

CO-OPERATIVE CREDIT IN BENGAL.

By W. R. GOURLAY, I.C.S.,

Registrar of Co-operative Credit Societies, Bengal.

WHILE the problem of the improvement of Indian agriculture is being attacked from the experimental and the research side by the Imperial and Provincial Departments of Agriculture, the more important question of financing the agriculturist has not been forgotten. It is remarkable that the industry by which over eighty per cent. of the population live is supplied with most of its capital at a rate of interest varying from 25 to 50 per cent. per annum. Any other industry would die under such conditions, but the agricultural industry cannot die; it is the ryot who dies. He cannot turn to a more lucrative occupation when agriculture does not pay; he either starves or becomes hopelessly indebted and the slave of the money-lender. If the problem of financing agriculture can be solved, the benefit to the ryot will be greater and more direct than the saving occasioned by new methods of agriculture or the profit to be gained from a greater outturn. Without the use of capital at a reasonable rate, the agriculturist will be unable to take advantage of new ways and means. The success of the results of research and experiment depend directly on the success of the effort to supply the ryot with capital at a reasonable rate.

Cheap capital or facile credit is not necessarily a boon in itself. Switzerland has organised a system of cheap credit with the result that 60 per cent. of the land is now mortgaged. The present and past generation have merely discovered a system of robbing future generations of a portion of their means of livelihood. Any increase in comfort has been obtained at the expense of their children's children. If credit of this kind were supplied to India, the ryot, who formerly was in a position to borrow Rs. 100 from his mahajan for his daughter's marriage and pay 50 per cent. per annum for the accommodation, would simply spend more on the marriage, and so land himself deeper in debt. With credit cheap he would purchase more.

The question has thus two sides, commercial and economic. A system of finance which might prove a commercial success would not necessarily

prove an economic success, but the system which promises to be an economic success must be based on commercial principles. The commercial side may be shortly stated thus:—the ryot is ready to borrow a sum of money for which he is at present paying interest from 25 to 50 per cent. or more ; the majority of ryots have good security to offer for the sum which they require, while the capitalist has money to lend on good security at 6 per cent. These two have to be brought together for their mutual benefit. It would be easy and commercially profitable for the State to set up an agricultural bank provided with special summary powers for collecting its dues, but such a system would not benefit the agriculturist in the long run.

It is impossible for the large capitalist to come into direct contact with the small cultivator. The capitalist has no local knowledge of the individual, he has no agency for collecting small loans, and he could not keep millions of small accounts. There must be some intermediate organisations. In Germany this has been found in Co-operative Credit Societies, and in India an attempt is being made to create a similar organisation. This system aims at capitalizing the honesty of the villages. Where anything in the shape of a village community exists, the majority of the cultivators have a character for honesty, often not extending beyond the narrow limits of the village, but within these limits most transactions take place without any written bond, the man's word being sufficient. On this honesty a certain amount of credit is based ; it may be a credit of only a few rupees, but the measure is known to the villagers. They know exactly how much a man ought to spend and how much he can earn. We want, therefore, to teach the people to amalgamate this village credit and jointly borrow a sum sufficient to meet the needs of the whole village. The capitalist does not know which cultivator is good for Rs. 5 and which for Rs. 100 ; he does not know who requires Rs. 20 to finance him and who requires three times that sum ; he does not know who is already hopelessly involved and who can repay. It is the villagers alone who have all the information. On the other hand, the capitalist can see that the whole village is good for the total sum required. The ryots take the responsibility for dividing the money, of collecting principal and interest, and of keeping the separate accounts. This organisation of credit must be the bed rock on which any system of agricultural finance is based, and wherever a village exists, it will be found that the ryot's credit in his own village is better than his credit anywhere else. The individual may have a character for honesty in his caste, but his credit in his village will be greater than his credit with his caste.

There is no doubt that in this we have the germ of a solution of this great financial problem, but the question remains how to provide against

the evils of facile credit. By organising the village and making the members jointly and severally responsible, we create a check on excessive expenditure and prevent the individual from robbing his children. The village will not lend to the individual unless they see a prospect of the money being repaid within a reasonable time and, moreover, they will not lend unless they consider the expenditure necessary. A man is not tempted to spend on display more than he can afford when he has to run the gauntlet of public opinion, and the village will not lend him more than he can repay when they realise their joint responsibility. Further, there are so many necessary uses to which the members can put the money that they will not give out money for unnecessary expenditure, and if the member turns to the money-lender again, his name is removed and the privilege of borrowing at a low rate ceases.

There are at present in Bengal 86 experimental village societies, and the majority of these show every sign of ultimate success. These pioneer societies are distributed over twenty-two of the thirty-two districts in Bengal. The capital has been raised partly from Government and Wards' Estates and partly from private sources. The societies pay from 6 to 12½ per cent. for the money borrowed, which they lend again at from 12½ to 18½ per cent. The whole of the profits go to a village fund from which the original capital borrowed will be repaid, and the village will then be in a position to carry on their society with a capital of their own sufficient for all ordinary seasons. Working on these lines, steady progress has been made during the last eighteen months. Wherever a village community can be found, the scheme will succeed, but in parts of Eastern Bengal where the cultivators do not live in villages, some modification will probably be necessary. The societies have been founded in villages which are not heavily indebted, because they offer the best field for initial effort, but as soon as the neighbouring villages see the benefit, they also demand similar societies in order to pay off their debts and start afresh. At present the societies are small, with a capital of Rs. 200 to Rs. 300, which is often sufficient to finance a small village, and such little societies are the best ground for observation and experience.

Three grain banks, run on co-operative lines by a zemindar of Dacca, have attracted much public interest, and it has been recommended that such *golas* should be opened all over the Province. The question of establishing grain *golas* is one of some difficulty, and so far only two have been registered in this Province. The price of grain ruled high this year, so that those with surplus stocks were eager to sell, while those with short crops had nothing to deposit. A grain bank requires much supervision, and it seems impossible to run it in Bengal as anything but a store of food grain. The different varieties of paddy sown by the cultivators of a single village are so very numerous

but the individual cannot re-
 bank. Under such conditions
 to purchase the variety of
 the collection in the *gola* as
 for food, but seed grain must
 the following year a sufficient
 year's seed grain purchased.
 year's grain is harvested
 the little transactions, and
 of all the custom where
 percentage. For these reasons
 it is easier to found
 operations are fewer and th
 At present, however, not
 the Santal Parganas the De
 comes for some years for
 of the Wards' Estates and
 with a total capital of nearly
 individual cultivators, but it
 beyond the management
 case of a special staff. Th
 checking the accounts, an
 owing to the payments of
 that; and lastly, the ex
 response the rate charg
 we could borrow from
 ready drawn up, loans of
 batches of ten on the *gola*
 and chosen, it may be re
 to be treated
 about will be credited to
 capital must be paid amount
 repayable in four equal
 in third year.
 Success in all these ex
 to be patient. Railfroad
 and was not till nearly 4
 in Bengal there
 and principles, and the
 solution of the problem of

that the individual cannot rely for his seed upon the general stock in a grain bank. Under such conditions the only method of running a seed association is to purchase the variety of seed indented for by each member, and to use the collection in the *gola* as food grain. The ryots readily use mixed grain for food, but seed grain must be specially selected and true to variety. For the following year a sufficient quantity of the stock must be sold and the next year's seed grain purchased. The surplus stock must be sold as soon as the new year's grain is harvested, for paddy deteriorates after one year. All these little transactions mean a large amount of labour, and it is difficult to get rid of the custom whereby everyone who touches the grain gets a certain percentage. For these reasons I have come to the conclusion that on the whole it is easier to found successful money societies than seed banks; the temptations are fewer and the trouble of management is not so great.

At present, however, one experiment on a large scale is being made. In the Sonthal Parganas the Deputy Commissioner has carried on a grain-lending business for some years for the benefit of the ryots of the Government Estate and the Wards' Estates under his charge. There are *golas* at four centres with a total capital of nearly 25,000 maunds of paddy. Loans were made to individual cultivators, but the business soon assumed such proportions that it got beyond the management of the Deputy Commissioner without the assistance of a special staff. The defects of the system were the difficulties of checking the accounts and the stock; the high cost of the management owing to the payments made to headmen and others for collecting the debts; and lastly, the exactions at all times of weighment and check. In consequence the rate charged was not smaller than the rate at which the ryot could borrow from the village grain dealer. Under the new rules recently drawn up, loans will in future not be made to individuals, but only to batches of ten on the joint and several bond of the whole number. If any batch chooses, it may be registered as a co-operative society. In such cases the loan will be treated as the capital of the village bank and half the interest will be credited to the village; in other cases the full interest and capital must be paid annually direct into the central *gola*. Loans to societies are repayable in four equal annual instalments commencing from the end of the third year.

Success in all these experiments will not come at once. It is necessary to be patient. Raiffesen started his first bank in 1849, a second in 1854, and it was not till nearly forty years later that the movement made rapid strides. In Bengal there are already over three score societies working on sound principles, and this tends to show that we are on the road to a successful solution of the problem of financing agriculture.