regard to primary societies. While bye-laws and circulars on the subject have often stated and re-stated the legal requirements the actual situation seems to be far from clear. It is a general practice to limit the borrowing of a member to ten times his shareholding in the society. In practice this means that for obtaining a loan of Rs. 100, a member has to hold a share of Rs. 10, which he manages to do in most cases by allowing a deduction of that amount from the loan itself. It is probable that the model bye-laws on the subject provided for such an automatic or compulsory contribution only upto some optimum limit. But in fact we have found in several cases that a more or less automatic or compulsory contribution or reduction of 10 per cent. continues to be made on each occasion of loan. The obvious burdensomeness of this practice is widely resented and it is hampering the normal progress of the crop loan system. Several palliatives to remedy the situation are being tried. In some areas the simplest method is to ignore the practice on occasions. In others the rate of reduction is variable, according as the amount involved is large or small, and according to whether the borrowing is for the first or later occasions. In some cases maximum limits of compulsory contribution to shares, to be followed, in a smaller number of cases, by compulsory deposits have been fixed. As it is the intention of the crop loan system to reach all, and especially the smaller cultivators, on whom the burden of compulsory share contribution will fall heavily, a more rational and uniform system must be followed.

132. In keeping with experience of the best among the existing practices we suggest for general acceptance

a formula by which a member should be required to have at least 10 per cent. of his initial borrowing as his contribution to the share capital of the society. But assuming that the amount borrowed continues to be the same on later occasions he should not be expected to make a further contribution of as much as 10 per cent. We would suggest that on the occasions of later borrowing only a further 5 per cent. contribution to share capital should be expected. If the amount borrowed increases then a total minimum shareholding equivalent to 10 per cent. of the higher amount should be insisted on. But continuing contributions on a compulsory basis should not be insisted on when a member has already made a total share contribution of 20 per cent. of his borrowing. Subject to the limit of maximum shareholding laid down by bye-laws of each society, it should be open to a member to go on adding to his shareholding even beyond 20 per cent. of his borrowing if he voluntarily prefers to do so. But there should be no compulsion on any member to contribute more than 10 per cent. of any single loan or more than 20 per cent. of his loan limit. At present, a number of intending members are deterred from joining a society as they object to, and in some cases actually misconstrue as interest, the continuing contribution of 10 per cent. A number of members lose interest in further borrowing, or in returning, a loan when their share contribution is already equal to their loan needs. This is a very undesirable situation. The recommendations made above should be adequate to build a sound capital base for the operations of a society without unduly burdening a member.

133. Beyond a reasonable limit, such as the one indicated above, compulsory contribution to share capital is much less important than encouraging the habit of keeping deposits with the society. Particulars of such deposit can be adjusted to suit the seasonal conditions of the economy of each area, and central financing agencies through their branches have an important

role to play in this respect. Where some service rendered by the society can be said directly to add to the income of the member, and where at the same time for purposes of some expansionist or provident scheme the society desires to raise funds, a scheme of compulsory deposits can be thought of. In any case interest should be payable on such deposits, and to the extent of his deposit a loan made to a member should carry a somewhat lower rate of interest than is charged to a member who has no deposit to his credit. Loans against deposit would be particularly in order for purposes other than the normal purposes of a crop loan. Recent experience has shown a welcome tendency of growth in rural deposits, and if this time is chosen for inaugurating a systematic scheme of encouraging various types of deposits from members of rural societies that step would strengthen the whole structure of our finance.

134. While we are trying to expand the scope of co-operative credit so as to reach a fairly large number of cultivators during a comparatively short time, like say the period of the second Five Year Plan, we must see that no feature of the accepted code of normal procedure conflicts with the adopted programme of expansion. If both the programme and the principle are considered to be equally important the necessary corrective must be supplied in the programme. Where the right hand which enforces the principle does not know what the left hand which makes the programme does, unexpected and inconvenient situations arise. If a society is to find anything like all the crop finance needed by its expanding membership it is discovered in several cases that the limit of its borrowing upto eight times its share capital is too inadequate to qualify it for a loan sufficient for its purpose. If the eight-time limit is not raised to the requisite extent, either there is not enough borrowing on the part of a society to meet all the requirements of its members, or the requisite bor-

rowing is done by a violation of bye-laws, for which both the society and the central financing agency are answerable. If the purpose is to meet members' needs as an act of sound finance none of these alternatives can be viewed with equanimity. We, therefore, suggest that when a planned programme of expansion in membership or in the scale of finance is in the stage of initiation as is contemplated in an extension of the crop loan system, the permissible limit of a society's borrowing should, for the time being, be raised to what are considered outside limits of financial fairness, say to 10 or at best 12 times the share capital. Once such a calculated limit of safety is reached, further strengthening to the capital structure of the society should be supplied in the form of retirable participation on behalf of the State. This is the only legitimate way in which co-operative progress along sound lines can be secured consistently with the requirements of the production plan of the country.

135. The same principle of adequate strengthening of capital structure must be kept in view in respect of the central financing agencies. In 1951 paid-up share capital of central financing agencies was Rs. 140 lakhs while their deposits amounted to Rs. 1919 lakhs. This paid-up share capital represented 7.3 per cent of the total deposits. In the year 1956 whereas deposits rose to Rs. 3344 lakhs, the paid-up share capital rose only to Rs. 220 lakhs, representing only 6.6 per cent of deposits. In the earlier year, the share capital amount represented 5.5 per cent of the total working capital whereas in latter it represented 5.4 per cent. Considering the nature of the business which the central financing agencies have to do, both these percentages are too low. In the perspective of increasing size and variety of business which the central financing agencies are likely to be called upon to do, their capital structure would be seen to need urgent strengthening. In keeping with principles stated earlier in this chapter, it is

not desirable that central financing agencies should rely any more on individual contributors of share capital. Like the share limit for individuals in relation to their borrowings from societies, there is a corresponding limit for societies to borrow from central financing agencies in proportion to their holding in the latter's shares. But this limit is variable and it is not uniformly administered. In fact this lapse is one of the reasons why the share base of central financing agencies' capital is so narrow. We suggest that in principle the same arrangement should subsist between societies and central financing agencies in respect of their shareholding and borrowing as we have recommended in respect of members and societies. As a rule, borrowing societies should hold in shares of central financing agencies at least 10 per cent of their borrowings from them. Wherever this percentage is at present substantially lower than 10 per cent, it should be reached by suitable stages. It should be open to a society to purchase more than the minimum required to maintain a ten per cent holding, subject to the central financing agencies' bye-law about the maximum holding by a society. Where a society has been given a credit limit which is more than ten times of maximum shareholding permitted by the bye-law, the maximum limit of shareholding should be allowed to be exceeded to the extent necessary to make the society's shareholding equal to one-tenth of its borrowing from the central financing agency. Pending the gradual stepping up of the society's contributions to the capital of the central financing agency requisite strengthening of the capital base, in relation to its own borrowing limits from the State Co-operative Bank and the Reserve Bank, should be supplied by means of State participation according to the scheme adopted in this behalf by the State Co-operative Bank.

136. The State Co-operative Bank itself has the overall responsibility of financing the entire residuary share of crop loan finance, that is the share which re-

mains after the funds at the disposal of societies and other central financing agencies have been fully used. Even for the moneys released by the Reserve Bank, which reimburses the State Co-operative Bank only in respect of its loans to A and B class banks, and even that with a margin, the State Co-operative Bank has to be co-signatory. As is well-known the commitments of the State Co-operative Bank in respect of marketing and processing finance, not to mention a number of non-agricultural co-operative purposes whose number is increasing, are being multiplied several times. In the expansionist phase of national economy, and even more so of co-operative economy, this trend towards growing responsibilities is bound to persist. In addition to this growth of its responsibilities inherited from pre-reorganization days it has to equip itself with sufficient financial strength to carry out its role in relation to the other areas included in the new Bombay State. Considering its present and prospective commitments, therefore, it will be most undesirable to leave the capital structure of the State Co-operative Bank either at its present extent or its present composition. By the most recent instalment of governmental contribution towards its capital the Government of Bombay has come to acquire over 60 per cent. of the shares of the Bank. As a normal arrangement such dependence on State sources is clearly undesirable. In view of the relationship of the State Co-operative Bank to the Reserve Bank on the one hand and to the central financing agencies on the other it may probably not be desirable to apply the same proportion of 10 per cent. of borrowing to the central financing agencies' holding in the State Co-operative Bank's shares, as is held to be broadly applicable to the holdings of individuals in shares of societies, and of societies in those of central financing agencies. Moreover, there are a variety of loans which the State Co-operative Bank is called upon to make to the central financing agencies either out of its own funds, or out of funds released by the Reserve Bank. A number of

items have varying terms of State guarantee as well. It is, therefore, not so easy to indicate, without further specific inquiry, as to what should be the formula according to which the minimum holding of each central financing agency in the shares of the State Co-operative Bank should be regulated. But undoubtedly, in the interest of ensuring that the funds at the disposal of the State Co-operative Bank, out of its own balances and out of advances it can obtain from other sources such as the Reserve Bank, do not fall short of its important commitments including those under the crop loan system, it is essential that without further loss of time a working formula which will require central financing agencies to hold a prescribed minimum of shares in the capital of the State Co-operative Bank should be evolved. This is primarily a matter for technical scrutiny, and we recommend that it should be considered by a small group, and its suggestions should be placed for consideration before the Board of the State Co-operative Bank.

Structure of Interest Rates

137. For borrowing as well as for lending primaries, central and apex institutions have all an essential role to play. Occasionally a central financing agency here or there is seen to take a view that it can do without the agency of the State Co-operative Bank. It is not without some significance that this attitude is expressed by agencies which appear to give the lowest priority to agricultural and crop loan business. Any organization which sets out genuinely to play its role in a scheme of satisfying all the genuine demands for productive expenditure in the current business of farming, which includes processing and sale, will soon find that the federated integrity of all the three stages of the structure is based on specialization and integration of functions. We know of views expressed in some quarters to the effect that itinerant agents of a mofussil branch of some all-India institution can distribute loans to in-

dividual farmers: that a central bank is an unnecessary intermediary, and that if after all some intermediate step between the rural society and the centres of money supply is at all needed that role can be better discharged by a central financing agency which is near to the scene, than by a distant and centralized organization like an apex bank which is apt to take too mechanical a view of its functions. Of course, several other criticisms intended to prove the dispensability of almost every step in the structure of co-operative finance are also offered from time to time. We are referring to them in this place only to bring out the constant necessity of proving by specific services that the contribution made by each one of the three tiers is valuable, and that the charge levied by the particular agency on the ultimate borrower is not disproportionate to the service.

138. Knowledge about the special conditions of cultivation in each area, generally about the standing and capacity of borrowers, and about the feasibility of the programmes for which loans are sanctioned can be supplied only by an association of local members. Even more valuable would be the services of such an association by way of general supervision of use of loans, of disposal of product and of recovery. What is of importance in this context is not merely a legal principle of collective liability. In fact, it has been very rare for collective liability, either limited or unlimited, to be really enforced. But the collective organizational interest which an association gives to members in one another's occupational interests under conditions of small-scale dispersed agriculture is a very valuable asset to a financial agency. To get the best value out of this fact of mutual knowledge and interest too few as well as too many members are a handicap. In our own State, we have examples of small primaries which are little better than family or clan concerns. Central financing agencies dealing with them have not had less trouble because of their smaller size. Thus an optimum

sized primary unit is absolutely indispensable for inducing adequate credit to reach the cultivator and for helping the latter to make a productive use of the same. Apart from the collection of deposits from larger places than the villages themselves, the central banks have to look after the marketing end which is vital. A number of activities essential to the business of a farmer have to be carried out on an inter-village basis, and none other than a central financing agency would be able to attend to the financial implications of these activities. Properly conducted the central financing agencies would be offering the same services to primary societies which the apex institution renders to the central financing agencies. We cannot overlook the obvious fact that there is very great disparity between district and district as regards the standards of quality and adequacy of service rendered to the cultivator. This is a matter in which the Co-operative Banks' Association and the State Co-operative Bank may, perhaps, take a little more active interest than they have done in the past, with a view to ensuring a more progressive and active working on the part of central financing agencies. But there is no doubt that judged by the performance of the better ones among them the central financing agencies render a service not only by way of raising, co-ordinating and channeling the supply of funds to societies, but even more so by supplying a constructive leadership in the task of organizing rural credit and rural economy on a democratic and progressive basis. What has been achieved in a few areas, can with suitable guidance and encouragement be attempted in all areas. In this form, the central banks far from being decried as unnecessary middlemen must be hailed as the active organizer of the whole process of raising, distributing and recovering crop loans, that is, credit for the improving cultivation of land by small farmers.

139. The utility of an apex institution as a balancing centre of the resources of the co-operative sector

has always been recognized. As the need for funds normally exceeds the available local resources in almost all areas this traditional function may not strike an observer as particularly important. That the Reserve Bank, and to a lesser extent the Government, finds a single apex body in each State a convenient channel for both processing of the varied needs of the movement, as of the funds supplied to meet them may also perhaps be treated as a less important, because of its being a more or less organizational advantage. It must, however, be emphasized that both these are pivotal functions though their utility may not be equally obvious on all occasions. But as the long history of the Bombay State Co-operative Bank proves to the hilt only the apex bank with its strong and elastic resources could afford to do the pioneering work which has set in motion, and now put on its legs, the co-operative movement in the backward tracts of the State. Some of these branches of the State Co-operative Bank have already been transformed into separate district central banks, and all the rest are on way to becoming central banks soon. This nurturing of the movement no other agency, co-operative or governmental could have succeeded in doing. Almost the entire responsibility for finding supplementary finance for the weaker societies falls on the State Bank. Much of the progress that co-operative processing societies, especially sugar factories, have made in Bombay would have been wellnigh impossible without the active assistance of the State Co-operative Bank. Above everything else the good-will built up for the movement as a whole and the high level of devoted and competent leadership which those in charge of this institution have offered not only to co-operative institutions in this State, but to all concerned with co-operative progress, would dispel any doubts about the *raison d'être* of an apex bank. It is not suggested that this, or any of the two other stages of co-operative financial organizations are without their shortcomings. These are admitted, and are constantly under review both of

co-operators and of government. This Committee is itself an indication of the movement's own urge towards self-criticism as a method of steady improvement.

140. We have thought it necessary to enter into a somewhat elaborate analysis of the functional usefulness of the three sets of institutions for the purpose of establishing a proposition which has occasionally been challenged, namely that primary, central and apex co-operative financing agencies are essential for the organisation and guidance of the structure of co-operative finance. It is, therefore, necessary to ask ourselves the next question whether these agencies, all together or severally, make a reasonable, that is an economic charge for their service. The present rate of final lending to the individual member in almost all areas is about 8 per cent. Nobody can say that this rate errs on the side of modesty. On the other hand, as a rule, no primary society and co-operative financing agency has over the years made such steady or high profits as to indicate that from their standpoint this is an excessive rate. A fair proportion of additional funds needed by the movement for agricultural finance to A and B class societies are given by the Reserve Bank at a concessional rate of 2 per cent below the Bank rate. If even with this concession the co-operative financing agencies cannot lower their final rate of lending much below 8 per cent without endangering their own solvency, there must be some serious weakness in the movement itself. This weakness is obviously the small scale on which each separate and small institution is doing business, and the lack of sufficient cohesion and progressiveness in the business itself. For the costs incurred, not enough business is being done nor is more business sought in a legitimately enterprising manner. This obvious passivity is not born out of conservatism or caution. It arises out of plain inability to discharge the functions of a social banker. If all the sponsoring and support which the co-operative movement is getting is only for

securing only as much benefit for as many people as it has already done, it would appear to be too expensive an achievement for the nation. Unless by doing more business more successfully the societies and central financing agencies succeed in distributing their expenses on a much larger turnover, they will not be able to charge a more reasonable rate to the borrower except as the result of a subsidy. We feel that apart from special areas or initial stages of an effort a subsidy should not be needed.

141. In all their normal aspects including crop loans the co-operative financing institutions should be able to reduce the average cost of their borrowing including rates on deposits and administrative charges. How far at any time they may go in this direction is a matter on which no final answer can be given. If the general trend of rates of interest does not firm up much further than what it has already done, it should not be very difficult to bring the rate nearer to 6 than 8 per cent. At least two central banks under energetic and capable management have already achieved this object. If the total scale of loans goes up and recoveries are easier and surer, then even with a rise in administrative expenses, cost per loaned and recovered rupee may fall, and both the central financing agencies and the primaries would be in a position to reduce their margin. The margin charged by the Bombay State Co-operative Bank is not high. But if a joint effort is to be made to reduce the total margin, even the State Bank may be able to make at least a selective contribution to the process. A programme of this type can only succeed if it is a part of a big and an organised step forward. We have a feeling that if the objective of meeting all needs of productive credit of all farmers and of helping them to grow good crops and sell them at reasonable prices were contemplated by the State, co-operative financial organisations would not be found wanting both in playing their own appropriate role, and doing it at a more rea-

sonable rate than at present. This is another technical matter which we feel is suitable for a study group. It should not be difficult to find out the size of operations, and the qualitative aspects of these operations, which would make a lower rate feasible. Once we know the quantitative and qualitative targets we may plan by reorganization or by expansion to create conditions which will make for more economical work. For the co-operative sector, as for the private and the public sectors, the only guarantee of eventual survival is to do a better job and to do it more economically.

142. Considering that there are overall social and economic limits beyond which the lending rate to small cultivators on their production loans cannot be allowed to rise, a corresponding limit is implied on the maximum rate at which co-operative financing institutions can afford to borrow. At times of acute stringency in the moneymarket current rates are liable to shoot up. The comparatively long-term, in fact continuing, business which the co-operative financiers do in the crop loan section does not lend itself to such seasonal adjustments in their rates of borrowing and lending. They have, therefore, to rely on their own funds, which as we have suggested must be continuously strengthened, on their steady depositors, and ultimately on available national credit which in the shape of Reserve Bank funds is being placed at their disposal for all good agricultural business. Within the limits set to them by their specific utility in social organization co-operative banks can and ought to show much further enterprise, resource and active interest in drawing towards themselves a larger share of individual and institutional funds than most of them have succeeded in doing so far. The speculative, or probably even the enterprising, sort of individual depositor is not likely to show much interest in co-operative banks, which can afford to do without his goodwill. But the provident and normal type of individual depositor can be, and is, attracted to co-operatives.

The staunch support which this class of depositors has been giving to co-operative banks is indeed remarkable. This is due as much to his appreciation of the social purpose underlying co-operative activity as to his confidence in the public sponsoring of co-operative institutions. By a proper nursing of the good-will and interest of this class, co-operative institutions ought to get the best that they can out of the current savings of the community.

143. From among the agriculturists themselves a class of regular depositors is emerging, and with the progress of their economy the rural people themselves ought to be able to find an increasing share of the financial resources needed for cultivation. The branch programme of central financing agencies, on which we have placed special emphasis, ought to contain a very active section for collecting local deposits. In fact the two sides of their activities, loans and deposits, should engage their attention equally, though in many areas for a long time to come the two sides may not balance. What is needed is a new awareness of opportunities and obligations. Even more important than individual deposits are institutional deposits, co-operative as well as others. While the principle that the funds of the co-operative institutions should remain within the movement has been very widely accepted, a few avoidable departures from this wholesome principle are occasionally noticed. We would urge on all the institutions the extreme desirability of complete mutual understanding on this subject, as in its absence there would be little justification for the co-operatives to claim from the society at large a manner of treatment which it is not prepared to extend to capitalist organizations. Public institutions like panchayats, municipalites and public enterprises ought to be approached in a suitable manner for their deposits. Some of the central financing agencies have succeeded in a remarkable measure in tapping these sources. Especially in regard to institutions located in rural areas,

almost by convention their deposits should be available for re-employment in rural development. We would in this respect urge on all co-operative financiers the extreme need of making their terms of borrowing as businesslike as the nature of their function would permit, and of carrying out sustained activity to secure the deposit business of such classes of individuals and institutions as could be legitimately expected to have a positive interest in rural development.

144. If we take a dynamic view of the matter, and especially if we ensure, firstly, that moneys lent by co-operatives are used for a productive purpose, and secondly, sale, purchase and processing are all done through co-operative institutions, the funds of the movement itself would soon show a large increase. In fact such a trend is already visible and deposits from societies are growing much faster than deposits from individuals. Keeping the borrower's bank account and watching its operations is an absolutely essential feature, and we would scrupulously ensure that money borrowed from co-operative sources, or earned from co-operative business, does not find its way into other than co-operative financing institutions. With growing variety of co-operative business activity, preliminary to and following agricultural operations, co-operative banks also will have to take on much more genuine banking business than they have done in the past. The success of the crop loan programme in the field will, in no small measure, depend on the enterprise and skill brought to bear on financial management in the central financing agencies.

145. What we have said above applies to well-developed, or at least to normally progressive, areas. In our State there are a few areas spread over almost all districts which do not show signs of immediate expansion of good business on a scale which will help the financing institution to pay fully for the costs of efficient

management. It should be possible to find from within the federated structure of co-operative institutions some marginal re-allocations by which the balancing function of federal centres can be said to be appropriately discharged by supplying the means of good management to all members. But at least at the present stage of their development there are severe limitations on the capacity of the co-operatives as a whole to absorb the shortfalls caused by difficulties inevitably experienced in less developed areas, which in some cases comprise whole districts. Such cases should be carefully studied by the State Co-operative Bank in collaboration with the Government, and adequate means of meeting the extra cost of good management incurred by these institutions should be supplied to them. Without such assistance it will be well-nigh impossible for these specially handicapped institutions to maintain a reasonable rate of lending.

Inspection of Supervision

146. With the progressive reduction of the share of benefits and authority enjoyed by their individual members, the central financing agencies are coming to be in fact, what they always were intended to be, federations of societies. Among these societies the largest in number are primary agricultural societies, and it is a part of Government policy underlying the crop loan system to ensure that representatives of these societies obtain a majority of seats in their Boards. In most of the central financing agencies effect has been given to this policy, though the actual influence exercised by society representatives is yet not commensurate with their strength. This, however, is only a matter of gathering experience, and we have no doubt that very soon most of the central financing agencies will be guided in their functioning for the most part by the better judgment of persons connected with the primary co-operative societies themselves. A small number of

central financing agencies is still seen to be under what may be broadly described as urban individual influence. We have no doubt that beneficent as this influence was in its origin, it must progressively make way for the legitimate claims of the primary societies. The period of tutelage of societies generally and of rural societies in particular has, happily, ended thanks in large measure to the successful work of the individual urban leaders themselves. Now the enlightened leaders of the co-operative movement ought to ensure that the last remnants of the old regime of benevolent guidance and patronage are removed without further loss of time. It must, however, not be forgotten that these are a few exceptional cases. For the co-operative organization as a whole it is intrinsically correct to claim that, in form as well as in substance, it is a federated and democratic structure of the societies. It is for the representatives of the societies to decide how different levels of their own organization should serve them.

147. In the matter of inspection or supervision provided by central financing agencies or by the apex institution there need be no feeling of outside interference. There are no two sides in this common effort of which the institutions are an integral part. Inspection is needed to verify, by an occasional or sample check, the actual state of things as compared with the reports about them which are normally asked for. Such inspection is not even as external as 'external audit' is. In fact it is like internal or common audit. Inspection, like audit, is essential for ensuring efficiency in working. More positive is the role of supervision, where it is not only the concrete and statistical facts which are to be reported on, but even trends in policy. The job of the supervisor is not to issue directions, but to communicate first to his own employers, the central financing agencies or the State Co-operative Bank as the case may be, and next to the people who may be in charge in the inspected institutions. This is a large educative

programme of practical guidance to those who are operating the crop loan system in the field and in society's offices, and it has to be done. While general and initial instruction of staff can be done in institutions set up for that purpose a large and significant part of training has to be done on the job. It is only through competent inspection and supervision that this educative process can be continuously carried on. Moreover, any need for improving either the numbers or the qualifications or the conditions of staff which exists is naturally brought home in the course of such inspections. We have noticed in some areas, for instance, how records essential for operating the crop loan system are not properly maintained and the vital errors could not be noticed in time because the supervisory staff was far from being adequate. By implication this state of things also revealed that the responsible officers did not attach sufficient importance to the records. Instances like this prove the practical necessity to have adequate staff with the central financing agencies for carrying out periodical inspection and supervision of societies for the purpose of ensuring correctness of records and procedure. Similar need for adequate staffing exists in the apex bank for its appropriate functions in relation to the central financing agencies and the primaries.

148. As we have already recommended a suitable number of fieldmen will have to be appointed by central financing agencies at each of their branches, to which the requisite staff including inspectors will also be attached. We have no doubt that for most of the central financing agencies this will mean an addition to existing staff. But, for reasons already stated, this expansion is absolutely essential; in fact, it is overdue. While we expect that in recruiting new staff central financing agencies will select persons who have already undergone co-operative training, we are also keen on providing, for this staff as well as for the old one, a special course of operational training with regard to the

essentials of the crop loan system. The few experienced officers who are in charge of crop finance in the several institutions can indeed do this work themselves. But it may be better, if not for efficiency at least for uniformity, to arrange for such training on a divisional basis. All financial administration is a technical and professional job, co-operative no less than other. Unless institutional means are provided for making technical knowledge and organizational experience available to all members of the staff dealing with an important programme many avoidable mistakes occur. One of the central financing agency has suggested in the course of their evidence that staff of co-operative institutions must be imbued with missionary zeal. Surely all of us, directors no less than the staff, will equip ourselves better for our jobs by absorbing as much of the reformist's idealism as possible. But even a missionary has to be trained for his job, and when he is working as a member of an organization his efficiency is influenced by a number of factors over which he has no control.

149. We have indicated earlier the reasons for suggesting a class of fieldmen as functionaries for frequent observations in the field. If they are chosen from the class of experienced and progressive farmers they would, with some further training, prove of inestimable value to the societies as well as to the central financing agencies. The bank's inspectorial staff is, however, the really effective and responsible means of action which the central financing agencies possess. Their importance ought not to be underrated, as it is out of them that superior personnel could later on be recruited. Moreover, if they themselves are suitably trained, they will be in a position to guide societies in the proper direction. Theirs is a job which loses all utility if done in a purely formal manner, but which would be most fruitful if they were to take to it with zeal and purpose. A tendency towards giving to each inspector a very large number of societies is the worst type of economy.

It not only does no good to the bank, it actually results in creating misleading records and reports which have disastrous consequences. A uniform arithmetical allotment of a certain number of societies per inspector will not have much justification in as much as the number of members per society, the types of business transacted by it, its all-weather accessibility and similar other considerations would influence the effective work load. Ultimately it is by results that such allotments should be judged. There is a circular issued by the Reserve Bank which states that 15 large-sized and about 25 small-sized societies would be a proper charge for an inspector. An opinion has been expressed on behalf of the State Co-operative Bank to the effect that the number of societies per inspector should not ordinarily be more than 20 in areas of intensive cultivation, and not more than 30 in dry areas.

150. The difference between the two formulations is not very significant. But what is not quite reassuring is the very large number, occasionally more than 70, of societies which are placed in a single inspector's charge at present. If the inspector fails to conform to his schedule of duties in these circumstances he can hardly be blamed. Whether it is the number of villages, or the number of members, or the amount of loans, or the variety of crops which are adopted as the basis of calculating the work-load a genuine attempt at deciding what the nature of inspection should be and how much of that type of inspection should be done by one man in a given area should invariably be made. A merely vague concept of inspection resulting in an unplanned allocation of work is bound to prove harmful both to the interests of the bank and to the extension and success of the crop loan system.

151. It has often been urged that the whole structure of the relationship of the Registrar with the co-operatives should be revised with a view to reducing minor

and procedural responsibilities of the Government under the Act. Such a "deofficialization" of the co-operative movement is overdue. But, on the other hand, the significant role allotted to co-operatives in the national plan and the growing participation of the State in co-operative structure make a successful working of co-operative institutions a much more vital concern of the Government than it ever was. The changing situation has to be met by a change in the organization. Beyond registration and audit, which are only formal matters, the Department should concentrate on offering a superior qualitative strengthening to the co-operative movement rather than limiting its own role to directions based on authority. A careful scrutiny of the Government Resolution and Bank's circular on the crop loan system will reveal the fact that co-operative institutions were chosen by mutual consent for the execution of a programme of rural credit which was in keeping with the objectives of both.

152. Rural credit is no longer a simple administrative affair. It is part of a whole string of connected activities of finance, agriculture, trade and industry. Unless both the institutional and departmental staffs are fully trained and experienced in these fields the quality of their functioning, several and joint, will be poor. As the departmental representatives in the field will have many opportunities of influencing the action of co-operative institutions departmental staff should be better equipped in financial and economic implications of alternative courses of action, than in their knowledge about conformity to particular sections or bye-laws. Much more positive and urgent action along these lines is necessary.

153. As we have mentioned earlier we feel convinced that better administration, even though it may be more costly in the immediate future, will ultimately justify itself not only by larger and better service, but

actually in terms of a surplus. In a few institutions all these benefits can be demonstrated immediately, and in many more institutions the benefits can soon be seen to flow, over a large part of their business. But in the case of a few institutions, especially those in underdeveloped areas, for a long time to come, and in the case of several institutions for some time to come, costs of better administration are likely to produce an adverse effect on the balance sheet. As it is part of public policy not to raise the cost of credit to the agricultural borrower and as an immediate strengthening of the administrative structure of both the department and the institutions is essential for the success of the crop loan scheme it will be in keeping with public interests to make grants to selected institutions for enabling them to meet higher administrative charges over a period. A better distributed and better organized institutional administration can relieve governmental staff of many of their routine duties, and release them for more important functions. In rendering essential financial and other aid towards raising minimum standards of institutional administration of rural finance Government will be adding to the effectiveness of its own overall influence.

Staff and Training

154. In several places in this Report we have emphasized the need of having well qualified, trained and professional whole time staff to carry out the responsible duties connected with the operation of the crop loan system in a primary society. The prevailing type of small society will not be able to afford a secretary of this description, and even if it was helped to employ one, it will be difficult to obtain the right type of person to accept a position entailing indefinite employment in a small place under one and the same employing committee. Even if the primary society is sufficiently big to afford a professional secretary, and its area extends to

more than one village, it will not be easy to obtain and to keep a qualified secretary. Even the experience of some of the taluka committees under which group secretaries are at present employed emphasizes the need of offering to a cadre of secretaries, in place of single secretaries, suitable conditions of service under a well constituted body set up with sufficient public sponsoring. From the evidence which we have gathered two facts regarding group secretaries appear to emerge. Individual societies often complain that they do not get as complete or as continuous an attention from their secretary as they need. On the other hand, they seem to be satisfied with one quality of his service, namely, that he is independent. These experiences point to the conclusion that if for fair-sized single societies the services of professional secretaries are made available the societies will appreciate the arrangement. On the side of secretaries themselves with their higher qualifications, special training and an awareness of professional status they tend more and more to act as a body. This is a welcome, in any case an inescapable, tendency, and on their side co-operatives also will benefit by having as large an area for organizing a common cadre as possible.

155. It is an advantage to have institutions and places of different sizes and peculiarities within the area, so that individual members of the service can be fitted into appropriate posts according to their seniority and special features. That a suitable area cannot be less than a district is proved by the limitations which the taluka committees have to face. At least at this stage it does not seem likely that a division can be conveniently chosen as the area for instituting a separate secretaries' cadre. The cohesion of any divisional body of an *ad hoc* character is likely to be much less than that of a district body. Advantages of more intimate knowledge of local conditions and of comparatively easy transfers also indicate the district as a suitable unit. We suggest, therefore, that under the auspices of the district co-operative

central bank, though not as an integral part of it, a committee should be formed to administer a cadre of secretaries. The central financing agency would naturally be a member of this committee and on account of its independent status would assume the leading responsibility. The Assistant Registrar of the district and Chairman or representative of the District Co-operative Board would naturally be the most appropriate additional members. The committee will have to be serviced by the central financing agency. A committee so formed with, perhaps, one or two other ex-officio members, should have a continuous life and separate entity. A proposal along similar lines has been before co-operators for a long while and it has often been accepted in principle. We are of opinion that the time has come when in a few districts a committee and its cadre should be immediately set up, so that the experience of their working for a year or two will help in finalizing a scheme for all districts.

156. Taking into account the likely sources of income of the average primary society, even with the growing number of fair-sized societies, a contribution upto 2 per cent. of working capital towards the maintenance of the cadre should be treated as a fair measure of self-reliance in this respect on the part of societies. The central financing agency besides supplying the main share of the organizing effort should also, in our opinion, supply the servicing of the committee, that is accommodation and office expenses. The difference between the proceeds of a maximum of 2 per cent. contribution and the total expenses of the cadre should be covered by a contribution from Government. At present the Government makes some grants for meeting the salary of secretaries of some of the societies in backward areas. The actual amount sanctioned for this purpose is, however, very small. It is our feeling that in this aspect of its constructive participation in the task of making a success of the crop loan system the Govern-

ment has not gone as far as it could have. We have already said enough to bring out the significance of a professional cadre, and we have every confidence that Government will realize the great advantage for all schemes of co-operative progress which only the proposed arrangement will give. As the responsibility for finding suitable secretaries for all societies in a district will devolve on the committee, which in effect will function as the district secretaries board, it will no longer be necessary for Government to pay any special grants towards the secretarial salaries of societies in backward areas. Still we do not deny that this arrangement will entail some addition to public expenditure. The added expense will be balanced by greater efficiency and more effective economy in the use of all other public funds spent on co-operation.

157. Compared with primary societies central financing agencies have the resources and the status to be able to employ adequate and sufficiently qualified staff to fill most of their posts. There are two or three types of posts, however, in respect of which an inter-district and preferably a state-wise organization of a cadre would appear to be desirable. Whether a manager happens to be directly appointed or promoted from a lower cadre there is little doubt about the advantage of having all managerial posts in one cadre. Officers holding these posts constitute the pool out of which professional leadership of co-operative finance must come. Wherever a person happens to start his managerial career he should have an opportunity of rising to better and higher posts of management in any central financing agency in the State. The lack of such normal channels of promotion acts as an initial damper on the enthusiasm of good entrants to join service in a co-operative bank. If any of the existing managers show good promise, more often than not they are taken up by some other organization, frequently other than co-operative on better terms. For recruitment of the best talent, for

the gradual development of capacity and experience, for providing normal channels of promotion and for making available to all co-operative financing agencies a big enough pool of good officers from among whom to fill responsible posts the formation of a State-wise cadre of managers is fully justified. The organization of this cadre can be on the same lines as the district cadre, so that a committee set up under the chairmanship of the Chairman of the State Co-operative Bank, with the Registrar and the Chairman or representative of the Bombay State Co-operative Union as members, could administer it, the State Co-operative Bank doing the servicing. A number of posts in the State Co-operative Bank and certain senior posts in central financing agencies could with advantage be treated as interchangeable on a basis of reciprocity. Such widening of experience as may be offered to comparatively young officers by a system of exchange between the districts and the State capital is bound to be mutually helpful. In view of the need that now exists, and to some extent is likely to exist at all times, of finding competent staff for responsible posts in new and reorganized central financing agencies the proposed scheme of a State cadre of managers and of exchange of officers on a temporary tenure of duty should be immediately started on a voluntary basis. Experience may soon suggest ways in which the better aspects of the scheme could be introduced on a permanent basis.

158. Posts by whatever name called which have mainly a managerial content of duty should be put into the cadre, but exchange of duty personnel can go down to a variety of other posts including Senior Inspectors. We propose that a common list of all personnel of the rank of Inspector and above should be maintained for the State as a whole. Though persons included in the list, other than managers, will continue to be in the service of their respective central financing agencies their being on a common list will enable all institutions

to know the availability of personnel within the movement. Postings on a voluntary basis, with permission of employers, may in many cases open the possibility of finding competent personnel for a number of responsible positions especially those connected with new programmes. As we have stated in an earlier paragraph of our report once the feeling of a common integrity of the federated movement and of the common social purpose is well appreciated the natural hesitation which central financing agencies are apt initially to evince about such schemes ought to vanish. The process of starting on a voluntary basis before broadening the arrangement is well calculated to clear the ground of possible prejudice and to lay the basis of a firmer arrangement.

159. Improving the productivity of cultivation on the number of small farming units which are the basis of our agricultural economy is the chief purpose of the crop loan system. This accent on economic results must in our opinion permeate all other activities connected with the system. In this effort at making the whole organization of rural credit more efficient and more productive there is a role which the members and their representatives in the management have to play. This indeed is most important in as much as it is through members' own actions that the anticipated results are to arise. Moreover, the active interest and mutual aid of members is the chief characteristic and attraction of co-operative organization. But at the stage at which co-operative progress now is the instruments and agencies of co-operative action on the part of members have to be chosen with discrimination and with an eye on maintenance and improvement of efficiency. Among these instruments a competent and well organized staff is of vital importance. That the regular business aspects of a co-operative's work can be conducted, as a general practice, by honorary personnel, or that co-operatives can afford to carry on with low-paid and on the whole poorly equipped staff are notions which must be discarded.

Control of major policy and of employing top personnel will and must continue to remain with the elected managing boards. But executive responsibility and operational control of staff must be with the salaried executive heads appointed by the board. With the membership of co-operative bodies extending to the major part of cultivating families the need to keep the working of co-operatives on a high professional level and of reducing the personal and group elements to the minimum is very great. Unless in the recruitment, training, terms and conditions of service and office organization co-operatives follow standards comparable with the better conducted among private organizations they will not be able to achieve the purposes which they have set to themselves.

160. We feel that it is high time that all levels of organization connected with the manifold activities of agricultural finance should take steps to examine whether their present staff arrangements are best suited for the existing and prospective variety and size of business which they expect to do. In numbers, in levels of competence, in organization according to kind and levels of functions, and in emoluments and other conditions of service an immediate re-examination of the position seems to be called for. The action suggested earlier of a common staff organization by central financing agencies and the State Co-operative Bank is designed as the first step towards a progressive remodelling of co-operative services so as to make them more dependable and efficient instruments of progressive business through co-operatives.

161. As we have said earlier any scheme of staff improvement and reorganization with a view to ensuring efficiency is bound to be beyond the means of some organizations, central as well as primary. Many among them have only passing difficulties such as are due to their being new or newly reorganized. Some others are

conducting their activities in areas which are experiencing a slow rate of development. A small number may have their lot cast in more or less permanently handicapped areas. In view of the broader social and economic purposes underlying our plans of co-operative progress it is necessary that all of these institutions should work with at least the minimum level of efficiency needed for a satisfactory discharge of their functions. When the respective staff boards have made what are considered to be necessary arrangements for staffing of these less equipped organizations any consequent addition to expense which is judged to be beyond the means of the institutions themselves must come from common funds.

162. In most cases this will mean some form of governmental grant. In principle, and to some extent in practice, this arrangement has been approved by Government. But in implementing the scheme a number of conditions are laid down which often result in the intended beneficiaries going without their share of support for the necessary length of time. We have already commented upon the relatively small amount which Government have hitherto spent on grants to staff in spite of the adoption of a policy of support. An obviously undesirable condition of governmental grant, namely that so long as an institution makes any profit, which often is more an accounting term than reality, it is ineligible for support needs re-examination. That public support which is intended to help struggling institutions to become self-supporting should not be given where need of support is not proved is quite justifiable. But it does not mean that the accounts of a recipient society must always be in the red. The purpose of public aid is to build strength not merely to breathe life. If an institution is paying high dividends or if it is making excessive allocations to funds it should certainly be judged as no longer in need of support. But earning a normal balance of profit and allocating it to account

heads through which strength of resources grows must be considered a normal method of growing into maturity. We agree that even accepting a general proposition like this will not obviate the necessity to judge each case in the light of all its merits. But the existing arrangements seem to be in need of some greater discrimination and appropriate business appraisal.

163. Some attention is now given to the training of staff, and to the recruitment of trained personnel. But if we take account of the large number of untrained personnel which is at present attending to responsible duties of co-operative business and administration at all levels, we shall realize how great is the need for intensifying efforts to ensure that nobody in any responsible position is without suitable training for the job. In any case, none of the cadres which we have suggested, from the secretaries to the managers, should be filled by untrained personnel. Many facilities for co-operative training are now offered by the Central Committee for Co-operative Training as well as by the Bombay State Co-operative Union. These must be utilized more extensively than they have been by primary societies, sale purchase unions and the central financing agencies. Equally important, in some respects even more important, would be short courses, sometimes even as short as week-end courses, organized for effective communication of the purposes and techniques of programmes adopted by institutions. While the field workers' conference has been accepted as an institution at the base, there is not enough of regular pooling of field or office experience at higher levels. We do not desire that such staff gatherings for communication should be either formal routine or a ceremonial. But according to needs of programme planning and execution, once a year or more often if need arises, staffs concerned in all important aspects of the main activities in view should be got together, preferably in rural areas. At these sessions purposeful talks, discussions and

work-groups should be organized. At all levels, district, division and State, such occasions for mutual instruction would be found to be a great aid both in improving efficiency and in creating a sense of common purpose.



CHAPTER V.

MARKETING AND PROCESSING

Marketing

164. The co-operative organization of the sale of members' produce is important both for the purpose of augmenting the prices obtained by them as also for facilitating the recovery of loans made to them is widely appreciated. The importance of combining, wherever possible, the sale of members' produce with purchasing on their behalf of essential requisites like seed and fertilizers has also been admitted. Considering such genuine acceptance of the importance of co-operative marketing it is surprising and regrettable that except in the cotton areas of Surat and Broach districts no major progress seems to have been made. The fact is that co-operative sale societies are difficult to organise and more difficult to manage. These societies have also to contend against vested interests, who are well organised and financially strong. Unless a vigorous drive for organisation of co-operative sale societies is initiated (by the co-operative department) in areas where a fairly large number of agricultural credit and multi-purpose societies exists, and unless, in the initial stages, such societies are supplied with the services of trained managers, if necessary at Government cost, the co-operative organization for marketing of cultivators' produce, which is a *sine-qua-non* for the success of the crop loan system, would not soon come into being.

165. It is somewhat interesting to notice that the cotton sale societies of the two districts are not playing exactly the same role as in the general scheme of crop loans is allotted to marketing societies. For the most part

their membership is composed of individual growers, though as mentioned earlier, this extends to almost all growers in some villages. Considering this fact and also considering that sale societies are advancing production loans to growers the link between credit for production, and sale through co-operative agency may appear to have been forged to some extent, and actually this is satisfactory as far as it goes. The wide coverage and successful operation of these sale societies bear testimony to the well-known capacity of the people for businesslike organization and dealing. Their success is a source of encouragement to all co-operators. But fundamentally and from the standpoint of the ultimate interests of development the position cannot be said to be very satisfactory.

166. The apparent link of credit with marketing, let it be noted, has its origin in this case not in a recognition of the responsibility for an advantage of giving to the grower adequate means for maximising his production, but in the well-known practice of our dealers of making advances to induce growers to bring their produce to their particular shop. In itself this desire is not objectionable. But when in making advances the purpose is not primarily that of promoting efficient production, much less a broader one of the economic development of rural community, the scope of the advances becomes limited. Amounts issued are governed not by the total needs of members, for cotton and for other crops, but by the calculation of how much need be given to induce the grower to bring his cotton produce for sale. The per acre limit of advances is appreciably lower than the expenses of cultivation of cotton. No advances are made for growing crops other than cotton. Those who do not grow cotton are naturally not served by these societies at all. To a considerable extent these societies depend for their resources on the central financing agencies themselves. The main intention of the crop loan system that central financing agencies

should help primary societies to make adequate finance available to all cultivators for all their production needs is thus not carried out by these loans made by central financing agencies to the sale societies out of which the latter can make only scanty finance available to growers only of cotton. Even with their own resources thrown in, the sale societies are not in a position to meet all the production requirements of their members. In view of growing emphasis on full crop finance for all cultivators most of the sale societies are making earnest efforts to raise the limits and scope of their credit, and in a few cases also to extend their sale activities to other crops. But this effort is not likely to succeed beyond a particular limit.

167. Mixing the sale of cotton with the sale of other produce will not be natural or economic in all cases. Giving adequate crop finance for all crops without a local organization of the farmers themselves will be an impossible task, financially as well as organizationally. It is, therefore, not surprising that co-operators of the districts generally, and those intimately connected with the sale societies in particular, are considering ways in which the organizational set up could be modified. The cotton sale societies have on the whole served the farmer well, and any sudden or radical change will not be welcomed. But we have a feeling that if cotton produced by the grower could assuredly go to the sale society without the latter's advancing any loan for production the sale societies would rather welcome it as they themselves have at present to raise the requisite funds from the central financing agencies and other sources. The real problem of cotton sale societies is not that of stopping them from giving production loans, but of developing normal co-operative multipurpose societies in all areas, attending to all the credit needs of the farmers, on condition that they sell their produce through the appropriate sale society. As this programme gains support the purely loan activity of sale societies

will be gradually reduced. In any case the central financing agencies concerned should ensure that their support of full crop finance through multipurpose societies is not carried out in a manner unfavourable to this healthy line of progress.

168. At the time and in the context in which the sale societies of Gujarat developed their special characteristics, they were obviously acting on sound lines. This is proved by results, and we have no doubt that the future course of their development will also be along equally sound lines indicated by changing circumstances. Outside Gujarat with an occasional marketing society doing good business here or there, there are no large and contiguous crop areas where successful co-operative marketing may be said to prevail. So far as non-commercial crops, even the less valuable commercial crops like groundnuts, are concerned there are almost no successful cases of large scale co-operative marketing. In several places we heard what appeared to be more or less valid complaints of the shortcomings of services rendered by sale and purchase unions. In these circumstances both the timely issue of loans in kind and recovery through sales were achieved to a very disappointing extent. Probably the best report on sales through co-operatives was to the effect that the members bring to the co-operative sale shop, where they exist, as much produce as is needed to pay off the society's dues. This of course, is due primarily to the fact, noted earlier, that the members have still to rely on private sources for a large part of their essential borrowings. But there is also, particularly in the case of marginal grower of cereals, the practice of bringing to the market only as much as is needed for urgent needs of cash. Some of these limitations on co-operative purchase and sale will vanish as soon as full production finance is made available by co-operatives, and the general state of the agricultural industry has improved as a result of the many programmes of rural

development included in the national plans.

169. But one cannot escape a strong feeling that the comparatively disappointing results of the working of marketing societies are due primarily to institutional and personnel factors. The Regulated Markets Act has yet not been extended to all important markets. Even where the Market Act has been applied rules of its operation and the committees set up under it tend to work in a manner representative more of the traditional ways of private traders than those of institutional marketers. Even such rules as are adopted are not always enforced. We have heard several specific complaints regarding unfair or unsuitable provisions of the Market Act and Rules. We have not been able to go thoroughly into the merits of these complaints, as they constitute a subject by itself, and it will need to be thrashed out in consultation with all the parties concerned. The absence for the moment of an apex marketing institution has created a void which leaves individual marketing societies without the assistance of the normal channels of representing their difficulties and views. If the establishment of the apex marketing institution is likely to take long, this matter of appropriate modifications in the Market Act and Rules should be taken up by the Bombay State Co-operative Bank in consultation with the Chief Marketing Officer. In the recommendations of the Shirname Committee which reported last year may be found a frame of action which will help considerably in the orderly marketing of agricultural produce.

170. Institutional drawbacks of this type are no doubt responsible for the major portion of the initial difficulties of marketing societies, but the personnel usually employed by these societies often lacks the qualities needed for making an economically successful and progressive proposition out of such opportunities as are open to them. Qualities which are the results of

long experience cannot be learnt in a day. It is a part of the purpose underlying the new institutional set up in the country to give opportunities to co-operative personnel to gather experience. But other qualities, such as those which special training and professional standards of devotion to duty can give, can and ought to be absorbed by all personnel connected with co-operative marketing. As we have stated earlier this need exists as much for departmental personnel connected with marketing as for those engaged by co-operative institutions. Courses specially designed for personnel employed by marketing societies have been arranged by the Central Committee on Co-operative Training. The marketing, and sale and purchase societies ought to take fuller advantage of these than they are doing at present. Part of the effort which is expected to result in the formation of a new Federal Marketing Society in the State should be the recruitment and training of a suitable cadre of commercial managers, salesmen and accountants for the co-operative marketing societies. A Statewide programme, with experienced collaboration from abroad if necessary, ought to be drawn up for filling up this big void in our institutional structure as quickly and as efficiently as possible.

171. We have often been told in the course of our inquiry that unless marketing societies make immediate and outright purchases members are not encouraged to sell through them. At first glance this appears to be a plausible explanation, but a little further thought will show that the significance of this factor can be easily exaggerated. The alternative which the member is supposed to prefer is the private dealer or commission agent who secures for the farmer no better price than the society does. In fact on this subject we generally got an encouraging report. Apart from small lapses here and there, it was generally agreed that the prices obtained by members through co-operatives compared favourably with those obtained through private dealers.

If we add to this the further fact that whatever the declared price may be, the leakages and deductions usually associated with the private dealer constitute an additional burden on the seller it will be seen that a convincing case based on facts of experience can be easily made out for co-operative marketing. We also found that even in so called backward areas, such as Panchmahals, the cultivators no longer act on sheer prejudice. They are capable of exercising judgement and acting according to its dictates. If only the co-operative sale agencies were to improve their efficiency, to modify some of their procedures, such for instance as allowing for a higher percentage advance than at present, and to do a good educative or "selling" job about their services they will find that they have all the business which they can care for. They must build up intimate relations of mutual understanding of difficulties and interests with the primary societies. Even small matters such as supply of bags for transport, facilities for servicing etc., occasionally help to build these helpful relationships. The experience of successful co-operative selling organizations, here and elsewhere, proves beyond a doubt that purchase from members prior to sale in the appropriate market is not a normal accompaniment to their activities. An initial credit based on minimum anticipated prices and a final adjustment out of the pool price of the season has been found to be a profitable formula for members of these societies.

172. A businesslike and forward looking action on this subject is needed also on the part of central financing agencies. They should not just sit back and resign themselves to operating in conditions of absence or inadequacy of co-operative marketing services. By active sponsoring, by adopting more directly helpful credit policies, and by offering managerial guidance wherever possible they should make it a part of their business to bring into existence a co-operative selling agency, if one does not exist, and of improving its work-

ing to the maximum if one has already been established. The relations between a marketing society and a bank, both at the time of issuing a loan and of recovering it, are so close that a bank has both the opportunity and the obligation to help the marketing society to be successful. The State Co-operative Bank opened an *Adat Shop* in one or two areas, but it also helped in the formation of a new sale society to which the business was transferred. In marketing activities conducted by a central financing agency, beyond a fairly short limit there is not much progress because neither is the full support of the members built up nor is effective contact with the market created. The central financing agency should run such a shop, only as a temporary measure and purely on commission basis, so that its banking activities are not affected by its trading activities. The shortest road is the straight road, that of creating an institutional frame-work favourable to the success of co-operative business and then of concentrating all our resources, organizational as well as financial, on these organizations till they succeed. We have, in the course of our investigations in all parts of the State, come across enough evidence of the readiness of members to comply with any arrangement which within a measurable time can be proved to be in their interest, to feel convinced that no bonafide mistakes will ever prevent the success of co-operative business.

173. Marketing societies, including sale and purchase unions, should as a rule be composed of societies as members. Individual members, if admitted at all, should be an exceptional or a transitional feature. A marketing society has a bonafide significance in so far as it deals with the produce of its members, or supplies essential means of their economic activity. As the basic co-operative organization of members is the primary society, which loans in kind and recovers through sale, as a part of its relationship with the members, it is undesirable for a marketing society as a normal or

permanent practice to deal directly with individuals. As we have stated with reference to loan transactions of sale societies, and to sale shops of financing agencies, these devices may yield some results when they are attempted on a small scale and for a limited period. As a normal or permanent arrangement in a whole scheme of social institutions created for a national purpose they have no lasting contribution to make. In fact, they prevent the somewhat slow but necessary progress of the right type of institutions. While, therefore, we would not put a ban on co-operative marketing societies dealing with individuals, pending the setting up of institutional relations with societies, we would insist that individual members, where admitted should have only a small share of seats in the board. Moreover, all individual members should scrupulously be made to restrict their business through the co-operative society to their own produce and to their own personal needs. Persons who either openly or secretly, wholly or partly, directly or indirectly, are carrying on trading activities should not be admitted to membership. Co-operative trading has a specific meaning and a special justification. It consists in dealing in members' own produce for their equal benefit.

174. A programme of commencement of a State-wide net work of marketing societies should synchronize with a provision that all primary societies must become members of an appropriate marketing society. As we have recommended earlier these societies may be commodity-wise, as in the case of principal commercial produce, or they may be area-wise, as in the case of *mandi* places where cereal and other *bhusar* crops are sold. A primary society should become member of such among the marketing societies as are appropriate for the sale of the variety of produce offered by its members. With the coverage of members of primary co-operative societies growing at the rate at which it is planned to grow, and with all primary societies necessarily becom-

ing members of marketing societies there is no doubt at all that co-operative business will be successful, in the only sense in which it deserves to be successful, namely that through it the agriculturist member will obtain a fair price for his produce from the consumer. So organized, all co-operative activity will tend to be economic, and in fact steadily progressive. Not only will there be no need for any support, financial or other, from individuals, but co-operative organizations can build their own funds out of a proportionate and retirable deposit from members whose produce is sold through co-operatives. On the strength of these resources not only will agricultural finance be soon self-sufficient, but the agricultural sector co-operatively organized will help the growth of the industrial sector. These things have happened in selected places like Gujarat in our country, and in other countries, even in U.S.A. and in Japan. If only we have the courage and the sincerity to act as our principles require us to act, success is within sight. What the crop loan scheme started to do over seven years ago can in another seven years be fully achieved.

175. We recognise that the process of co-operativizing the disposal of members' produce must start with the members themselves. At present in most cases where co-operative marketing is well established members of primary societies take their own produce directly to the marketing society for sale. Of course, not all of them do so, and marketing societies often sell the produce of non-members as well. When our recommendations of establishing a net work of marketing societies and of requiring every primary society to be member of an appropriate marketing society are carried into effect, no member need be without a suitable society through which to sell his produce. But it is not necessary, in fact in most cases it will be uneconomic, for him to carry the relatively small quantity of his produce directly to the market. His own primary society, which is purposefully planned to be a multipurpose

society, should collect as much produce of its members as possible for being pooled, transported and offered for sale at the marketing society in one lot. Properly arranged this procedure will be economical in respect of costs of sale, and profitable in respect of the price obtained for the produce. The collection, transport and sale programme can be so arranged as not to need much of storage space. But very often simple facilities for safe storage will be helpful. As a part of the Second Five Year Plan of co-operative expansion provision has been made to equip a certain number of primary and marketing societies with storage and godown facilities. Full advantage of such facilities included in the Second Bombay Plan should be taken, and, if necessary, an increased allotment under the appropriate heading of Plan Expenditure should be asked for. As a programme designed to promote planned agricultural production and sale it should qualify for inclusion in the core of the plan.

176. Pending the satisfactory organization of these facilities individual members will continue to carry their produce directly to the marketing society for sale. It would, therefore, be necessary to make them *nominal*, that is, *B class* members of the marketing society. It would, however, be convenient if the marketing society kept all the accounts of members of a single society in one and the same ledger account, so that the process of their debt recovery may be more conveniently arranged. In fact, as the intention of the crop loan system is not merely that a members' produce should be sold through co-operative agencies, but that recovery of loans issued to members should be made in the process of sale, the marketing society should follow the practice of crediting to the loan account of the member the indicated amount out of the sale proceeds of his produce. At the option of a member the whole of the sale proceeds could be credited to his account in the branch of the central financing

agency which according to our recommendations would be within reach. Probably not many members will themselves have separate accounts in the bank, though the practice of issuing their loans by cheque would indicate that it would be an advantage if they were encouraged to have such accounts. But even in the absence of accounts of individual members, adjustment by cheques through an earmarked account of the primary society can be easily made. Such arrangements would help immensely in economising cash, avoiding its transport, and spreading banking habit in rural areas.

Processing

177. Most of the crops raised by the farmer have to undergo some sort of processing before they can be profitably marketed. Since the processing techniques became modernized and mechanized, only enterprizers who had command of enough capital could set up processing plants. Holding a key position between the producers on the one hand and consumers on the other these processors practically command the market and pocket all the real profits of the business of supply. If co-operative marketing is to be carried out to economic purpose, if it is honestly to serve the consumer on the one hand and producer on the other, processing must be first co-operativized. The success of cotton sale societies in Surat and Broach could not have been what it is if it were not for such control over ginning and pressing as they have managed to obtain. The striking progress made both in the improvement of yield and the return to the producer in the sugarcane areas of Ahmednagar could not have been achieved had it not been for the establishment of co-operative sugar factories. One has only to compare the level of cultivation and the lot of cultivators of sugarcane in the same areas before and after the coming of co-operative sugar factories to realize what a radical, almost a revolutionary,

change for the better co-operativization of processing has meant to the whole economy of the region. Almost along side of adequacy of finance we would place co-operative processing as the prime need of progress in the crop loan system. The moneylender, trader and factory owner dealing with the farmer and his produce, all of them are parts of an integrated economic system. Mere replacement of the moneylender will not spell escape of the cultivator from exploitation so long as essential processing remains in non-institutional hands. In the absence of the encouragement that comes from a remunerative market and from an assurance that every added effort and enterprise will earn its legitimate reward agricultural extension, on which so much is being staked today, will not succeed. For extension and for co-operation, which taken together comprise the crop loan system, co-operative processing is absolutely essential.

178. The favourable experience of cotton and sugarcane processing by co-operatives ought to be accepted as sufficient guarantee of the need and desirability of extending the same principle to other crops and to other areas. The cotton growers of other areas of Bombay State than Surat and Broach must be actively helped by the State to acquire gins and presses for starting co-operative factories for the purpose either by acquiring existing units or by instituting new ones. As there is an excess capacity in this trade a State supported arrangement of this nature will be more suitable than the setting up of new plants. The pattern of co-operative sugar factories, evolved in Bombay, is now being copied all over the country, and a very welcome step has been taken by the Government in deciding that only co-operative sugar factories will be licensed henceforth. The readiness with which co-operatively minded sugar-cane growers have come forward to take up the challenge of the new policy has been far in excess of the planned target. But the full lesson of the

success of cotton and sugar-cane processing by co-operatives in Bombay does not appear to have been realized by the Government. Especially in regard to paddy and groundnut, two of the principal crops of Bombay State, the policy of the Government of Bombay itself has in effect proved to be most inexplicably unfriendly to the setting up of co-operative rice and oil mills. Actually we feel that the Government of Bombay owe an explanation to the people of the State on this subject. We may in this context assume that the policy latterly adopted by Government of not issuing any further licenses for rice-mills or for oil-mills is not to be changed. But this does not mean that the present class of owners of these two processing industries is for all time to enjoy the monopoly of a vital trade at the cost of the peasants of the land. As the Rural Credit Survey Committee has suggested, either Government should acquire existing plants for the use of co-operatives, or it should make an exception for the co-operatives and issue special licenses to them. We would much prefer the first alternative, unless the way to follow it was barred by the Constitution. Judging from the sense of social responsibility hitherto evinced by co-operative enterprises of all sorts, we can only state that co-operators will not act in a manner prejudicial to the purposes of State policy if their just claims in this respect were satisfied. Acquisition or issue of special licenses may appear to be an act of preference of only one section, but it really is the necessary instrument of a social regeneration planned in keeping with the Constitution.

179. We would draw special attention to the need of an immediate programme of converting some at least of the rice mills of Thana and Kolaba districts into co-operative units. It has been the policy of the Government of Bombay not to register co-operative rice-mills, while the private miller could not be stopped from either starting new factories or from expansion of his existing units. Our emphasis is, however, on policy, as

we do not ask for co-operatives being permitted merely on the ground of an alleged flaw in the law, of which private dealers were taking advantage. Now that there is a Government bill in the Lok Sabha banning the issue of new licenses to rice mills we take it that these loopholes will be stopped. But unless cultivators in Thana, Kolaba and other paddy-growing districts are actively helped, by necessary legal action in some cases, to have processing units they will not be able profitably to market their produce, and the present stranglehold of the private dealer will continue. If the Government for some reason do not desire to have an active sponsoring through its co-operative department of what in another section of the same department, viz. cottage industries, it seeks to discourage, let them do the right thing by both and reintroduce the system of buying paddy and later processing and distributing it according to its own ideas on the subject.

180. Canning, dehydration, cold-storage are several aspects of the same process of preparing primary produce for the ultimate market. For want of capital, more than for any other reasons, these activities like the more obvious case of milling and ginning, pass into hands which are detrimental to the interests of the growers. The lesson of the co-operative sugar factories and gins should not be lost. Some of the features of these programmes may indeed help us to improve further programmes which may be made in regard to other types of processing factories. It is not our purpose here to go into matters of planning and organization which are peculiar to each crop. It is for the growers interested in each product, with the help of the appropriate department of Government, to prepare concrete plans for action. We would, however, urge on the State Co-operative Bank and the Co-operative Department not to rest with their accomplishments with regard to one or two crops, but to take the lead in initiating action over the whole field of agricultural products which

have to be processed before reaching the market. The crop loan system implies adequate financial support at all stages from cultivation to final sale.



CHAPTER VI.

MEDIUM TERM CREDIT AND TAGAI

Intermediate Loans

181. For more than one reason productive loans for intermediate terms, say from three to five years, cannot be treated apart from what are called current crop loans. One reason has already been noted in referring to the 'cyclical' nature of seasons in some parts of the State which to a certain extent makes it desirable to have a credit cycle as well. More important, however, are the aids to good and efficient cultivation which have a comparatively direct bearing on production processes. Ploughs and plough cattle are an instance in point. These can be hired as well as purchased. If they were hired obviously the hire charges would be included in a schedule of the farmer's current costs. Consequently, if the cattle is purchased out of a loan, which is repaid in three years or so, the nature of the cost item is not materially altered. Similar is the case with *engines* and *pumps* which tend to be hired on special terms as in the *phad* system in Kolhapur, but which several good farmers would desire to provide for themselves out of a medium term loan. Well repairs and deepening, in fact all but small sized irrigation works, should also be treated as a part of expenses of a programme of cultivation. It is the crop programme as a whole made to suit the conditions of each area and farm which should decide what are the several constituent items of crop loans, short term as well as medium term, which must be provided by the integrated system of credit.

182. It was for this reason that in the Policy Statement issued by the Bombay State Co-operative

Bank in September, 1950, it was recommended that in addition to short term loans medium term loans should be made available by the central financing agencies for purposes such as land improvement, purchase of bullocks, repairs to wells and bunds, and purchases of machinery and implements, repayable within three to five years on the security of lands charged to the societies under Section 24-AA, subject to the condition that the intermediate term loan should be restricted to one-sixth of the total assets of the member declared by him under Section 24-AA. The Policy Statement did not suggest any other limit for such loan to any individual borrower. The extent of such loans has, however, been negligible in almost all the districts mainly on account of want of intermediate term capital with the central financing agencies and the progressive increase in the short term finance for crop production, which left no surplus funds for intermediate term loans, except on a very restricted scale.

183. In view of various legislative measures regarding land reform, the market values of agricultural lands have ceased to have much significance as an easily marketable security for loans made to agriculturists. Hence, the concept of fixed assets as security for the intermediate term loans has now to be regarded in a somewhat different light. Possession of land is more an indication of opportunities to use a loan productively, than an absolute guarantee that in the event of failure to repay recovery can be effected by sale of land. As the crop loan system is designed to play an important role in improving production standards in keeping with programmes of National Extension, intermediate term loans for enhancing agricultural productivity will figure more prominently in the future. The Committee is, therefore, of the opinion that the chief principle of crop loan, *viz.*, that credit should be based on actual production rather than on land or other fixed security in the possession of the borrower should be

increasingly relied upon in making intermediate loans in so far as they relate to durable agricultural improvements adopted for the purpose of increasing the productivity of cultivation.

184. We have given some thought to the present system of granting intermediate term loans, especially in the context of some of the recent legislative measures relating to land reform, and we feel that the system needs to be reconsidered in some respects. The availability of funds for intermediate term advances has now become easier on account of the amendment to Section 17(4) of the Reserve Bank of India Act, enabling the Reserve Bank to provide intermediate term loans to co-operatives. It would, therefore, be helpful if the conditions and procedure regarding medium term loans is further clarified. The following outline may generally indicate the course of action in this respect:

A. Purpose:

The Agricultural Credit Department of the Reserve Bank of India has set forth the following purposes for the grant of intermediate term loans:

1. Reclamation of lands.
2. Bunding and other land-improvements as are necessary for or conducive to cultivation of crops.
3. Preparation of lands for orchards and plantations.
4. The construction, development and maintenance of irrigation sources.
5. Purchase of livestock, implements, machinery, transport equipment as are necessary for or conducive to agriculture.
6. Construction of farm-houses and cattle-sheds.
7. Construction, development or maintenance of such equipment as may be needed for carry-

ing on animal husbandary or allied activities jointly undertaken with agricultural operations.

This is a sufficiently exhaustive list of items for which it would be appropriate to grant a medium term loan. According to conditions of each member and area central financing agencies should prepare a programme which can be fitted into the more short term programme of current loans. In keeping with the requirements of this programme, all genuine needs of the cultivators in regard to medium term credit should be included in the medium term credit statements of societies. It may be necessary for the State Co-operative Bank to obtain suitable limits from the Reserve Bank as is done in regard to short term loans. Other necessary features of the crop loan system such as supply of materials through institutional agencies and verification of utilization of loans should also be followed to the necessary extent.

B. Security:

The system of obtaining landed security for intermediate term loans should be continued. However, the standard of six times the loan advanced to the individual requires to be revised. At present the valuation of land is based on the basis of land-assessment, taking into account the actual sales in the village during the preceeding three or four years. As the sales are now few and are often only distress sales or sales for some specific purpose, they are no longer a dependable guide to determining the proper value of land. Such valuation based on inadequate average does not in most cases indicate the actual value of a particular piece of land. We would, therefore, suggest that:

- (i) Valuation of land should take sufficient account of addition to its productivity made

by improvements financed by the intermediate term loan.

- (ii) Value of each holding should be assessed after local inquiry in consultation with the Managing Committee and it should not merely reflect averages as shown in the assets statements.
- (iii) The landed security asked for intermediate term loans should be thrice the amount of the loan, instead of six times and it should be secured by a regular Mortgage Deed or by a Declaration under Section 24-AA. While assessing the security, charge created for the short term loan need not be taken into account.
- (iv) If the landed security does not amount to thrice the loan, additional personal sureties, who would be prepared to create a charge on their lands may be accepted.
- (v) The quantum of loan should be limited to *two-third* or *three-fourth* of total outlay, the member being required to find the balance from his own resources.
- (vi) In case of loans for plough cattle landed security may not be insisted on, provided:
 - (a) The cultivator possesses an economic i.e. fair-sized agricultural holding which would normally enable him to pay the instalments out of his current agricultural produce;
 - (b) The amount does not exceed the price of a pair of bullocks;
 - (c) Two personal sureties are taken;
 - (d) Loans are not advanced to the same individual more frequently than are needed for legitimate replacement.

C. Fixation of Maximum Limits for Society

The Reserve Bank of India has laid down that intermediate term finance to be made available to the Apex and central financing agencies will be restricted to the total of their owned funds. In the Policy Statement the total limit for lending intermediate term loans to societies by central financing agencies was proposed to be restricted to *one-sixth* of the total assets of the members as a whole declared by the members under Section 24-AA. However, there was no maximum limit placed on the borrowings by individuals. The Reserve Bank has recently allotted a sum of Rs. 50 lakhs for issue of medium term loans through the Bombay State Co-operative Bank. This allotment is not in the nature of an absolute ceiling on loans to be allowed to societies by central financing agencies. The accommodation granted by the Reserve Bank is in the nature of reimbursement finance and should be considered, as a rule, as an additional finance over and above what central financing agencies can provide out of their own funds. The central financing agencies should, in fact, strengthen their capacity to make medium term loans by receiving more deposits for long periods, say upto five years. The maximum limit for a society's borrowing for intermediate term loans should continue to be fixed at *one-sixth* of the total value of assets declared under Section 24-AA of members of the society.

Tagai

185. The conclusion on the subject of *tagai* already arrived at by several committees and conferences and accepted in principle by the Government of Bombay needs to be more universally carried into effect than has been done hitherto. Especially in the National Extension Service and Community Project areas, the issue of *Tagai* loans has created a disturbing influence in the system of

integrated co-operative credit. As a rule and except in special areas no *tagai* should be issued either for current crop loan purposes or for development. Governmental assistance for these purposes should take the form of an overall strengthening of co-operative institutions on whom the responsibility of meeting the credit needs of all farmers should be squarely placed. *Tagai* should be generally resorted to for the purpose of relief of distress and for rehabilitation. In this form it should be available to members of co-operatives as well as to others, though it would still be more appropriate and economical to issue the loans through co-operatives. The sooner such action is made a normal routine, better would it be for the government as well as for the co-operatives and the people.

186. How very inappropriate and risky it can be if loans for normal economic activities could be obtained on concessional terms from a popular government by the select few is already being proved. Arrears of *tagai* and of all forms of direct government loans for business purposes are mounting up, as borrowers and their friends are apt to confuse their position as debtors with their potency as enfranchised citizens. Loans made for earmarked purposes of improving the economic productivity of borrowers have often been diverted to what in effect are consumption objectives. These tendencies need cause no surprise, as they have been noticed for nearly a generation, and non-official committees and government have often expressed their determination not to lend for a normal business activity through governmental agency. More recently, the Government of India have also expressed themselves strongly in favour of limiting the scope of direct government lending.

187. There is one more reason why the Government of Bombay should take immediate steps to put an end to all programmes of direct State lending to indi-

viduals. The Bombay Government, more than almost any other State Government, has been appreciative of the important social and economic functions of co-operatives. In several ways and in several fields the Bombay Government is actively supporting co-operative expansion. It is, therefore, undesirable to fritter away its resources at the same time, in a manner which on the whole produces much less satisfactory economic results, and which harms the normal expansion of co-operative activity. By doing this it is unknowingly causing harm to the citizen, who has a sense of being discriminated against, to the tax-payer whose money is used on a selective and less economical basis, and to the co-operator whose legitimate progress is held back. The whole issue regarding *tagai* is at a stage where some one in authority, with courage equal to his conviction, has finally to decide that no further loans for business activity will be made except through appropriate institutions. *Tagai*, as administrative assistance, will then be confined to legitimate cases of distress among citizens.



CHAPTER VII

BACKWARD AREAS

188. We have in several places of this report spoken of special difficulties and problems of under-developed areas. These are in a way a temporary phase and with some special attention and support from normal departmental and institutional channels may be expected to come to an end. But areas which are backward in the sense of being both economically undeveloped and inhabited by tribal or semi-tribal people constitute a problem which is beyond the capacity of normal departments to tackle. A whole programme of cultural, social and economic rehabilitation and development has to be thought of for these areas. The Constitution of India has listed these tribes as specially eligible for the funds set apart for their development. The tribal people have a strong tradition of corporate action, and if all programmes of their rehabilitation and development are unfailingly organised on a co-operative model, the people will find the transition easy. On the other hand if all schemes of development are placed in official hands, or if private dealers are allowed to exploit the favourable situation created by State expenditures the results are not likely to be happy.

189. The varying success which welfare efforts are having in different tribal areas prove, that only in those places where a strong co-operative organisation with public support was initiated, as in Panchmahals, the process of economic and social resettlement has attained noticeable success. Whereas in Thana where the State did not take much direct interest and where the other classes in society which had a vested interest in the backwardness of the tribal people were left undisturbed the social and economic condition of the tribal

people has not noticeably improved. Attempts at establishing co-operatives on the crop loan pattern have also borne comparatively disappointing results in Thana. Unless there is a comprehensive programme of rehabilitation and unless the State backs co-operative institutions as chosen instrument of social and economic reconstruction of these areas the problem of the tribal people will not be solved. To settle them on land, to give them means of tillage, to spread education among them, to introduce civic, cultural and economic institutions of modern progress—all this is necessary. Only a special integrated effort can achieve this. With progress all-round will come co-operative progress as well, and then the operation of co-operatives in these areas can become comparable with that which now prevails in other parts of the State.

190. An aspect of the earlier stages of transition in these areas is represented by *grain stores*. So long as settled occupations and cash economy have not been fully established public storage of grain both for maintenance and for cultivation becomes necessary. Advances appear to be more conveniently made in the form of grain and also recovered, with a suitable premium, in the form of grain. Such activities, however natural and beneficent they may appear to be at the particular stage of the people's development, are in their very nature aspects of an economy which it is the purpose of national policy to replace. The institutions to be developed on a permanent basis must attract our major attention, pending the fruition of which the older types of institutions, or adaptations of them, should be allowed to continue. On a local and somewhat simple basis they serve the purpose for which they are intended. Even if there are losses here and there they can be treated as costs of rehabilitation. But no banking institution can afford to get mixed in them, particularly not on such a formal and elaborate basis as to make itself responsible to creditors without having

the means to enforce an obligation on a borrower. While special constructive efforts to introduce and stabilize normal co-operative institutions in these areas should continue, all urgent measures of relief and rehabilitation should be left to be tackled by State and all-India Departments of tribal welfare as parts of their programmes.



CHAPTER VIII.

AUDIT AND DEPARTMENTAL ACTION

Audit

191. All along the ladder of co-operative financial authority, from the branch committee to the Reserve Bank so much depends on the so called audit classification of a society that one would be justified in expecting that those responsible for audit will see to it that audit is carried out regularly and quickly. By not auditing every society each year, and by not making available reports of audited societies in time, often the information available about the audit class of a society is too old to be relevant. Still, it is on the basis of this classification that all financing agencies act with a strictness which at present is hardly justified by the nature of that information. In itself classification, provided it is neither too mechanical nor too subjective, is a very valuable means of sorting out cases on the basis of merits, so that an appropriate course of action, previously declared as applicable to a given class, can be taken in relation to them.

192. What is needed, therefore, is in the first place to see that audit is regular and its results are quickly available. This will entail a rationalization in the Co-operative Department on lines applicable to co-operative institutions. Let the Departmental planners decide what the work-load of an auditor can be reasonably expected to be, and let them then provide the necessary strength and organization. It is true that the area of Bombay State in which the crop loan system has been introduced is now only a portion of the whole of the State and, therefore, a long-term staffing problem must be treated with reference to the whole State. But this

only brings into view the more difficult problem of extending the crop loan system to other areas, where a similar system did not already prevail. This will increase the need for staff. Adequate, well-organized and well-led staff in institutions and in the department is essential for the fair working of all co-operative activity, and especially of such a finely balanced and integrated programme of action as the crop loan system. If then the case of the Department is that audit is not regular and expeditious because the strength of staff is inadequate, the shortcoming, be it of strength or of organization, must be soon removed.

193. About the quality and procedure of audit it is desirable to state two or three specific things as they have an intimate bearing on the working of crop loan system. It is part of an auditor's normal procedure to discuss the findings of his audit with the managing committee and the chairman. The purpose of this provision is two fold. The consultation gives the auditor an opportunity finally to check on his facts and, what is more important, it gives the representatives of the society a real opportunity to learn. Audit as an act of government may conceivably be done without consultation, but audit as an instrument of betterment and progress derives its usefulness from the helpful contact between the auditor and the audited. Greater appreciation of this perspective of audit may ensure that the meeting between the auditor and the office-bearers will not be neglected because of its being a mere routine. We presume that the Department has normal procedural arrangements by which uniformity of criteria of observations and judgment are maintained. It would lead to most undesirable results if the "personal equation" was allowed to play too large a part in audit valuations. The possibilities of personal variations would be reduced and the educative effect of audit would be enhanced if the auditor was also asked to make specific suggestions for improvement.

194. Especially in respect of class C and D societies it would be extremely desirable to know as quickly as possible what may be done to rehabilitate them in one of the only two classes whose paper is accepted by the Reserve Bank. We also do not desire in the least that the standards prescribed for classification should be lowered. In fact we would like to see them further rationalised. But it ought to be somebody's business to actively work for raising the actual performance of societies. Only next to the members of the societies themselves the central financing agencies and Government are in a position to do this. Everything is, therefore, to be gained by at least the C and D class societies' audit reports being simultaneously posted to the societies and central financing agencies. It should be the normal routine for a central financing agency with appropriate assistance of Government to work out a programme of rehabilitation for all such societies and to use all its resources, including its branch agencies, to help the societies in carrying it out.

Departmental Action

195. Departmental delays are a byword, and in so far as co-operative organization partakes of a public character it is not free from the taint. From registration to liquidation the whole career of co-operatives is dependent on so many official acts, that delays in regard to them are often the principal cause of stagnancy from which several among them suffer. We have already commented on two aspects of the situation. If staff, that is its strength and organization, is the cause for such delays it is the Government's responsibility to bring about the necessary improvements. We are aware that the Co-operative Department itself is fully alive to the situation. We hope that the opportunity created by changes consequent on reorganization of the State are being utilized to lay down some long-term plan so that not only will the immediate problems of staff organiza-

tion be met, but also timely precautions will be taken to ensure that with the growth of the movement the capacity of the Department to serve it also grows. The Department has a great contribution to make to the movement as motor, and as brake. Fully staffed and well-equipped, it may do both in right measure. But understaffed or poorly organized it may prove to be all brake and no motor. It would be a pity if that were to happen. Quick action and decision is of the essence of successful economic activity. At least on the side of staff and organization the Department should not give ground for the belief that they are contributing to poor quality of business by making timely action impossible.

196. Another aspect of the relationship between the Department and co-operative institutions has also been referred to earlier. More and more, purely regulatory functions of the Department should be shed in favour of helpful positive association. It is by working together with members of co-operatives at appropriate levels that the Department, as a store of knowledge and experience, and as representative of State interest, can make its best contribution towards the success of co-operatives. Hence occasions for reference to the Department for sanctions of any sort should be reduced to a minimum. Mere certification of facts should follow as a matter of course and it should be easily and quickly available. Wherever sanction of the Department is held to be necessary the officer of the Department considered to be competent to give sanction should be as near the institutions as possible. Usually this will be the Assistant Registrar, and he should be given enough discretion to act on his own so that in a large number of cases there should be no occasion for delay. Depending on the nature of a case it should be possible for the Assistant Registrar to reserve it for reference to higher authority, which normally need not go higher than divisional Deputies, reserving the time of headquarters officials, including the Registrar, to attend to policy and to

really important and complicated matters. The co-operatives need the assistance of the Department at all levels, and the more the Department itself is decentralized appropriate contacts will emerge, and this will facilitate quick disposal of cases. In each office, at all levels, the procedure should be quick, almost on over the counter basis. The tradition of prescribing forms, making out papers and of putting them up for consideration at too many levels is peculiar of the days of government by record. Instead of co-operative financing agencies copying the ways of official cabins and desks, the officials must pick up at least some of the ways of the counter. This has been done in all countries where good administration is carried on as part of good business.

197. Bombay has been happy in its tradition of close and almost continuous contact between governmental and non-governmental persons having interest in and responsibility for co-operative matters. Both in frequent meetings of institutions and at regular conferences, as well as in many informal contacts questions of policy as well as of important procedural decisions can be discussed on a basis of mutual trust and responsibility. More than anything else these contacts have succeeded in creating a common co-operative viewpoint, as distinct from an official or a non-official viewpoint. This development has led on the whole to smooth, efficient and successful working of the institutions concerned. On levels nearer the scene of practical implementation of results, especially at the district or central financing agency level, and the branch level, which are very significant in the operation of the crop loan system, these contacts are neither so frequent nor so fruitful of common approach and constructive action. Membership of the same bodies, official or co-operative does to some extent create such opportunities which may be utilized for a constructive purpose. But more important than formal meetings are the informal contacts which are

maintained not so much out of necessity as out of common interest and common affinities. Both official and non-official co-operators are so deeply committed to the realization of important social objectives through their joint action that they can ill afford to work in separate grooves. This is realized in a large way. If it could be the normal effortless order of the day throughout the course of joint action right upto the village the speed and the efficiency of co-operative business, of finance, or production, of supply and sale, and of processing, will not lose by comparison with the best examples of either private or governmental business.



CHAPTER IX

CONCLUSION

198. We have tried in our report, in the light of experience gained hitherto, to indicate the circumstances in which the crop loan system has for the most part produced good results. Adequacy of finance, productive use of loan, sale of produce and recovery of loan through co-operative agency, and an organization to ensure that all these aspects work efficiently and in co-ordination with one another are the essentials of the success of the crop loan system. By success we mean, not only that as a financing programme the crop loan system is a good banking proposition, but also that the finance helps the members to grow better crops and to sell them more remuneratively. Such success has been achieved in a few select places served directly by the State Co-operative Bank and by some of the central financing agencies. A general liberalization of credit and some emphasis on co-operative sales have also been in evidence. But the prevailing picture practically all over the State is one of half-hearted and unco-ordinated action. To achieve wider success more determined action along lines suggested in our Report is urgently called for.

199. The responsibilities of the State Co-operative Bank, in terms of the number, amount and variety of transactions have already grown very fast. They are likely to grow further. We are convinced that the foundations of the structure of co-operative finance, of which the State Co-operative Bank is the Apex, must be firmly laid in the primary societies. While minor variations between different areas and divisions are bound to persist adequacy of finance and opportunities for productive use of credit must be assured through

co-operatives to all cultivators, other than those who can afford to be independent of this source. The social and economic welfare of the farmers as well as of the community at large depends very vitally on the success of efforts designed to achieve this purpose. While on the one hand efforts to frame and popularise programmes of agricultural improvements are being made by governmental agencies, the co-operatives, from the primaries to the apex, must be fully equipped to ensure that no bonafide farmer lacks the means of participating in these and similar patterns of efficient use of his resources of land and labour. We hope that the suggestions made in our Report will constitute a substantial step forward towards this goal.

Bombay, the 30th March, 1958.

W. C. SHRISHMAL

Secretary.



D. G. KARVE.
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APPENDIX 1

Modifications in Rules and Circulars

Borrowing Limits of Societies:

Borrowing limits of Agricultural Societies are laid down under Bye-Law No. 3 of leaflet A(3). The Bye-laws of societies with unlimited liability lay down a limit which usually is restricted to 1/6th to 1/8th of the value of the total assets of the members of the society as a whole (vide Registrar's Circular No. AGC 286 dated 11th June, 1937). The Bye-laws of societies with share capital provides that the borrowing limit will be a certain amount stated in the Bye-law which also is often based on 1/6th of the total assets of the members. In some Bye-laws the outside borrowing limit is 8 times the paid-up capital and Reserves.

The Policy Statement had suggested that the borrowing limit should be laid down with the approval of the central financing agencies.

It is, therefore, necessary to cancel previous circulars and provision for the maximum borrowing limit should be eight times the paid-up share capital and Reserves, with a further provision to increase it to 10 to 12 times with the approval by the central financing agencies provided the loans are secured by Declaration under Section 24AA and/or on the crops raised by the members.

The limit for the intermediate term loan should be exclusive of the borrowing limit for short term credit. A separate limit should be laid down in the Bye-laws since limit is being related to the total assets of the members of the society as a whole. It is suggested that the limit should be fixed at 1/6th of the total value of assets declared under Section 24AA of the members of the society.

Borrowing Limit for Individuals:

Bye-law No. 43 or 56 of the model bye-laws of the agricultural credit and multipurpose societies restricts the borrowings of the individual members within stated limits and the same bye-law further restricts the limit for intermediate term loan to twice the bye-law limit. There is also a provision that individual limit can be exceeded upto twice the limit with the approval of central financing agencies but there is no

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specific provision as to whether any amount in excess of twice the stated limit can be advanced by the society even with the approval of central financing agency or the Assistant Registrar. In view of the fact that the loans are related to crop and crop acreages uniform limits work against the system of crop loans. Therefore, such restriction on individual limit has to be altogether removed and the bye-law has to be suitably amended so as to bring in the borrowing to be related to the crop financed by the society. Similarly the borrowing limit for medium term loan cannot be fixed in the bye-law as it has also to be related to purpose and if any limit has to be exercised it will have to be left to the society and the central financing agency in view of the overall limit for medium term finance available to the society. Bye-law No. 3 and 43 or 56 of the agricultural credit and multipurpose society, therefore, requires suitable amendment to conform to the crop loan pattern of finance.

Appointment of Administrator:

We have recommended that whenever a financing agency is constrained to refuse further credit to its constituent society and latter's credit line is in danger of being suspended, the situation should be treated as one of emergency and Department should immediately proceed to appoint interim Administrator and he should have all the powers of the Board of management pending sequel of normal inquiry proceedings and the Administrator should have legal status of public functionary.

The present Rule 48 of the Co-operative Societies Rules gives power to State Government to appoint new Committee or to remove members of the Committee. The provision is rather dilatory and does not provide for appointment of interim Administrator. The Committee on Co-operative Law has suggested certain amendments for the appointment of an Administrator but even there the Administrator can be appointed only when the Registrar suspended the Committee.

The present Bye-law of the Supervising Union provides for the suspension of the managing committee with the approval of the central financing agencies. Similar provision in the Bye-laws of the central financing agency which is its federal body will obviate the necessity for taking action under Rule 48. However, the proposed Section 70 of the Law Committee will have to be further modified so as to include the appointment of an Administrator made by the Registrar under the provision of the Bye-law of the central financing

(iii)

agencies and affiliated societies so that the Administrator so appointed can acquire the same powers and functions as stated in the proposed Section.

It is, therefore, suggested that the central financing agency and primary credit society should provide for suspension of the Committee and appointment of the Administrator by the Registrar or an Officer empowered by him on reference by the central financing agency and the proposed Rule 70 be so amended so as to give the same status to the Administrator appointed by the Registrar under this provision.



APPENDIX 2

Prior Claim of a Society

The Section 24(1) provides for charge on movable property including crop. The Committee on Co-operative Law (1957) has suggested a change in the present section taking into account the present difficulties in enforcing the section. The changes suggested should meet the requirements of making the charge on crops more effective. The following Extracts from the Committee's Report are reproduced for ready reference.

"175. The section at present operating confers on the society in respect of its debt from a member or past member, the right of a prior claim, subject to that of the Government and landlord on (1) crops and agricultural produce raised in whole or in part with a loan from the society, and on (2) cattle, fodder, implements, raw materials, work-shops, etc., supplied or purchased from any loan. Housing societies have been given similar prior claim in respect of rent, shares, etc., on the interest of their members in the immoveable property of the society. It further lays down that the property subject to the charge shall not be transferred except as a lease for 10 years without the previous permission of the society. The transfers made otherwise shall be void and persons transferring the property shall be convicted for a term of six months.

"176. This section is very important from the point of growth of the movement and seeks mainly to provide for a charge on movable property. A suggestion has been made that the words "lien" should be substituted for the word "charge". But the "charge" was substituted for the word "lien" following an exhaustive examination of the issue by the MacLagan Committee. Secondly the Courts have recognised in many cases that persons can hold charge over the movable property. The section under reference prescribes, however, only certain categories of movable property, and arbitrators have held that if a borrower transfers hypothecated goods, he does not come within the purview of the section. We, therefore, recommend that the scope of this section should be widened by adding sub-clause 1(a) (iii) "upon any other movable property against a security of which a loan may have been given by the society."

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"177. The second point to be noted relates to the priority of creditors over the Society's claims. The Section provides that the Government will have priority in respect of land revenue or any money recoverable as land revenue and the landlord will have priority in respect of rent or any money recoverable as rent. The original intention of this section was to cover agricultural loans, but the scope has been widened to cover loans for other purposes as well. In the case of agriculture following the introduction of land reforms in the State, the question of giving a priority to the landlord does not arise where the Bombay Tenancy Act has been already in force. Apart from that, where the crop is raised with the finance from a society, it is not fair that the landlord should have the first charge on the crop. Besides, the rent forms a fraction of the total value of the crop and the amount involved is very much less than the loan of the society. We, therefore, recommend that the landlord should not have priority over the society in respect of his rent. As regards the priority assigned to the Government, we concede that the interest of the public revenue must be supreme. At the same time we beg to point out that from the point of the safety of the funds of the society it is necessary that so far as the Government dues other than land revenue are concerned, this priority should be confined to the assets created out of the loan, if any, provided by the Government. Thus, an attempt has been made to draw distinction between the Government's prior claim in respect of land revenue on agricultural goods and the one on non-agricultural goods. In our opinion this distinction is necessary in view of the fact that the State has been providing loans to the non-agricultural societies, which are also being financed by their financing agencies. We also think it necessary to exclude the charge from the jurisdiction of other laws, notably, sections 60 and 61 of the Code of Civil Procedure.

"178. The third point to be noted is that sub-section (2) permits the transfer of property by way of lease for a period of 10 years. We are afraid that the period is so long that it defeats the very purpose of this section since the claim will not be easily enforced inasmuch as buyers will be generally reluctant to acquire a property when it is subject to a lease of 10 years. We, therefore, recommend that even in respect of lease the society's permission should be necessary and the transfer of lease should be subject to the conditions that may be prescribed by the society.

"179. This section has assumed importance because it is the key to the successful development of the agricultural

co-operative credit system for providing crop finance. When the section was introduced in 1925, the provision was hotly debated in the Bombay Legislative Council and apprehensions were then entertained that it would ruin the farmers by disrupting agricultural marketing. The then provision was based on the view that, to quote Mr. K. W. Barlee, (later Mr. Justice) from his reply to the debate in the Bombay Legislative Council (Debates, July 25, 1925 page 424), "if, under the ordinary law of the land, an individual charge-holder can follow movable property, which has passed into the hands of the bonafide purchaser, then the co-operative society also should have the same rights." The experience has, however, proved that the bogey of a bonafide purchaser and the difficulty in establishing the identity of ownership of crops have thwarted the efforts of the Legislature to make the charge of societies on crops effective. This problem has assumed national importance in view of the State's policy to build up institutional credit and assure the farmer of his credit needs for production being satisfied fully on the basis of the use of credit as distinct from the security of property.

"180. Before examining the various suggestions that we have received, we beg to record that unless and until the charge on crop is made effective, agricultural credit is not likely to be built up. No price is, therefore, high to achieve the objective, and we trust that our recommendations will be viewed against this background. It is true that the farmer is mainly responsible but we submit that the vicious system of money-lending which renders him helpless forces him to part with the crop charged to his society. This pressure from the money-lender can be resisted only if the law penalises the buyer. In a village, where three-fourths of the crop is sold, everybody knows how a farmer has financed his crop. It would, therefore, be wrong to underestimate the intelligence of the merchant and the village trader by presuming that both are ignorant of crop finance. We, therefore, submit that if he abets in the offence he should be punished adequately."

181. Since the onus of proving that the purchase of the crop under charge was not made bonafide lies on the society, a suggestion has been made that the society should notify preferably in the village *Chawadi* the names of the members whose crops are subject to the charge and the law should prescribe that such a notice should be considered as a sufficient notice to the prospective buyers. We are not quite sure that the reaction of the members of societies to this proposal will not be adverse. Besides, it is not a good practice for a society to advertise its borrowers. But apart from these two

considerations, for the purpose of our enquiry and recommendations, this is essentially an administrative matter which can be pursued only after creating strong public opinion in its favour.

182. The second suggestion is that the bye-laws of such societies should provide that no member borrowing from a society for financing production, shall sell his produce except to a marketing society to which the society is affiliated or, where such a society does not exist in accordance with the directions of the society. It has been further suggested that the bye-laws should specifically provide for enabling the society to direct its members to deliver the production at a stated place, on a stated day, at a stated time, and the violation of the bye-law should involve the payment of compensation by the offending member to the society. In this connection, our attention has been drawn to Section 38 of the Hyderabad Co-operative Societies Act, which serves the purpose. We opine that this provision is wholesome.

183. A third suggestion has been made in order to make the charge on crop effective by providing that the charge should be continuous until the loan is repaid. The object of this suggestion is that the society can continue to have the charge on the crop for succeeding years even if the crop already charged is marketed without its knowledge. Such a provision would be wholesome both from the point of the borrower and the society because the latter can be assured of an effective security and will, therefore, be encouraged to meet the demands of its members for credit. Even if crops fail, it would be easier for a society to continue the finance for the next season on such a basis. In Bombay State the system of converting the outstandings arising from the failure of a crop into a medium-term loan and granting fresh finance for the next crop has been in operation. We opine that such a rational system can be developed only if the charge is made continuous. The proposal tends to gravitate around fixed property but the position corresponds to machinery which, when fixed to the ground, is considered as immoveable property, but is otherwise movable property. The legal implications of the suggestions made may be examined further. We have, however, assumed that there is no legal difficulty and have, therefore, made the necessary recommendations.

184. The fourth suggestion which we have received, and which in our opinion is vital is that the scope of sub-section (4) be extended so as to penalise buyers who acquire the crop charged to societies. We view this recommendation with

favour for two reasons. Firstly, such a provision should deter any merchant from buying any crop charged to a society without its knowledge. Secondly, it would result in streamlining agricultural marketing which at present leaves much to be desired. Under the Bombay Agricultural Produce Markets Act, nobody can trade without a licence in the market and, if the recommendations of the "Export Committee" which reported last year are accepted, even the villages can be brought within the scope of the Act. In that event it should be easier for the Government to effectively regulate buyers of agricultural produce in villages. We are of the view that if our recommendation for bringing the buyers of crop and their agents within the scope of sub-section (4) is backed up by an amendment of the Bombay Agricultural Produce Markets Act so that if a licence holder is convicted under this Act, his licence will be cancelled under that Act, the twin measures will serve the purpose very effectively.

185. Although the section primarily deals with prior claim of society on movable property, sub-clause (b) of sub-section (1) relates to the charge of housing society on the interest of members in the immovable property of such society. This proviso is wholesome and requires to be retained. Since the next section, based on Section 24AA of the present Act, deals with the charge on immovable property of agricultural societies only, we are, afraid that this particular provision cannot be fitted in that section. We have, therefore, thought fit to retain it in the section under review.

186. In the light of the above discussions, we recommend that section 24 be renumbered as section 49 and be amended as under:—

Section 49:

Prior Claim of Society

1. Notwithstanding anything contained in Sections 60 and 61 of the Code of Civil Procedure, 1908, and notwithstanding any provision in any other law for the time being in force but subject to any prior claim of the Government in respect of land revenue or any money recoverable as land revenue
 - (a) any debt or outstanding demand owing to a society by any member or past member or deceased member shall be a first charge,
 - (i) upon crops or other agricultural produce raised in whole or in part with or without a loan taken

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from the society by such member or past member or deceased member,

- (ii) upon any cattle, fodder for cattle, agricultural or industrial implements or machinery, or raw materials for manufacture or workshops, godowns or place of business, supplied to or purchased by such member or past member or deceased member in whole or in part from any loan whether in money or goods given him by the society, and
 - (iii) upon any movable property which may have been hypothecated, pledged or otherwise mortgaged by a member with the society and remaining in his custody;
- (b) Any outstanding demands or dues payable to a housing society by any member or past member or deceased member in respect of rent, shares, loans or purchase money or any other rights or amounts payable to such society, shall be a first charge upon his interest in the immovable property of the society.

Explanation: The prior claim of Government in respect of dues other than land revenue shall be restricted within the meaning of sub-section (1) to the assets created by a member out of the funds in respect of which the Government has a claim.

2. No property or interest in property which is subject to a charge under sub-section (1) shall be transferred in any manner without the previous permission of the society and such transfer shall be subject to such conditions, if any, as the society may impose.
3. Any transfer made in contravention of sub-section (2) shall be void and any member transferring any property and any person acquiring or abetting in the acquisition of, such property which is subject to a charge under sub-section (1) shall, on conviction, be punishable with imprisonment for a term which may extend to six months or with fine which may extend to five hundred rupees.
4. Notwithstanding anything contained in sub-sections (2) and (3) a society which has one of its objects the disposal of produce of its members, may provide in its bye-laws or may otherwise contract with its members,

- (a) that every such member shall dispose of his produce through the society, and
- (b) that any member who is found guilty of a breach of the bye-laws or of any such contract shall reimburse the society for the loss determined in such manner as may be specified in the bye-laws.

187. Charge on immovable property of members borrowing from certain societies—Section 24-AA deals with the charge on land and interest in land and prescribes the procedure for creating such charge. The two points made out are whether the system of declaration in the form prescribed by the Rules requires an amendment of the corresponding section of the Bombay Land Revenue Code and whether a copy of the declaration is to be sent to the Sub-Registrar. The latter procedure is followed. We do not think it necessary to make a legal provision for the purpose; but we urge that the position of this Section vis-a-vis the Bombay Land Revenue Code, may be examined. This declaration is in respect of lands and interest in lands and such other interests, as may be specified therein. Every borrower owning lands or having interest in lands as a tenant, has to make this declaration and unless he does that, he is not entitled to exercise his right as a member. This declaration can be varied with the permission of the society in favour of which the charge is created; but no member is free to alienate any part of the lands until the whole amount borrowed by him together with the interest is paid in full; but the standing crop is allowed to be alienated with the previous permission of the society. A member is free to execute a mortgage bond in favour of the State Government under the Bombay Canal Rules for the supply of water. The societies mentioned in this section are those concerned with the provisions of agricultural credit and others in respect of which the State Government issues an order.

188. The title of the Section 24-AA is "charge on immovable property etc.", but the section provides for the alienation of the standing crops with the previous permission of the society. Since the facility for the alienation of the crops will defeat the purpose of the crop loan system and the provision for transfer has already been made in the preceding section, we recommend that the proviso to clause (iv) be deleted. Beyond this, we recommend no amendment of the section, which was amended in 1956, following the enactment of the Bombay Tenancy and Agricultural Lands (Amendment) Act, 1955.

We, therefore, recommend that Section 24-AA be re-numbered as Section 50 and be amended as under:—

Section 50: Charge on immoveable property of members borrowing from certain societies.

Notwithstanding anything contained in this Act or in any other law for the time being in force

1. any person who makes an application to a society of which he is a member for a loan shall, if he owns any land or has interest in any land as a tenant, make a declaration in the form prescribed by rules. Such declaration shall state that the applicant thereby creates a charge on such land or interest specified in the declaration for the payment of the amount of the loan which the society may make to the member in pursuance of the application and for all future advances, if any, required by him, which the society may make to him as such member subject to such maximum as may be determined by the society together with interest on such amount of the loan and advances;
2. any person who has borrowed a loan from a society of which he is a member before the date of coming into force of the Bombay State Co-operative Societies Act, 1957, and who owns any land shall, as soon as possible, make a declaration in the form and to the effect referred to in sub-section (1) and no such person shall, unless and until he has made such declaration, be entitled to exercise any right as a member of the society;
3. any person who has borrowed a loan from a society of which he is a member before the date of the coming into force of the Bombay Tenancy and Agricultural Lands (Amendment) Act, 1955, or any other Act in any part of the State and has any interest in land as a tenant shall, as soon as possible, make a declaration in the form and to the effect referred to in sub-section (1) and no such person shall, unless and until he has made such declaration, be entitled to exercise any right as a member of the society;
4. a declaration made under sub-section (1), (2) or (3) may be varied at any time by a member with the consent of the society in favour of which such charge is created;
5. no member shall alienate the whole or any part of the land or interest therein specified in the declaration made under sub-section (1), (2) or (3) until the whole amount

borrowed by the member together with interest thereon is paid in full:

Provided that it shall be lawful to a member to execute a mortgage bond in favour of a Mortgage Bank or the State Government in respect of such land or any part thereof under the Bombay Canal Rules made under the Irrigation Act, 1879, for the supply of water from a canal to such land or any part thereof;

6. any alienation made in contravention of the provisions of sub-section (5) shall be void;
7. subject to the prior claims of the Government in respect of land revenue or any money recoverable as land revenue and to the charge, if any, created under an award made under the Bombay Agricultural Debtors Relief Act, 1947, or any other Act in any part of the State there shall be a first charge in favour of the society on the land or interest specified in the declaration made under sub-section (1), (2) or (3) for and to the extent of the dues owing by him on account of the loan;
8. notwithstanding anything contained in Chapter X-A of the Bombay Land Revenue Code, 1879, the Record of Rights maintained under the said Chapter shall also include the particulars of every charge on land or interest created under a declaration under sub-section (1), (2) or (3).

Explanation: For the purpose of this Section "society" shall mean

- (a) any resource society, the majority of the members of which are agriculturists and the primary object of which is to obtain credit for its members; or
- (b) any society or any society of the class of societies specified in this behalf by the State Government by a general or special order...."

APPENDIX 3

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Chapter III: APPRAISAL

(1) Coverage

64. In several districts co-operative societies exclude, either by their byelaws or by convention, small holders and tenants from membership. No appreciable attempt has been made by central financing agencies to secure a major change in this respect.

65. In the areas directly financed by the Apex Bank, small holders are being admitted, but even here there are several villages, e.g., in Ratnagiri, Kolaba, and Thana, where tenants are not admitted by societies in large proportion. Where tenants are admitted, they are not always financed or financed fully. A liberalization is, however, visible in this respect.

66. There are instances of societies refusing admission to new members on quite untenable grounds, presumably of a personal or factious character. Recent amendment to Co-operative Societies Rules has improved the situation in this respect by providing an appeal to the federal organization concerned. It is desirable that a second appeal should be provided by making the Chairman of the State Co-operative Union the final referee.

67. In cases, the exclusive or factious behaviour of members has led to proposals to form more than one society. We consider this to be an undesirable step, as it offends against the integrated and economical character of co-operative organization. The situation resulting from factions and recalcitrance must be directly faced by co-operative organizations and the Department. Pending success of such efforts, the central financing agency concerned should directly finance the excluded individuals.

68. While steps such as ensuring membership and overcoming faction must be provided by Rules, the members' right of receiving benefits of membership must be effectively as-

sured. The immediate responsibility of making necessary advances to an aggrieved party, pending lawful and regular relief must be placed on the next higher financing agency, that is if central financing agency is responsible for causing the alleged exclusion, the Apex Bank must take direct interest.

69. Experience in Borsad and Anand has shown that societies comprising more than one village (Khadol, Joshi-Kuva) tend to be comparatively free from the influence of local factions, which are present in single village societies in the same areas.

70. The influence exercised by recalcitrant persons and unsocial factions is quantitatively of a limited nature, but its effect in twisting or undermining the normal working of institutions is so fatal that the very risk of unsocial influences getting control over co-operative institutions must be effectively provided against; membership of the board of management or directors who commit defaults should cease automatically, i.e., without need of any further proceedings.

71. Once a case for drastic action is made out by facts in the possession of the Department, the procedure for temporary administration pending reorganisation should be sufficiently expeditious and effective to prevent evil influences from doing further harm to the institution and from thwarting legitimate efforts at improvement.

72. Whenever a financing agency reaches that stage in its relation with a constituent society at which the latter's credit line is in danger of being suspended, the situation should be treated as one of emergency. On being satisfied that the suspension of credit is proposed on valid grounds the Department should proceed immediately to appoint an interim Administrator. This action in no sense should prejudice the course of normal enquiry into the working of the society. Pending the sequel of normal enquiry proceedings, the interim Administrator should have all the powers of the Board of management. He should have the legal status of a public functionary. For expeditious action as well as strengthening the position of the Departmental officers on the spot, powers of appointing an interim Administrator should be vested in the Assistant Registrar. As a rule an Administrator should be drawn from amongst the officials of central financing agencies.

(2) Adequacy of Finance

74—75. Inadequate finance adversely affects the economy of the borrower as well as of the co-operative institutions, as

any continuance of dependence on private sources undermines the strength as well as the loyalty of members. The most important step forward in the progress of the crop loan system is that of ensuring that all members get adequate finance needed for good cultivation.

76. In three types of areas more or less adequate finance is made available to members. There are some areas like Kolhapur and Shrirampur, growing sugar-cane, where a substantial portion of loans required for cultivation is made available in kind and cash according to needs, and at suitable times. Some of the district banks also have introduced full crop loan system for commercial crops in their area, e.g., tobacco finance in Kaira, cotton finance in Broach and potato finance in Poona.

77. In areas, e.g., Thana, Kolaba, Poona, where the intensive paddy scheme sponsored by Government is in operation full cultivation finance, Rs. 125-150 per acre as against Rs. 50 per acre for ordinary cultivation by members, is being made available. For non-commercial crops even in these areas and for almost all crops in other areas adequate finance is not made available. This leads to inefficient production as well as to unsatisfactory working of societies.

78. Meagre finance is the result of incomplete understanding of the implications of crop loan or of excessive caution or of both. That some supporting action by State, in regard to advice in improved methods of cultivation, supply of seeds and fertilizers etc., as in its intensive programme in paddy areas, can evoke more enterprise from farmers and co-operatives has now been proved.

79—80. While lending under the B.A.D.R. Act is permissible for almost all items of cultivation expenses the actual amount per acre per crop tends to be fixed in each district according to the prevailing ideas about the cultivator's repaying capacity. Cultivation needs tend to be neglected, and in any case over the years, the B.A.D.R. Act limit has become so inoperative as to be devoid of any relevance to the notion of adequate needs of good cultivation.

81. The prevailing agency for ascertaining cultivation needs is the *Field Workers' Conference*. It has been found that in practice these conferences are not always held in time, not all persons, official and non-official, who are expected to attend actually attend these conferences, and discussions at the conference tend to be formal. Often the discussions at field workers' conference are reduced to a tug-of-war between

the financing agencies on the one hand, and the borrowing societies on the other, with the officials on the sidelines encouraging either party as occasion would arise.

82. From the standpoint of the quality of the results reached by the conference, the most regrettable absence has been that of the Agricultural officer who is in a position to say what a desirable programme of good production for each crop in the area would entail in respect of cash expenditure and use of other resources.

83. A more confident and purposeful approach to agricultural improvement on the part of the agricultural Department, an active participation by officials of that Department in determining the pattern of cultivation and its cost in intimate consultation with representatives of farmers are *sine qua non* of a comprehensive scheme of crop loans. The institution of field workers' conference must be a real partnership between the expert, the co-operative financier and the farmer all combining to make the best possible use of the resources of land, labour and finance available to the agriculturist.

84. The practice of confining a more adequate rate of crop finance to such among the borrowers as have sold their produce through co-operative marketing agencies during the preceding season needs reconsideration. In any case basing current finance on the volume of previous year's sales has no justification. The conditions regarding purchase and sale through approved agencies should be strictly enforced in all cases of crop loans. Amounts in excess of adequate crop finance should be advanced only to such members as have shown good progress in cultivation and as have effected the sale of their produce through co-operative agencies for the purpose of their undertaking more intensive cultivation, or for other provident purposes.

85. As a measure of adequate finance it is common ground that all cash outlay needed for the purposes of cultivation including labour and material requisites should be covered by it. The maintenance expenses should form part of essential crop finance along with cash outlay on the more obvious items.

86. In each area it should be possible to work out a size of farming unit for which a full measure of estimated productive expenditure should be allowed as a crop loan limit. For farmers cultivating larger areas proportionately less credit per acre should be made available.

87. The implications of a policy of giving no less and no more than is actually needed in each case should be more analytically worked out for each area before it is incorporated into the working practice of co-operative finance.

(3) Procedure

88. The system of presenting the crop loan demand of each member in the form of an application to his society should be immediately introduced. Besides details of family and holding, this form should contain particulars about the nature of cultivation, area under different crops, actual and proposed, outstanding debt, other borrowings and charges created on property, extent of produce marketed through co-operative agency, and land revenue paid on each holding.

89. On receipt of this application, which the secretary should ensure is complete in all respects, the managing committee of the society should sanction what may be considered adequate loan limit in the circumstances of each case. When an application is rejected altogether, or when a very substantial departure from crop loan rates is sanctioned, reasons for such action should ordinarily be recorded.

90. A normal credit statement embodying the relevant particulars from the original application forms, along with recommendations of the managing committee should be prepared by the secretary. Unless at both the society's and central financing agencies' ends the normal credit statement is accorded the importance of a vital and authoritative credit document an essential link in the crop loan procedure would be found to be too weak to support its weight.

91. Supervising unions, except in a few exceptional areas, have ceased to function regularly and constructively either for scrutiny of loans or for their recovery. In practice they have come to mean action by Departmental staff placed at their disposal. In this form the supervising unions have little contribution to make to the scrutiny of normal credit statements. In several areas the unions are now left out of the scrutiny of normal credit statements. In others the scrutiny by supervising unions has become only formal. It is now desirable to provide for a more intimate contact between the representatives of the societies and of the central financing agencies. This can be done by having representative branch committees at their branches. The function of this committee should not only be advisory, but within prescribed limits, it should have responsibility for initiating action and taking decisions.

92. The normal credit statement should be forwarded to the central financing agency at the appropriate branch, where the Bank officials and the branch committee should dispose of it as suggested in the following procedure. As a rule all loan limits of societies of audit class A and B should be sanctioned by the branch committees and they should be reported for confirmation to the central financing agency which may take suitable action in any special case that may be brought to its notice. Statements of C and D class societies, cases which are specifically reserved for its scrutiny by a branch committee or by the bank inspector and loans in excess of normal crop loan limits should be presented to the Board of the central financing agency, for sanction together with recommendations of the branch committee. Besides these cases there would be some others involving specially high advances. These also should go to the central financing agency for decision with recommendation by the branch committee.

93. The normal credit statement will be scrutinised by the inspecting staff which should then carry out such further enquiry or verification as it considers necessary.

94. Time taken for making out applications, scrutinising and verifying them, making specific recommendations, having them examined by branch committees and, if need be, by the central financing agency is time well spent, and the only way to avoid eventual delay is to start the process early enough.

95. The society should dispose of applications as they are received so that after the last date no more than a fortnight at the most is needed to forward the statement to the central financing agency's branch office. As a general schedule we feel that a total period of no more than a month need elapse between despatch of a society's demand and its sanction by branch committee in the case of A and B Class societies. In other cases referable for sanction by the central financing agency a month more may be needed.

96. Any member who is aggrieved by the decision of the managing committee on his loan application should be entitled to appeal to the branch committee, and in special cases, from the branch committee to the Board of the central financing agency.

97. It is recommended that the State Co-operative Bank and the Co-operative Banks' Association should keep themselves informed of the trends in the actual operation of the

crop loan system. It would be appropriate for these bodies to supply a manual of crop loan administration which should generally operate in all areas of the state. In a few years time by the trend of final decision taken on appeals a more helpful and detailed code of procedure would emerge, which would supply guidance to all concerned.

(4) Disbursement

98. As an essential accompaniment to the crop loan system a complete institutionalization of essential supplies to the cultivator and of sale of his produce should be brought about.

99. Societies should not normally extend the scope of crop loans to processing activities such as preliminary expenses to set up a *gurhal*. These latter are more appropriately within the function of marketing societies.

100. As the multipurpose societies doing crop finance should not treat a commercial type of lending involved in processing and marketing as a normal feature of its production finance, on their side marketing and processing societies should not extend their activity to making production loans.

101. It is in the interest of the crop loan system that as much part of the loan reaches the cultivator in the shape of production requisites as possible. Cash loans, reduced to the minimum, should be issued in two or three appropriate instalments, one for preparatory operations, another for mid-season cultivating expenses, if necessary and the last at the time of harvesting.

102. As a rule large growers should not only have less in per acre loan out of the total crop loan funds, but they should draw more of their requirements in the shape of essential supplies.

103. The disbursement of cash loans by cheques is convenient and progressive in as much as it minimises uses of cash. With the opening of more branches the use of cheques can be universalised.

(5) Utilization

104—105. It is primarily the responsibility of the members themselves, the managing committee and the secretary of a society to watch over the proper utilization of loans. The capacity of a society to employ a well qualified and a well paid secretary to ensure efficient operation of the system at all stages is a vital factor. The departmental staff and the bank

staff can only strengthen the activity of the members and office-bearers of the society.

106—107. Besides the inspectors attached to branches, central financing agencies should appoint fieldmen as assistants for the purpose of carrying out specific and sample checks as regards the conditions and needs of cultivation. The services of this class of workers have both a direct and an indirect utility. In extremely underdeveloped areas where central financing agencies cannot be expected for some time to come to afford such staff, special subsidy to meet part of their expenses may have to be given. The fieldmen should necessarily be drawn from rural areas, and they should undergo training in agricultural schools.

(6) Repayment and Recovery

108. The almost deliberate tendency to allow dues to accumulate towards a single yearly point of repayment irrespective of crop seasons should be discontinued and loans made for each crop should be recovered out of the proceeds of the same crop, unless the failure of an earlier crop has to be compensated by the proceeds of a later one.

109. Adequate and timely issue of loans, accompanied by suitable supervision, is itself a factor which helps recovery. Areas of adequate finance are among those where recovery is most satisfactory, as for instance Cambay, Anand, Shrirampur, Kolhapur.

111. Co-operative agencies function largely under conditions of State partnership and all the means of legal recovery available to the State should also be available to co-operatives which constitute a socially sponsored service.

112. We are in general agreement with the recommendations of the Bombay (Laud) Committee on Co-operative Law 1957, particularly those contained in paras 175 to 188 of their report. An early implementation of these recommendations will go a long way in stopping some of the major loopholes which facilitate the way of the wrongdoer at the cost of honest members of a society.

113. The Government of Bombay is urged to enact early legislation on the lines recommended by the Planning Commission in Chapter X, Para 29 of the second Five Year Plan.

116. A rigid territorial pattern of what may be described as co-operative marketing jurisdiction is incompatible with the nature of our markets and with the present stage of pro-

gress of co-operative marketing. So long as a society appears to be dealing in produce of members who are naturally associated with it, and so long as the credit issued to these members by their societies is being institutionally recovered as per arrangements approved by the central financing agency, ail expansion of marketing through marketing societies or otherwise through co-operative institutions should for some time be encouraged.

117. Even more than the co-operative banks, marketing and processing societies are in need of developing a competitive and expansionist approach to their activity. At both ends that of bringing within its fold as large a number of producers as possible and of reaching the largest number of consumers or buyers, it must carry on a constant campaign for more and more business.

118. In several areas there is not enough evidence of a recovery-mindedness. While it is true that members should be expected scrupulously to honour their obligations, and that other members and especially members of the managing committee should exert themselves to see that each member discharges his obligations regularly, it is necessary that somebody whose duty it is to remind all members of their respective obligations at the appropriate time, and if need be, to follow the movement of their produce, should be on the staff of each society.

119. At the end of the recovery season the secretary should put up to the managing committee a list of unrecovered loans. Extension should be granted in deserving cases. All dues which are in excess of such authorized arrears, should be presented to the Assistant Registrar for action under Section 59-B. It appears that some Assistant Registrars consider that such action is discretionery, or that for reasons of expediency action should be taken only in selected cases. This is not a fair appraisal of the nature of action under 59-B which is a normal and necessary part of the integrated system of co-operative finance and should follow as a routine.

120. In order that defaulters may not be encouraged to endanger or cripple the serviceability of co-operatives, we would suggest that revenue authorities should be directed to implement unhesitatingly the provisions of law on the subject and effect timely recoveries of arrears of crop loans, in respect of which certificates under Sec. 59-B are issued.

121. It is only if such normal procedure for recovery is in operation that regular supply of credit to all bonafide mem-

bers can be continued in spite of the recalcitrant conduct of some members. Supply of credit to members in good standing should never cease. If the overdues of a society threaten to reach a point at which the central financing agency is inclined to refuse credit to the society as a whole, it would be an obvious case in which the appointment of an interim administrator would be justified. With an administrator in charge the legitimate demands of bonafide members can be satisfied by earmarked loans from the central financing agency.

122. The principles which should guide a society in authorizing arrears are capable of being reduced to general rules of guidance. Such rules can be compiled by the Co-operative Banks' Association and be communicated to all societies.

123. To distinguish among amounts due, arrears, authorized arrears and unauthorized arrears, it is desirable to substitute 'loans and advances' for the heading "amounts outstanding" in co-operative accounts.

(7) Scarcity

125. Subject to overall action in cases of grave calamities, the normal vicissitudes caused by bad seasons must be met by appropriate financial procedure.

126. According to the exigencies of each individual case arrears arising out of bad seasons should be spread over one, two or three years, so that they no longer press on the borrower as a crop loan, but are treated on an intermediate term basis.

In areas where variability of season is frequent, members should be encouraged to make deposits during good years, so that they may have less need to borrow after bad ones.

Chapter IV: ORGANIZATION

(1) Central Financing Agencies

129. *Loans to individuals:* It should be the endeavour of all co-operators, including central financing agencies actively to promote the establishment and progress of co-operatives in all areas. During the period of transition to such a complete co-operative coverage, central financing agencies should continue to lend to individuals in the following cases:

(1) Co-operatively undeveloped areas; (2) areas of stagnant societies; (3) areas where owing to some deadlock legitimate needs of bonafide borrowers are not met through local co-operatives; (4) and where the amount involved is so large that the society concerned finds it to be in excess of its capacity.

130. *Branches:* It is desirable that as a rule all Taluka areas, and generally all areas having prospects of an optimum quantum of business, should have a branch of the central financing agency. Important *mandi* areas, in particular, should have services of co-operative banks well within reach. Attached to each branch a committee composed mainly of representatives of societies should be formed. A widespread network of branches of co-operative banks and close liaison between the societies and branch offices will also help the development of deposit and other simple banking business by at least the largesized primary societies.

131. *Share Holding and Subscription:* It is seen that the system of compulsory contribution by members to the share capital of societies is generally operating in a manner which is considered burdensome by members, but which is defended as essential by societies. The growing number of small holders who are expected to come within the co-operative fold would make the burden of the system even more widely felt.

132. For this reason it is desirable to lay down that beyond a limit of say 20% of a member's borrowing he should not be required to make compulsory contributions to shares of the society. This figure should be reached by an initial contribution of 10%, and two more contributions of 5% of borrowing. It should be open to a member to go on contributing beyond this limit on a voluntary basis, subject to the overall limit of individual shareholding. This ceiling on individual shareholding should not operate if the permissible limit of a loan to an individual is raised to more than ten times the amount of the limit.

133. Members should be encouraged to deposit moneys with the society, for which interest should be paid, and against which loans at concessional rates and even for purposes other than cultivation should be made if necessary.

134. When new societies are established, or membership of existing societies is expanded as a part of a programme to carry co-operative services to agriculturists of small means who are expected to participate in a progressive pattern of

cultivation the requirement that total borrowings of a society shall not be more than eight times its capital should be temporarily relaxed to a reasonable extent, say to ten or twelve times, and sufficient government participation in capital in the form of gradually retireable shares should be provided, if necessary.

135. The societies should normally be required to hold ten per cent of their borrowings as shares in the central financing agency. These shares should be allowed to be held in excess of the maximum limit of holding by a single society if the size of its borrowings make it justifiable. Bye-laws of central financing agencies may have to be suitably amended in this respect.

136. In respect of their agricultural borrowings the central agencies should maintain a specific relationship between their borrowings through the apex bank, and their holding in the shares of that bank. As the crop loan system for its success depends on a corresponding development of marketing and processing societies, finance needed by central financing agencies for these activities should also be correlated to their holdings in the shares of the apex bank by a suitable ratio. At all levels the federated structure of co-operative finance should be strengthened by an adequate share base held jointly by constituents in proportion to the benefit that they receive.

(2) Structure of Interest Rate:

137. There is a constant necessity of providing by specific services that the contribution made by each one of the three tiers, viz., societies, central financing agencies, and apex Bank is valuable and that the charge levied by the particular agency on the ultimate borrower is not disproportionate to the service.

138. The central financing agencies render a service not only by way of raising, co-ordinating and channelling the supply of funds to societies but even more so by supplying a constructive leadership in the task of organizing rural credit and rural economy on a democratic and progressive basis.

139. Utility of the Apex Bank as a balancing centre of resources of the co-operative sector has always been recognized. Only the apex bank with its strong and elastic resources could afford to do the pioneering work which has set in motion, and now put on its legs, the co-operative movement in the backward tracts of the State.

140. Unless by doing more business more successfully the societies and central financing agencies succeed in distri-

buting their expenses on a much larger turnover, they will not be able to charge a more reasonable rate to the borrower except as the result of a subsidy. We feel that apart from special areas or initial stages of an effort a subsidy should not be needed.

141. If the total scale of loans goes up and recoveries are easier and surer than even with the rise in administrative expenses, cost per loaned and recovered rupee may fall and both the central financing agency and the primaries would be in a position to reduce their margin.

The margin charged by the Bombay State Co-operative Bank is not high. But if a joint effort is to be made to reduce the total margin, even the State Bank may be able to make at least a selective contribution to the process.

143. Within the limits set to them by their specific utility in social organisation co-operative banks can and ought to show much further enterprise, resource and active interest in drawing towards themselves a larger share of individual and institutional funds than most of them have succeeded in doing so far.

144. Keeping the borrower's bank account is an absolutely essential feature and we should scrupulously ensure that money borrowed from co-operative sources or earned from co-operative business does not find its way into other than co-operative financing institutions.

145. In our State there are a few areas spread over almost all districts which do not show signs of immediate expansion of good business on a scale which will help the financing institution to pay fully for the cost of efficient management. Such cases should be carefully studied by the State Co-operative Bank in collaboration with Government, and adequate means of meeting the extra cost of good management incurred by these institutions should be supplied to them.

(3) Inspection and Supervision

147—148. *Inspection*: It is appropriate and essential that the central financing agencies should make adequate provision for supervision and inspection of primary societies. A sufficient number of fieldmen and inspectors should be appointed for carrying out the multifarious duties connected with crop finance. All staff participating in the operation of the system should be suitably trained.

149. The responsibility of inspection should mainly be related to:

- (i) *Financial inspection* which the bank inspectors are expected to undertake and
- (ii) *Field inspection* which relates for the most part to physical check up of the crops, and supervision over production at certain stages, e.g., ascertaining crop acreages, observing standards of cultivation adopted by members and watching over marketing of produce through sale societies etc.

149. The optimum number of societies that can be assigned to an inspector would vary from area to area depending among other things, on the nature and volume of business. In areas where intensive farming is undertaken and where agricultural finance is heavy, i.e., in areas where cash crops like potato, sugarcane, tobacco or fruits like bannana, orange, lemon, etc., are grown, the optimum number of societies per inspector should not ordinarily be more than 20, and in dry areas not more than 30.

150. In areas where large-sized societies are organized the optimum number of societies per inspector would depend on the area of operation of such societies. In that case in addition to the size of business, the criteria would be the number of villages rather than number of societies that could be assigned to an inspector.

151. Beyond registration and audit which are only formal matters, the Co-operative Department should concentrate on offering a superior qualitative strengthening to the co-operative movement rather than limiting its own role to directions based on authority.

152. As the Departmental representatives in the field will have many opportunities of influencing the action of co-operative institutions Departmental staff should be better equipped in financial and economic implications of alternative courses of action, than in their knowledge about conformity to particular sections or bye-laws. Much more positive and urgent action along these lines is necessary.

153. In the case of a few institutions, especially those in underdeveloped areas, for a long time to come, and in the case of several institutions for some time to come, costs of better administration are likely to produce an adverse effect on the balance sheet. As it is part of public policy not to

raise the cost of credit to the agricultural borrower, and as an immediate strengthening of the administrative structure of both the department and the institutions is essential for the success of the crop loan scheme it will be in keeping with the public interests to make grants to selected institutions for enabling them to meet higher administrative charges over a period.

(4) Staff and Training

154—155. In view of the requirements of maintaining secretaries who are capable of giving efficient professional service it has become urgently necessary to have a *district-wise cadre* of society secretaries. Experience of the working of taluka committees for group secretaries is encouraging, but it has proved the inadequacy of the taluka units to meet all the problems involved in recruiting and maintaining an efficient and well organized cadre. The district cadre should be administered by a special committee, working under the auspices of the central financing agency and composed of representatives of the central financing agency, the co-operative department, the district co-operative Board and of the societies.

156. All the societies in the district should make a contribution of upto 2% of their working capital towards the total expenses of the cadre. The government should make a contribution equal to the difference between the total expenses and the proceeds of the societies' contribution provided the societies' contribution is at 2 per cent. As the district committee will have the obligation to find adequate secretarial assistance for all societies, including the societies in backward areas, special subsidies given to such societies for meeting the cost of their secretaries may be discontinued, but an overall subsidy should be given to the district committee so as to cover its shortfall of income.

157. The managerial staff of the central financing agencies should also form part of a common cadre to be operated by a committee working in close co-operation with the apex bank. Interchangibility, at least for a limited period of service, between the senior staff of the central financial agencies and of the apex bank is very desirable.

The organisation of this cadre can be on the same lines as a district cadre, so that a committee set up under the chairmanship of the Chairman of the State Co-operative Bank, with the Registrar and the Chairman or representative of the

Bombay State Co-operative Union could administer it, the State Co-operative Bank doing the servicing.

158. The senior inspecting staff of the central financing agencies should also be listed on a Statewise basis, and with the consent of their respective employers, it should be possible to select from this list suitable persons for permanent or temporary employment in responsible positions even outside their own districts.

160. From the re-organised primary to the apex bank the need for competent professional service is growing, and unless in recruitment, organisation and payment standards comparable with those obtaining in other well-run organisations are followed, co-operative activity will not be successful. Timely and organised action should be taken by co-operative institutions in this respect.

162. New, re-organised and specially handicapped central financing agencies will need some subsidy to enable them to run efficiently and within the limitations set by co-operative law and practice. Such subsidies should be given on condition that the recipients use their earnings to build their strength and that they do not fritter them away by payment of high dividends. In any case, making a loss should not be a condition of earning a subsidy as thereby the organization will not be helped to grow strong.

163. Short refresher courses for staff of co-operative societies and banks should be organized on district, division and State levels. These would be in addition to regular courses of training conducted by institutions run by the State Union or the Central Committee. Central financing agencies and societies should ensure that all their staff is suitably trained. Only trained personnel should be admitted in any of the jointly administered cadres.

Chapter V: **MARKETING AND PROCESSING**

(1) **Marketing**

165—166. It has been found that in some places sale societies are advancing production loans to growers. Fundamentally and from the standpoint of ultimate interest of development this position cannot be said to be very satisfactory.

167. Mixing of sale of cotton with sale of other produce will not be natural or economic in all cases. Giving adequate

crop finance for all crops without a local organization of the farmers themselves will be an impossible task financially as well as organizationally. The real problem of cotton sale societies is not that of stopping them from giving production loans but of developing co-operative multipurpose societies attending to all credit needs of the farmers on condition that they sell their produce through appropriate sale societies.

168. There are no large and contiguous crop areas where successful co-operative marketing may be said to prevail. This is due primarily to the fact that members have still to rely on private sources for a large part of their essential borrowings. Some of the limitations on co-operative purchase and sale will vanish as soon as full production finance is made available by co-operatives.

169. The comparatively disappointing results of the working of marketing societies are due primarily to institutional and personnel factors.

170. The marketing, and sale and purchase societies should take fuller advantage of the courses of training specially designed for them by the Central Committee of Co-operative Training. Part of the effort which is expected to result in the formation of a new federal marketing society in the State should be the recruitment and training of a suitable cadre of commercial managers, salesmen and accountants, for co-operative marketing institutions.

171. If only the co-operative sale agencies were to improve their efficiency, and to modify some of their procedure they will find that they have all the business they can care for. They should build up intimate relations of mutual understanding of difficulties and interests with the primary societies.

Purchase of produce from members prior to its sale in the appropriate market is not a normal accompaniment to the activities of the sale and purchase societies. An initial credit based on minimum and anticipated prices and final adjustment out of the pool price of the season has been found to be profitable formula for members of these societies.

172. In view of the crucial importance of co-operative marketing for the success of crop loan system, the central financing agencies should take a continuous and active interest in promoting the establishment of marketing societies and in assisting them to work efficiently. The central financing agencies should run an *Adat* shop only as a temporary measure

and purely on commission basis, so that its banking activities are not affected by its trading activities.

173. As a rule, marketing societies should be composed of society members. Individual membership should be treated as transitional and exceptional. In no case should individual members have a major voice in the affairs of the society. Individual members should be debarred from transacting any but their own legitimate business as individual consumers and producers through the marketing society.

174. All primary societies should be required to become members of appropriate marketing societies. Such broad based composition will render the marketing societies more independent of individual capital. A revolving fund scheme should also be introduced to augment the owned resources of marketing societies.

175. Efforts should be made to persuade cultivator members of primary societies to pool their produce for joint sale through the marketing society. So long as members of societies continue to sell their own produce directly through a marketing society, nominal membership of the marketing society will have to be conferred upon them.

176. As marketing societies have the function of helping in realising dues of members of societies a practice of keeping a separate society-wise account of sales of the produce of members, directly or through their society, should be adopted.

(2) Processing

177. If co-operative marketing is to be carried out to economic purpose, and if it is honestly to serve the consumer on one hand and the producer on the other, processing must be first co-operativised.

178—179. Especially as regards paddy and groundnut, the policy of the Government of Bombay has in effect proved to be most inexplicably unfriendly to the setting up of co-operative rice and oil mills. As the Rural Credit Survey Committee has suggested either the Government should acquire existing plants for the use of co-operatives or it should make an exception for the co-operatives and issue special licences to them.

180. We would urge on the State Co-operative Bank and the Co-operative Department not to rest satisfied with their accomplishment with one or two crops, like sugar-cane

or cotton but to take the lead in initiating action over the whole field of agricultural products which have to be processed before reaching the market.

Chapter VI: MEDIUM TERM LOANS

(1) Intermediate Term Loans

181. Intermediate term loans have a special significance for aids to good and effective cultivation which have a direct bearing on production processes. Ploughs and plough cattle, engines and pumps, well repairs and deepening, in fact all but small sized irrigation works, should be treated as a part of expenses of a programme of cultivation. It is the crop programme as a whole made to suit the conditions of each area and farm which should decide what are several constituent items of crops loans—short as well as medium term—which must be provided by the integrated system of credit.

182. In the Policy Statement it was recommended that medium term loans should be made available by the central financing agencies in addition to short term loans on the security of lands charged to the societies under Section 24-AA, subject to the condition that the intermediate term loan should be restricted to 1/6th of the total assets of the member declared by him under Section 24-AA. The Policy Statement did not suggest any other limit for such loan to any individual borrower.

183. In view of the various legislative measures governing Land Reforms, the market values of agricultural lands have ceased to have any bearing as an easily marketable security for loans made to agriculturists. Hence, the concept of fixed assets as security for the intermediate term loans has lost much of its basic value. As the crop loan system is going to play an important role in improving the production standards and in the implementation of programmes of National Extension, intermediate term loans for developmental activities will figure more prominently in future.

184. The entire question of provision of intermediate term loans requires a re-examination and calls for a revised Policy Statement. The system of obtaining landed security for intermediate term loans has to be continued.

The Reserve Bank of India has recently allotted Rs. 50 lakhs for issue of Medium Term loans through Bombay State Co-operative Bank. The limit set by the Reserve Bank was

not meant as a restriction by way of a ceiling on the loans to be allowed to societies by central financing agencies. The central financing agency would be strengthening their capacity to make medium term loans by receiving more of time deposits for periods upto five years. For legitimate medium term purposes arising out of an integrated system as a part of the Five Year Plan, further releases may be expected from the Reserve Bank, if necessary.

The maximum limit for the society for intermediate term loan should be fixed at 1/6th of the total value of assets declared under Section 24-AA of members of the society, excluding loans for plough-cattle.

(2) *Tagai*

185. As a rule and except in special areas no *tagai* should be issued for current crop loan purposes or for development. *Tagai* should be generally resorted to for the purpose of relief of distress and for rehabilitation. Such *tagai* should be issued through co-operatives.

186. *Tagai* loans made for earmarked purposes of improving the economic productivity of borrowers have often been diverted to what in effect are consumption objectives.

187. The Bombay Government, more than almost any other Government, has been appreciative of the important social and economic functions of co-operatives. It is, therefore, undesirable to fritter away its resources at the same time in a manner which on the whole produces much less satisfactory economic results, and which harms the normal expansion of co-operative activities.

Chapter VII:

BACKWARD AREAS

188. The problem of credit to cultivators in backward areas, especially to tribal people, can only be treated as part of their overall development for which intensive efforts through the tribal welfare department of the Government of India and the appropriate departments of the State Government must continue to be made. To make good agriculturists out of shifting or insufficiently settled population is an urgent task of rehabilitation.

189. As a part of a rehabilitation programme establishment and development of co-operative societies must be treated as of high importance. For a long time to come special

administrative subsidies and other help must be given to co-operative organizations operating in these areas.

190. Where it is considered necessary for some time to operate grain depots as a part of tribal economy, their operation should be kept distinct from that of the co-operative credit societies. Grain transactions will more appropriately be an activity for an administrative department than for a credit institution.

Chapter VIII: AUDIT AND DEPARTMENTAL ACTION

(1) Audit

191. For its usefulness to the societies themselves as well as for its relevance to the operation of central financing agencies the apex bank and the Reserve Bank, audit of societies must be regularly carried out each year.

192. What is needed, therefore, is in the first place to see that audit is regular and its results are quickly available.

193. About the quality and procedure of audit it is desirable to state two or three specific things as they have intimate bearing on the working of the crop loan system. It is part of an auditor's normal procedure to discuss the findings of his audit with the managing committee and the chairman. The possibilities of personal variations should be reduced. An educative effect of audit would be enhanced if the auditor was also asked to make specific suggestion for improvement.

194. In respect of class C and D societies it would be extremely desirable to know, as quickly as possible, what may be done to rehabilitate them in one of the only two classes whose paper is accepted by the Reserve Bank. Every thing is, therefore, to be gained by at least C and D class societies' audit reports being simultaneously posted to the societies and central financing agencies.

(2) Departmental Action

195. Owing to some organizational difficulties of the Co-operative Department inordinate delays occur at almost all stages of the working of co-operative societies. Where so much depends on Government sanction and on action by the Registrar or his officers, any delay not only slows down the work, but often causes a sizeable loss. To avoid this, occasions for reference to Government should be reduced, refer-

ences should be required to as easily approachable an office as possible, and at all levels action should be expeditious.

196—197. Whereas considerable liaison exists between co-operative workers and officials at higher levels, not sufficient liaison is maintained at the basic levels where the need for such coordination is the greatest. Especially at the district level need exists for some regular channel of communication between departmental officers and co-operative workers.



APPENDIX 4

(A) Extract from Second Five Year Plan Land Reform and Co-operative Credit

"29. As regards future operations three aspects may be mentioned. In the first place, it may be assumed that, save for exceptional reasons connected with programmes of agricultural production, co-operative institutions will advance loans only with reference to areas held under personal cultivation. Secondly, to facilitate the grant of medium-term and long-term loans to tenants who are brought into direct relationship with the State as a result of land reform, rights of transfer in favour of co-operative financing institutions should be allowed. In the third place, in respect of lands which come into the possession of cooperative financing institutions in the course of their operations, restrictions relating to ceilings on agricultural holdings or to cultivation through tenants or leasees need not be applied. Co-operatives should be free to sell the land to any one at such price as may be obtainable, subject only to the conditions that the transferee uses the land for personal cultivation and that as a result of the purchase or transfer, the land held by him does not exceed the ceiling prescribed by law." (pp. 233).—Ref. para 113.

(B) Extract from the Bombay Land Revenue Code, 1879

Bombay Act No. V of 1879 as amended upto October 1953.

140. When the crop of any land or any portion of the same is sold, mortgaged or otherwise disposed of, whether by order of a Civil Court or other public authority or by private agreement, the Collector may prevent its being removed from the land until the demands for the current year in respect of the said land have been paid, whether the date fixed for the payment of the same under the provisions hereinafter contained, has yet arrived or not.

Removal of crop which has been sold, etc., may be prevented until revenue paid.

But in no case shall a crop or any portion of the same, which has been sold, mortgaged or otherwise disposed of, be detained on account of more than the demands of the year in which the detention is made.

(ii)

141. It shall be lawful for the Collector, in order to secure the payment of the land revenue by enforcement of the lien of the Provincial Government on the crop,
In order to secure the land revenue the Collector may prevent the reaping of the crop, or

(a) to require that the crop growing on any land liable to the payment of land revenue shall not be reaped until a notice in writing has first been given to himself or to some other officer to be named by him, in this behalf, and such notice has been returned endorsed with an acknowledgement of its receipt;

(b) to direct that no such crop shall be removed from the land on which it has been reaped, or
the removal thereof, or from any place in which it may have been deposited, without the written permission of himself or of some other officer as aforesaid;

(c) to cause watchmen to be placed over any such crop to prevent the unlawful reaping or removal of the same, and to realize the amount required for the remuneration of the said watchmen, at such rate not exceeding the rate of pay received by the peons on his establishment as he may deem fit, as an arrear of land revenue due in respect of the land to which such crop belongs.
place watchmen over it

142. The Collector's orders under either clause (a) or clause (b) of the last preceding section may be issued generally to all the holders of land paying revenue to the Provincial Government in a village or to individual holders merely.
Collector's orders under last section how to be made known.

If the order be general, it shall be made known by public proclamation to be made by beat of drum in the village and by affixing a copy of the order in the chavdi or some other public building in the village. If it be to individual holders, a notice thereof shall be served on each holder concerned.

Any person who shall disobey any such order after the same has been so proclaimed, or a notice thereof has been served upon him, or who shall, within the meaning of the Indian Penal Code, abet the disobedience of any
Penalty for disobedience of order.

(iii)

such order, shall be liable, on conviction after a summary inquiry by the Collector, to a fine not exceeding double the amount of the land revenue due on the land to which the crop belongs in respect of which the offence is committed.

143. The Collector shall not defer the reaping of the crop, nor prolong its deposit unduly, so as to damage the produce; and if within two months after the crop has been deposited the revenue due has not been discharged, he shall either release the crop and proceed to realize the revenue in any other manner authorized by this Chapter or take such portion thereof as he may deem fit, for sale under the provisions of this Chapter applicable to sales of moveable property in realization of the revenue due and of all legal costs, and release the rest."—
Ref. para 120.

Reaping, e t c.
not to be unduly
deferred. Crop
when to be re-
leased.



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NORMAL CREDIT STATEMENT

Serial Number.	Name of the Member.	Owned Lands		Member's		Member's present dues.		
		Declared under Sec. 24 (AA).	Value of Declared lands.	Shares	Deposit	Short-term Loans	Inter-mediate Term. Loans	Of which amount due for recovery during the season.
1	2	Ac. Gs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1								
Standard of repayment during the previous season.								
Crop acreage for which loan is applied for.								
Value of produce sold through co-operative agency. Rs.	Repayments made		Arrears of Previous Loans.		Kind of Crop.	Non-Irrigated Crops.	Irrigated Crops.	Mode of irrigation: Well Lift Canal.
	Directly through sale Society. Rs.	In Cash. Rs.	Amount Rs.	Date of Default.				
						Ac. Gs.	Ac. Gs.	
6								
7								
Loans Required.								
Loans Finally Sanctioned.								
Member's Demands		Managing Committee's Recommendation.		Bank Inspector's Recommendation.		In Kind.		Remarks
In Kind Rs.	In Cash Rs.	Rs.	Rs.	Rs.	Rs.	In Cash. Rs.	Total Rs.	
8				9		10		

APPENDIX 6

Statistical Tables

- TABLE - I:** Agricultural Credit Societies in the Bombay State (1905-1957).
- TABLE - II:** Operations of Multi-Purpose Societies in the Bombay State.
- TABLE - III:** Agricultural Credit and Multipurpose Societies. (1939-1956).
- TABLE - IV:** Operations of Cotton Sale Societies.
- TABLE - V:** Purchase and Sale Societies and Unions in the Bombay State (1946-1956).
- TABLE - VI:** Progress of Central Financing Agencies during the period from 1946 to 1957.
- TABLE - VII:** Deposits of Central Financing Agencies as on 30-6-1951 and 30-6-1957.
- TABLE - VIII:** Loans and Overdues as on 30-6-1951 and 30-6-1957.
- TABLE - IX:** Scale of finance per acre for different crops as decided by Field Workers' Conferences in various districts in Bombay State for 1957-58.

TABLE I

Statistics relating to Agricultural Credit Societies in the Bombay State. (Rs. in lakhs)

Particulars.	1905- 1906	1911- 1912	1913- 1914	1917- 1918	1921- 1922	1929- 1930	1936- 1937	1940- 1941	1945- 1946	1950- 1951	1953- 1954	1955- 1956	1956- 1957
Number of Societies ..	21	284	552	1,328	2,599	4,526	3,718	3,777	4,796	9,702	10,934	11,597	9,328
Number of Members ..	1,127	19,247	38,225	97,286	198,445	265,325	198,203	189,187	232,282	727,276	920,795	1,066,888	860,764
Share Capital. Rs. Members'	0.01	0.01	0.01	0.44	3.00	21.86	25.44	33.88	51.44	229.85	383.95	510.43	503.96
Deposits Rs. Non-Members'	0.10	3.60	6.23	16.15	36.21	75.85	30.78	16.73	17.75	82.41	78.11	102.05	67.38
Deposits Rs. Other Borrowings.	-	0.41	2.39	12.30	28.42	39.18	20.71	16.63	19.85	54.67	53.05	62.01	55.99
Reserve & Other Funds. Rs. Working Capital.	0.12	8.31	15.96	37.43	76.95	913.89	139.95	114.74	112.00	463.89	758.17	948.10	1,000.26
Loans	-	0.35	1.39	4.26	11.80	55.06	72.90	86.90	111.63	209.54	274.38	308.99	267.91
Outstanding. Rs.	0.22	12.90	22.85	70.57	156.41	387.30	294.67	269.68	306.62	1,073.51	1,554.96	1,953.37	1,925.17
Overdues. Rs. Percentage of overdues to Loans	0.20	12.53	25.94	63.12	144.62	346.63	224.41	214.04	191.74	680.81	1,227.30	1,558.16	1,549.83
Average No. of Members per Society.	-	-	1.85	4.83	19.40	107.61	128.41	126.54	75.31	130.81	376.63	504.74	420.80
	-	-	7%	7.3%	13.1%	30.8%	52%	59.1%	39.2%	19.2%	30.8%	32.4%	27.1%
	54	68	69	73	76	59	53	50	48	72	83	92	92

* For old Bombay State except four Districts from Karnatak.

TABLE II
Operations of Multi-purpose Societies in the Bombay State.

(Rs. in Lakhs)

PARTICULARS.		1939-1940	1947-1948	1950-1951	1951-1952	1952-1953	1953-1954	1954-1955	1955-1956
Number of Societies	..	65	655	2,807	3,226	3,665	4,212	5,632	6,133
Number of Villages covered	..	-	4,620	12,687	12,431	15,200	15,847	16,225	18,701
Number of Members	..	2,741	54,142	2,88,540	3,46,628	3,90,831	4,52,516	5,75,578	6,58,686
Share Capital	Rs.	0.43	17.63	100.61	129.50	161.30	196.81	275.37	317.55
Reserve & Other Funds	"	0.13	12.40	73.53	95.41	115.64	135.81	173.06	194.77
DEPOSITS:									
Members	..	0.07	7.05	39.63	42.97	42.83	48.06	60.29	92.11
Non-Members	..	0.18	4.69	29.15	35.80	35.54	35.20	39.88	59.62
Loans from Central Banks	"	0.48	15.62	148.46	224.41	264.66	303.52	459.15	594.82
Working Capital	..	1.28	57.57	419.44	543.25	628.74	739.83	995.85	1311.2
LOAN OPERATIONS:									
Agricultural Loans	..	0.43	6.74	95.14	135.25	181.65	205.33	324.85	677.13
Produce Pledge Loans	..	1.20	12.22	16.20	31.18	64.52	64.07	157.09	65.9
Industrial Loans	..	0.10	1.70	70.01	82.99	96.91	164.19	184.80	97.11
Medium Term Loans	..	0.11	4.48	32.81	109.43	37.15	35.49	34.62	27.27
Total Loans Outstanding	"	0.70	21.41	199.75	321.44	416.66	477.23	767.94	954.04
Overdues	..	0.09	3.49	28.99	60.21	93.14	111.21	247.19	269.38
Percentage of Overdues to total Loans	..	13.00%	16.3%	14.5%	18.7%	22.4%	23.3%	32.2%	28.2%
Value of Agricultural and Domestic requisites supplied	"	0.39	139.50	973.80	1160.81	674.60	400.27	181.04	221.27
Commission earned	..	0.02	1.82	5.2	8.12	4.18	2.29	1.51	1.77

Source: Annual Administrative Reports of the Registrar, Co. S. Poona.

TABLE III

Agricultural Credit and Multipurpose Societies and their Members in the Bombay State.

DISTRICT.	1950-1951.			1953-1954.			1954-1955.			1955-1956.			Percentage rise in 1956 to 1951	
	No. of Societies	Members	No. of Societies	Members	No. of Societies	Members	No. of Societies	Members	No. of Societies	Members	No. of Societies	Members	No. of Societies	Members
1. Ahmedabad.	237	20,399	273	26,762	350	29,639	353	31,597	353	31,597	48.9	54.8		
2. Mehsana.	206	13,949	239	19,913	259	21,916	265	23,442	265	23,442	28.6	68.0		
3. Baroda.	359	17,317	392	23,412	396	25,440	389	29,824	389	29,824	8.3	72.2		
4. Kaira.	251	20,605	274	24,334	280	24,382	281	23,760	281	23,760	11.9	15.3		
5. Broach.	246	17,226	280	21,954	287	23,366	251	26,302	251	26,302	2.0	52.6		
6. Surat.	463	54,342	436	58,939	440	60,068	431	62,295	431	62,295	7.4	14.6		
7. Amreli.	139	6,108	159	7,308	182	8,216	196	11,700	196	11,700	41.0	91.5		
8. Panchmahals.	406	22,707	463	25,998	501	26,907	515	28,944	515	28,944	26.8	27.4		
9. Banaskantha.	35	3,079	64	5,377	104	6,733	136	8,889	136	8,889	288.5	188.7		
10. Sabarkantha.	65	6,263	107	11,026	122	12,171	129	14,244	129	14,244	98.4	127.4		
11. Dangs.	2	1,107	1	1,182	1	1,186	10	1,385	10	1,385	400.0	25.1		
12. East Khandesh.	784	48,843	844	65,208	865	69,477	863	76,163	863	76,163	10.0	55.9		
13. Poona.	423	31,773	466	39,317	487	39,385	511	46,613	511	46,613	20.8	46.6		
14. North Satara.	452	32,565	492	37,899	516	39,658	515	46,395	515	46,395	13.9	42.4		
15. South Satara.	376	24,967	391	33,547	402	36,450	407	39,240	407	39,240	8.2	57.1		
16. Sholapur.	487	35,673	519	38,967	530	39,700	542	42,331	542	42,331	11.3	18.7		
17. Kolhapur.	675	54,241	522	64,146	552	72,971	690	88,752	690	88,752	2.2	63.6		
18. Ahmednagar.	462	27,392	608	38,518	661	42,594	670	48,556	670	48,556	45.2	77.2		
19. West Khandesh.	535	29,303	601	37,418	624	38,791	645	45,169	645	45,169	20.5	54.1		
20. Nasik.	476	25,614	550	31,977	564	32,206	565	33,670	565	33,670	18.7	31.4		
21. Ratnagiri.	265	28,693	305	37,495	313	38,631	376	41,412	376	41,412	41.9	44.3		
22. Thana.	401	18,581	424	23,276	434	23,342	573	40,164	573	40,164	42.8	119.6		
23. Kolaba.	124	10,511	182	15,183	205	16,471	251	20,129	251	20,129	102.4	91.5		
TOTAL:	7,869	5,51,258	8,592	6,89,156	10,075	7,29,700	9,564	8,30,976	9,564	8,30,976	21.5	50.7		

SOURCE: Annual Administration Reports of the Bombay State Co-operative Bank Ltd.

TABLE IV

Cotton Sale Societies in the Bombay State.

(Rs. in lakhs)

Year	Region		Number of Societies.	Member-ship.	Working Capital.	Value of Cotton Sold.
					Rs.	Rs.
1949-1950:	Gujerat.	..	52	10,897	24.01	181.62
	Maharashtra.	..	24	4,863	6.73	16.80
	TOTAL.	..	76	15,760	30.74	198.42
1950-1951:	Gujerat.	..	56	11,552	24.40	168.22
	Maharashtra.	..	24	5,837	6.59	29.59
	TOTAL.	..	80	17,389	30.99	197.81
1951-1952:	Gujerat.	..	58	14,523	46.73	160.21
	Maharashtra.	..	24	7,994	10.72	39.20
	TOTAL.	..	82	22,517	57.45	199.41
1952-1953:	Gujerat.	..	55	15,856	46.30	224.00
	Maharashtra.	..	24	6,239	10.72	23.97
	TOTAL.	..	79	22,095	57.02	247.97
1954-1955:	Gujerat.	..	66	21,847	72.32	360.00
	Maharashtra.	..	23	6,239	18.69	14.97
	TOTAL.	..	89	28,086	91.01	374.97
1955-1956:	Gujerat.	..	67	23,319	81.26	457.00
	Maharashtra.	..	23	6,695	11.61	20.29
	TOTAL.	..	90	30,014	92.87	477.29

(Source): Annual Administration reports on the working of Co-op. Societies in Bombay State.

TABLE V

Purchase and Sale Societies and Unions in the Bombay State. (Rs. in Lakhs)

Particulars	1947-48	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56
Number of Societies.	224	367	354	332	331	358	369
Number of Members:							
i. Individuals.	73,639	1,18,984	1,35,500	1,38,274	1,44,734	1,53,552	1,66,771
ii. Societies.	2,950	4,120	4,506	6,219	5,647	13,806	5,889
Value of total Sales.	Rs. 784.38	1705.97	2006.61	1526.22	1360.53	1379.55	1547.76
Working Capital	Rs. 159.10	514.81	445.61	388.31	430.44	511.32	502.48
Profits.	Rs. 1.15	20.96	14.2	9.92	6.58	6.75	16.75
Paid up Share Capital	Rs. -	62.63	61.47	61.48	62.02	67.90	84.25
Reserve & Other Funds	Rs. -	80.28	86.68	103.11	118.52	126.29	138.71
Other Borrowings	Rs. -	124.76	119.68	67.22	98.41	139.47	104.08

Source: Annual Administrative Reports of the Registrar, Cop., Poona.

TABLE VI

Progress of Central Financing Agencies during the period from 1951 to 1957. (Rs. in Lakhs)

Central Financing Agencies	1951	1952	1953	1954	1955	1956	1957*
Number of Central Financing Agencies (including Bombay State Co-operative Bank, Ltd.)	25	26	25	25	25	25	29
Number of their Offices.	231	245	254	272	282	304	245
Number of Affiliated Societies.	12,954	14,069	14,763	15,443	16,887	17,695	17,825
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Paid up Share Capital.	140.23	160.65	169.35	182.14	198.32	220.08	237.60
Reserve and other Funds.	111.26	124.87	148.47	157.50	171.66	174.49	177.79
Deposits.	1919.48	1809.57	2124.18	2263.40	2709.44	3344.04	2805.16
Loans due from Co-op. Societies.	958.69	1074.41	1019.36	1083.37	1144.81	1394.14	1771.66
Working Capital.	2552.83	2703.71	2766.37	2989.13	3342.08	4026.86	4050.64

* Figures for old Bombay State excluding 4 District Banks in Karnataka and including eight central banks in Marathawada.

APPENDIX 5

Proforma of Loan Application Form and Normal Credit Statement

Loan Application

.....Co-operative Credit/M.P. Society Limited/Unlimited

Village:

Date:

To The Chairman Society,

Dear Sir, I, Shri of beg to apply for a loan of Rs.
for raising of crops as shown in the following statement for the year.....

Village.	Name of the Crop.				Acreage under each crop.		Owned Lands.†			Lands held on lease.			Crop Requirements	
	Kharif.		Rabi.				Survey No.	Acreage.	Assessment.	Survey No.	Acreage.	Assessment.	In Kind Rs.	In Cash Rs.
	Non-irrigated.	Irrigated.*	Non-irrigated.	Irrigated*	Ac.	Gs.								

†Survey Numbers which are declared under Sec. 24 (AA) should be indicated by an underline or asterisk.

* State mode of irrigation:

(i) On Well

(ii) Lift by Power Pump.

(iii) Flow Irrigation on Canal.

2. During the current year I obtained a loan of Rs. for the following crops:

Kind of Crop.	Acreage under each Crop.		Loan obtained during the last season.	Value of produce sold or likely to be sold through sale society.	Expected repayments.		Remarks, if any.
	Owned.	Rented.			Month	Amount Rs.	

I sold produce worth Rs. through the Sale Society, and have repaid Rs. to the Society directly out of sale proceeds and/or Rs. in cash.

3. My family consists of myself and adults and children below 18 years.

4. In addition to the loan from the Society, I have borrowed loans from outside sources, as under:

Nature of borrowing	Amount Rs.	Purpose	When Due	Lands Mortgaged or charged.
				S. No. Acreage
Tagavi Loan			
Loans on mortgage of Lands:				
(1) From Private money-lender			
(2) From Land Mortgage Bank			
(3) Other sources			
Total			

I have created a charge on the lands for the loans as shown above.

5. In the event of the loan is sanctioned, I agree to create a charge on the crops shown in para (1) under Sec. 24 (1) (a) of the B.C.S. Act. I hereby declare that the loan applied for will be utilised for the purpose for raising of crops and I bind myself to comply with the regulations of the society and to sell the produce through purchase and sale society or any other agency which is appointed by you and authorise you to recover the loan from that agency out of the sale proceeds of the crop.

6. I shall draw the loan in instalments as shown hereunder:

Month. In kind. In cash.

Yours faithfully
..... (Signature)

Secretary's Report:

I have scrutinised the information given by the member in his application and certify that the information is correct to the best of my information.

The member holds Rs. as shares and Rs. as deposits. His present outstandings are Rs. of which Rs. are in default, since.....

Date:

Secretary.

Recommendation of the Managing Committee:

The Managing Committee in its meeting held on sanctions a loan of Rs. for the following crops:

Nature of Crop.	Acreage.		Amount sanctioned.	To be disbursed as under		
	Ac.	Gs.		Amount Rs.	In the month of	In Kind In Cash

Remarks, if any, including reasons for reduction or rejection of the member's demand.

Date:

Chairman.

TABLE VII

Deposits of Central Financing Agencies 30-6-51 and 30-6-55 to 30-6-57

(Rs. in Lakhs)

Sl. No.	Name of the Central Financing Agency	1950-1951.				1954-1955.				1955-1956				1956-1957			
		Societies.		Individuals.		Societies.		Individuals.		Societies.		Individuals.		Societies.		Individuals.	
		Rs.	Rs.	Rs.	TOTAL Rs.	Rs.	Rs.	Rs.	TOTAL Rs.	Rs.	Rs.	Rs.	TOTAL Rs.	Rs.	Rs.	Rs.	TOTAL Rs.
1.	Ahmedabad ..	50.70	9.21	59.91	84.38	48.79	35.59	80.03	44.61	80.03	44.61	124.64	72.83	55.46	128.29	55.46	128.29
2.	Amreli ..	0.17	1.02	1.19	2.81	0.64	2.17	0.64	2.42	0.64	2.42	3.06	1.02	4.69	5.71	4.69	5.71
3.	Baroda ..	13.67	8.30	21.97	71.33	36.71	34.62	43.83	45.59	43.83	45.59	89.42	37.90	47.40	85.30	47.40	85.30
4.	Broach ..	22.71	47.70	70.41	117.46	47.56	69.90	63.38	78.43	63.38	78.43	141.81	30.85	63.88	94.73	63.88	94.73
5.	Chikhli (Bkg. Union) ..	0.34	0.60	0.94	0.97	0.17	0.80	0.34	0.83	0.34	0.83	1.17	0.28	1.37	1.65	1.37	1.65
6.	Kaira ..	16.97	9.55	26.52	80.61	43.75	36.86	36.06	50.39	36.06	50.39	86.45	28.71	64.15	92.86	64.15	92.86
7.	Kodinar (Bkg. Union) ..	1.06	3.68	4.74	5.82	0.45	5.37	0.41	6.10	0.41	6.10	6.51	2.23	6.39	8.62	6.39	8.62
8.	Mehsana ..	4.27	2.71	6.98	33.45	8.60	24.85	10.91	38.77	10.91	38.77	49.68	12.88	44.25	57.13	44.25	57.13
9.	Panchmahals ..	-	-	-	-	-	-	-	-	-	-	42.08	10.60	26.34	36.94	26.34	36.94
10.	Surat ..	38.12	170.86	208.98	271.54	95.07	176.47	160.46	190.10	160.46	190.10	350.56	136.01	184.22	320.23	184.22	320.23
11.	Barsi (Taluka Bank) ..	1.57	12.29	13.86	15.62	1.47	14.15	2.10	15.68	2.10	15.68	17.78	2.07	16.85	18.92	16.85	18.92
12.	East Khandesh ..	35.79	150.17	185.96	209.54	30.06	179.48	38.57	202.96	38.57	202.96	241.53	40.94	258.24	299.18	258.24	299.18
13.	Poona ..	21.29	98.09	119.38	167.20	32.06	135.14	47.45	157.55	47.45	157.55	205.00	54.46	139.91	194.37	139.91	194.37
14.	North Satara ..	3.24	5.48	8.72	34.35	8.94	25.41	13.59	30.97	13.59	30.97	44.56	13.83	34.90	48.73	34.90	48.73
15.	Satara South ..	5.70	12.40	18.10	36.25	7.37	18.88	13.57	25.19	13.57	25.19	38.76	21.76	31.29	53.05	31.29	53.05
16.	Shri Laxmi (Phaltan Tal. Bank) ..	0.95	9.15	10.10	17.24	4.98	12.26	5.03	12.75	5.03	12.75	17.78	1.50	14.07	15.57	14.07	15.57
17.	Wada (Bkg. Union) ..	-	-	-	0.63	0.20	0.43	0.15	0.66	0.15	0.66	0.81	0.19	0.73	0.92	0.73	0.92
18.	Kolhapur ..	10.26	4.97	15.23	27.41	17.43	9.98	14.68	9.79	14.68	9.79	24.47	15.59	9.63	25.22	9.63	25.22
19.	Nasik ..	-	-	-	16.95	6.06	10.89	9.45	21.92	9.45	21.92	31.37	12.65	36.46	49.11	36.46	49.11
20.	Sholapur ..	14.83	46.41	61.24	62.96	12.49	50.47	17.78	66.98	17.78	66.98	84.76	18.05	80.67	98.72	80.67	98.72
TOTAL:		241.64	592.59	834.23	1246.52	402.80	843.72	575.09	1027.11	575.09	1027.11	1602.50	514.35	1120.90	1635.25	1120.90	1635.25
Bombay State Co-operative Bank, Ltd. ..		347.10	450.86	797.96	1093.58	589.60	503.98	781.25	520.30	781.25	520.30	1301.55	590.09	557.53	1147.62	557.53	1147.62
GRAND TOTAL:		588.74	1043.45	1632.19	2340.10	992.40	1347.70	1356.34	1547.41	1356.34	1547.41	2903.75	1104.44	1678.43	2782.87	1678.43	2782.87

Source: Annual Reports of the Bombay State Co-operative Bank.

TABLE VIII
Loans and Overdues of Central Financing Agencies as on 30-6-1951 and 30-6-1955.

(Rs. in Lakhs)

		30-6-1951						30-6-1955					
Name of the Central Financing Agency	Loans to Co-op. Societies.	Loans to Individuals.		TOTAL LOANS	Loans to Co-op. Societies.		Loans to Individuals.		TOTAL LOANS	OVER-DUES.	P. C. of over dues to Total.		
		Agricul-tural.	Non-Agricul-tural.		Agricul-tural.	Non-Agricul-tural.	Agricul-tural.	Non-Agricul-tural.					
		Rs.	Rs.		Rs.	Rs.	Rs.	Rs.				Rs.	Rs.
1. Ahmedabad	..	4.80	10.37	0.02	-	15.19	24.46	18.06	-	0.01	42.53	10.54	24.8
2. Amreli	..	1.39	0.17	0.20	-	1.76	3.70	0.05	0.31	-	4.06	0.67	16.5
3. Baroda	..	2.34	6.37	0.01	3.97	12.68	19.21	3.14	1.68	1.87	25.90	1.59	6.1
4. Broach	..	23.44	6.13	0.01	1.40	30.98	40.10	1.47	-	0.33	41.90	0.36	0.9
5. Chikhli (Bkg. Union)	..	0.30	0.09	0.63	-	1.02	0.41	-	0.62	-	1.03	0.55	53.4
6. Kaira	..	0.62	18.33	0.02	-	18.97	6.67	13.14	0.23	0.99	21.03	3.46	16.4
7. Kodinar (Bkg. Union)	..	3.79	0.01	0.35	-	4.15	6.14	0.04	-	0.24	6.42	0.09	1.4
8. Mehsana	..	2.70	1.80	-	4.34	8.84	9.00	4.68	0.01	1.00	14.69	2.73	18.6
9. Panchmahals	-	-	-	-	-	-	-	-
10. Surat	..	8.38	86.48	4.82	13.29	112.97	15.64	22.18	5.63	14.96	58.41	18.20	31.2
11. Barsi (Taluka Bank)	..	3.75	0.62	0.18	4.55	8.92	4.53	0.10	1.76	2.63	9.02	0.98	10.8
12. East Khandesh	..	70.04	4.96	0.11	22.24	97.42	114.29	15.71	0.74	14.21	144.95	33.89	23.3
13. Poona	..	38.27	13.17	0.11	18.13	69.68	77.62	5.64	0.18	21.90	105.34	30.40	28.8
14. North Satara	..	4.08	1.55	0.02	0.37	6.02	12.09	2.56	-	3.65	18.30	1.59	8.8
15. South Satara	..	5.33	0.28	-	1.28	6.89	13.60	0.31	-	4.25	18.16	4.87	26.6
16. Shri Laxmi (Phaltan Tal. Bank)	..	4.80	0.67	4.37	2.11	11.95	5.87	0.39	4.14	0.78	11.18	4.00	35.7
17. Wada (Bkg. Union)	..	1.37	0.14	-	0.96	2.47	2.00	-	0.06	0.43	2.49	0.61	24.5
18. Kolhapur	..	9.34	1.60	3.67	1.50	16.11	18.14	2.34	2.00	1.77	24.25	5.56	22.9
19. Nasik	-	-	-	-	9.69	0.54	-	0.67	10.90	3.03	27.8
20. Sholapur	..	23.88	15.75	0.38	9.86	49.87	22.91	8.64	0.04	4.37	35.96	14.51	40.3
TOTAL:		208.62	169.49	14.78	84.00	475.89	406.07	98.99	17.40	75.06	596.52	137.63	23.1
Bombay State Co-op. Bank, Ltd.		192.24	245.01	4.10	78.41	520.66	276.82	137.63	3.62	28.67	446.74	109.56	24.5
GRAND TOTAL:		400.86	414.40	18.88	162.41	996.55	682.89	236.62	21.02	103.73	1043.26	247.19	23.7

TABLE IX
Scale of Finance per Acre for different Crops in various Districts (1937-38 season)

District	FOOD CROPS						CASH CROPS						FRUIT		IRRIGATED CROPS						Remarks				
	Paddy		Wheat		Gram and pulses		Cotton		Groundnut		Tobacco		Potato		Garden crops (oranges, etc)		Plantains		Sugarcane			Bottle leaves		Vegetables	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	
Ahmedabad ..	50 to 60	20 to 25	15 to 20	—	—	—	20 to 25	20 to 25	20 to 25	50 to 60	—	—	—	—	—	—	—	—	—	—	—	—	—	Rate for intensive cultivation	
Amreli ..	30 to 60	40 to 50	20 to 30	—	—	—	15 to 30	25 to 30	—	—	—	—	—	—	—	—	—	—	—	350 to 600	—	25 to 30	—	Rice Wheat Jawar Bajra Cot- Ground- Tobacco Owned Lands 60 35 25 25 35 35 50 Land on lease 50 25 20 25 25 25 50 Scale for lands cultivated on lease is lower by Rs. 10 to Rs. 15 per acre.	
Banaskantha ..	—	30 to 25	20 to 25	—	—	—	—	20 to 25	—	—	—	250 Riverbed 250 On wells	—	—	—	—	—	—	—	—	—	—	—	Rs. 250 per acre on well irrigated and Rs. 750 for river bed cultivation. Average scale for Bajra crops Rs. 60 per acre for sown lands and Rs. 25 per acre for unsown lands. For Bajra and Cotton crops Rs. 25 per acre for sown lands and Rs. 20 per acre for lands held on lease.	
Baroda ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	Owned lands Rs. 30 Rs. 15 Rs. 10 Rs. 20 to 30 Rs. 10 to 15 Rs. 40 For backward area. For irrigated crops.	
Bhavnagar ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	For first 10 acres. Rs. 15 Rs. 10 Rs. 20 to 30 Rs. 10 to 15 Rs. 40 For backward area. For irrigated crops.	
Bombay ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	For tenant cultivators finance is allowed at a reduced scale.	
Kaira ..	80 (1) 130	40 (1) 60	50 (1) 90	—	—	—	70 (1) 100	50 (1) 80	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	Rs. 75 per acre for Cambadia cotton. Where oil engine are fixed additional loan of Rs. 200 per acre is allowed for purchase of engine and other implements. For members of Co-op. Sugar Factories.	
Mehsana ..	—	40 (1) 50	50 (1) 50	30 (1) 50	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	Rs. 75 per acre for Cambadia cotton. Where oil engine are fixed additional loan of Rs. 200 per acre is allowed for purchase of engine and other implements. For members of Co-op. Sugar Factories.	
Panchmahals ..	—	20 to 30	20 to 30	20 to 30	—	—	25 to 40	25 to 40	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	Rs. 75 per acre for Cambadia cotton. Where oil engine are fixed additional loan of Rs. 200 per acre is allowed for purchase of engine and other implements. For members of Co-op. Sugar Factories.	
Surest ..	—	20 to 40	15 to 25	8 to 15	—	—	20 to 25	20 to 30	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	Rs. 75 per acre for Cambadia cotton. Where oil engine are fixed additional loan of Rs. 200 per acre is allowed for purchase of engine and other implements. For members of Co-op. Sugar Factories.	
Ahmednagar ..	75 (1) 100	40 (1) 50	20 to 40 (1) 40 to 60	20 (1) 30	40 to 75 (1) 150	30 (1) 45	40 to 75 (1) 150	30 (1) 45	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	Rs. 75 per acre for Cambadia cotton. Where oil engine are fixed additional loan of Rs. 200 per acre is allowed for purchase of engine and other implements. For members of Co-op. Sugar Factories.	
East Khandesh ..	20 to 25 (1) 25	20 to 25 (1) 25	15 to 20	—	—	—	25	30	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	Different scale for those who are parties to proceedings under the E.A.D.R. Act are allowed. Higher scale is allowed for those who sell their produce through co-operative marketing agency.	
Kolaba ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	For members of Co-op. Sugar Factories.	
Kollapur ..	50 (1) 100 to 125	50 (1) 100 to 125	20 to 50	25	50	25	50	25	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	For members of Co-op. Sugar Factories.	
Nasik ..	50 (1) 100 to 125	35 (1) 50 to 75	15 to 20	15	40	50	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	For members of Co-op. Sugar Factories.	
North Salara ..	50 (1) 75 to 100	50 (1) 100 to 125	50	50	50	50	20 to 30 (1) 30	20 to 40 (1) 40	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	For members of Co-op. Sugar Factories.	
Sholapur ..	50 (1) 80	25 (1) 40	15 (1) 20 to 30	15	30 (1) 40	30 (1) 40	20 to 30 (1) 30	20 to 40 (1) 40	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	For members of Co-op. Sugar Factories.	
South Salara ..	20 to 40 (1) 20 to 40	20 to 40 (1) 20 to 40	20 to 40	20 to 40	20 to 40	20 to 40	20 to 40	20 to 40	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	For members of Co-op. Sugar Factories.	
Poona ..	30 (1) 40 to 100	25 (1) 25	15	12	15	30	15	30	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	Higher scale for those who sell their agricultural produce through co-operative marketing societies and for members of Co-op. Sugar Factories.	
West Khandesh ..	40 (1) 30 to 35	35 (1) 30 to 35	15	25	30	40	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	For members of Co-op. Sugar Factories.	
Thana ..	25 to 30 (1) 25 to 110	25 to 30 (1) 25 to 110	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	For those to whom Simla seed is supplied by the State Society.	
																								For those to whom Simla seed is supplied by the State Society.	
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