

REPORT OF SELECT COMMITTEE

—ON—

LOANS TO FARMERS ON EASY TERMS.

—o—

MR. SPEAKER :—

We, your Special Committee appointed “to inquire into the methods adopted in other countries to help farmers to obtain loans on easy terms” beg to report as follows :—

Appended hereto are synoptical notes on the *Landschaften* System of Prussia, the Land Bank System of France known as the “*Credit Foncier*,” the Swiss Mortgage Bank System and other Agricultural Banks, also excerpts from the “*Advances to Settlers’ Act, 1894*,” of New Zealand, with official reports as to the working of the same, and papers relating to the system established in Mysore, India. We find that the principle underlying all the systems we have inquired into is that of combining security, whether it be lands, as in the *Landschaften* System, or only the “honour and responsibility” of the members, as in the Italian System, so as to form a collective united basis of credit, and the widest application of this principle has been made in New Zealand where the Government has given the whole collective credit of the Colony for the purpose of obtaining the use of capital, at a low rate of interest, for the farmers.

To the last-named system and that established and working in Mysore, India, we most respectfully direct your attention and that of the Government of this Province.

All of which is most respectfully submitted.

THOMAS KIDD,
Chairman.

APPENDICES.

“LANDSCHAFTEN SYSTEM.”

This was started in Prussia in 1871. It was originally designed to benefit only the nobles or large landowners, but of late years its scope has been widened to extend its advantages to the Peasantry.

The principle of the system is that landowners, under statutory authority, form into an association by which the property of the members is combined so as to give a united or collective security for money required by its members.

Upon the basis of credit thus created the Association or Bank, as it is called, issues debentures which are sold in open market, and the money loaned out on first mortgages on the property of the borrowers, who have to pay one-half of one per cent. more interest than that paid by the Bank on the debentures. The difference between the two rates of interest is used to cover the expenses of the Bank. The repayment of the debt is provided for by the borrower paying a sinking fund rate with the interest. An Insurance or Guarantee fund is created by the Bank putting aside the first payments of the sinking fund rate until it reaches five per cent. of the loan. After that the rate is set aside for sinking fund which, at the end of the

debenture term, is to pay off the loan. The liability of the members is unlimited. No loan is advanced in excess of two-thirds of the value of the property mortgaged. When the system was first established Frederick the Second advanced £30,000 (sterling) as a starting capital. In 1873 a Central Bank was established, amalgamating most of the District Banks, thereby strengthening their basis of credit and rendering them more beneficial.

“FRENCH SYSTEM.”

The Land Bank System of France, known as the “Credit Foncier,” is an Association formed with a similar object in view to that of the *Landschaften* Banks, but differs from them by being of the nature of a Joint Stock Company with limited liability, the profits on its loans, however, being limited by law. The Association receives State aid by the Government buying a certain quantity of its debentures, and it is under Government supervision. Loans cannot exceed fifty per cent. of the value of the property mortgaged by the borrower. In other respects it is very similar to other Land Banks.

“THE SWISS SYSTEM.”

The Swiss Mortgage Bank of the Canton of Berne is a State Bank formed for the purpose of lending to farmers on first mortgages. The foundation capital of the bank is supplied by the State. Loans to the extent of two-thirds of the value of the property mortgaged is advanced, and the maximum loan is fixed at two thousand pounds sterling (£2,000).

“AGRICULTURAL CREDIT BANKS.”

These have been established in Italy, Roumania and other parts of Europe, some based on the joint stock, others on the co-operative, principle with limited liability, varying in features from that of the *Landschaften* System, having for its basis of credit land security, to that of the Italian System, with nothing but the honesty of its members to be capitalized.

NEW ZEALAND SYSTEM.

This system differs from all the other systems examined in that the Government borrows money and lends to the individual farmers without the aid of any intermediate body or association. Its principle and working may be learnt from the following:—

THE GOVERNMENT ADVANCES TO SETTLERS ACT, 1894.

[SECTIONS 40-41-42.]

ADVANCES ON MORTGAGES.

General.

40. (1.) No advance shall be granted except upon the written application of the proposed borrower, and by the resolution of a duly constituted meeting of the General Board at which the question is duly considered.

(2.) Every such application shall be in the form in the First Schedule hereto.

(3.) No advance shall be granted for a sum of less than twenty-five pounds nor more than two thousand five hundred pounds.

(4.) Not more than two thousand five hundred pounds shall be advanced to any one borrower.

(5.) Applications for loans not exceeding five hundred pounds shall have priority over applications for larger sums.

41. (1.) No advance on the security of freehold lands shall be granted for an amount exceeding three-fifths of the value of the security.

(2.) No advance on the security of leasehold lands shall be granted unless and until all covenants and conditions on the lessee's part contained or implied in the lease are complied with up to the date of the application for the advance; and

(3.) No advance on the security of leasehold lands shall be granted for an amount exceeding one-half of the value of the lessee's interest in the lease.

(4.) The valuation of every security shall be made by or on behalf of the Superintendent, and to the satisfaction of the General Board.

(5.) The security shall consist of some one or more of the several classes of land mentioned in section twenty-five hereof, free from all incumbrances, liens and interests other than leasehold interests.

(6.) The Valuer's report shall in each instance be signed by him and addressed to the Superintendent, and particulars thereof shall be noted in the minute-book of the General Board.

42. With respect to every mortgage executed under this Act the following provisions shall apply:—

(1.) The Superintendent shall be the sole mortgagee in his corporate style and capacity:

(2.) The term of the loan shall be thirty-six and one-half years:

(3.) The loan, with interest thereon at the rate of five per centum per annum, shall be repaid to the Superintendent by seventy-three half-yearly instalments, all such instalments being of equal amount except the last, and the first half-yearly instalment being payable six months after the date of the loan:

(4.) Every such half-yearly instalment shall consist partly of principal and partly of interest, but every such instalment shall, except the last, be at the rate of three pounds for every one hundred pounds of the loan:

(5.) All such half-yearly instalments shall be calculated and paid according to the table in the Second Schedule hereto, which sets forth as to every one hundred pounds of the loan all the half-yearly instalments, and shows also how much of each and every half-yearly instalment is on account of principal and how much thereof for interest, and also what balance of principal is owing by the borrower at the due date of each half-yearly instalment:

- (6.) Irrespective of the prescribed half-yearly instalments the mortgagor may from time to time pay to the Superintendent any sum of not less than five pounds or a multiple of five pounds in reduction of the mortgage debt:
- (7.) Such last-mentioned payments shall not affect the prescribed half-yearly instalments or the obligation of the mortgagor in respect thereof, but shall be held and applied as hereinafter provided:
- (8.) All such last-mentioned payments shall be credited with interest at the rate of four pounds per centum per annum with yearly rests until such payments, together with the accumulations of interest thereon, are equal to the balance of principal owing for the time according to the aforesaid table, together with all other moneys (if any other) owing under the mortgage, when they shall be set off against such principal and other moneys, and the mortgagor shall be entitled to a discharge of the mortgage on payment of the prescribed fees:
- (9.) The respective forms of mortgage in the first and second parts of the Third Schedule to this Act (hereinafter called "the mortgage docket") shall be used for mortgages of land held under "The Land Transfer Act, 1885," and land registered under "The Deeds Registration Act, 1868," respectively.

1896.

NEW ZEALAND.

THE GOVERNMENT ADVANCES TO SETTLERS ACT, 1894.

(Report relating to the Administration of, presented to both Houses of the General Assembly by command of His Excellency.)

From Mr. J. K. Warburton, the Superintendent, to the Hon. the Colonial Treasurer.

GOVERNMENT ADVANCES TO SETTLERS OFFICE,
WELLINGTON, 15th June, 1896.

SIR,—In my first report, that of the 6th of July, 1895, on the administration of the Government Advances to Settlers Act, I stated what had been done during the first seven months after it came into operation. I then fully explained the purpose of the Act, the arrangements for the conduct of the business, and what the progress had been. There is very little to add, beyond the information which may be gathered from the returns which are appended. These returns are:—

- (1.) The advances authorised to be granted, the applications refused, the advances sanctioned to but declined by applicants, and the amount of valuation-fees received from unsuccessful applicants up to the 31st March, 1896, classified according to the electoral districts in which the relative securities are situated.
- (2.) The valuers employed, number of valuations ordered, the fees paid by applicants, and the fees allowed to the valuers.
- (3.) The applications received for loans.
- (4.) The applications on which no advances were authorised, classified according to provincial districts.
- (5.) The advances offered of less than the amount required, and declined by applicants, classified according to provincial districts.
- (6.) The applications classified according to the purposes for which the relative advances required, and according to provincial districts.
- (7.) The advances authorised, according to provincial districts.
- (8.) The applications upon which the amounts granted were less than the amounts required, classified according to provincial districts.
- (9.) The value of the lands, buildings, and other improvements comprising the securities for advances authorised, classified according to provincial districts.

The principle of the Act, that the value of the property which may be offered as the security for a loan, and the risk of any loss from granting an advance, must determine the result of the consideration of every application, continues of course to be the strict rule of the administration; and if the disappointed applicants are less numerous or less clamorous now than formerly, the reason probably is that the principle of the Act and its provisions are better understood by the settlers. It is now, however, the rule of the Board to resolve that the value of the security offered for an advance should be communicated to the applicant when the required advance cannot be wholly granted, or to state any other reasons which can be disclosed for declining to sanction an advance of the amount of an application.

Through the agency, not only of postmasters and officers of other departments of the Public Service, but of the valuers employed by the office, a wide distribution has been effected of pamphlets and circulars explaining the provisions of the Act, and instructions have been given orally to those who desired to be shown how to proceed in applying for a loan; and the applications have since been coming in very fast. During each of the last four months the applications received and the advances authorised to be granted were as follows:—

For the Month of.	Applications received.		Applications granted.	
	Number.	For advances amounting to	Number.	For advances amounting to
		£		£
February, 1896	150	48,598	128	40,555
March, "	181	70,725	192	62,285
April, "	266	108,564	204	61,185
May, "	315	113,744	301	111,550
For 13 days in June, 1896	128	46,131	122	38,415

No one, however, has been pressed or solicited to borrow. There has been no canvassing. Care has been taken to make clear in all the directions which have been issued from the Advances to Settlers Office, that the purpose of the Act is not to encourage mere borrowing, or to tempt anyone into debt, but to enable the settlers of the colony who cannot help borrowing—to whom capital may be necessary for their work of successfully establishing themselves in permanent and profitable occupation of their lands—to borrow at the lowest rate of interest and under the most liberal conditions of repayment.

Twelve advances have already been entirely repaid and the relative mortgages discharged, amounting to £2,500.

From the table showing the purposes of the advances it will be observed that, of the whole amount of the loans for which application has been made—namely, £1,256,583—no less a sum than £486,665 was required solely to release old mortgages, and that £199,498 was required for improving the securities. Upwards of 67 per cent. of the amount of the advances granted was required for old mortgages.

The expenditure on account of management for the year ended the 31st March, 1896, excluding the valuation, for which the fees are received from the valuers, and the interest on the loan, amounted to £5,936 3s. 2d., as follows:—

	£	s.	d.
Salaries	3,738	0	10
Printing, stationery, and office requisites	351	2	10
Advertising	190	7	7
Law costs	14	14	0
Travelling expenses	375	1	11
Furnishing	100	15	0
Rent, fire, and light	328	11	2
Contribution to Public Trust Office	200	0	0
Audit Department	25	0	0
Unauthorised expenditure	5	16	6
Interest upon advances from Treasury	429	12	2
Sundries	177	1	2
	£5,936	3	2

The following is a statement of the Profit and Loss Account up to the 31st March, 1896:—

<i>Receipts (Revenue).</i>		£	s.	d.	<i>Payments (Expenditure).</i>		£	s.	d.
To Balance, 31st March 1895.....		528	19	4	By Valuers' fees.....	3,209	1	11	
Valuation fees.....		2,007	14	9	Valuation fees refunded.....	249	7	11	
Charges received for mortgage docket forms.....		85	5	0	Expenditure on account of management, as already stated in detail.....	5,936	3	2	
Release fees.....		2	5	0	Interest on loan, £1,500,000, to 1st October, 1895.....	22,500	0	0	
Sundries.....		0	1	0	Refunds to Treasury of advances.....	10,769	16	0	
Interest received from mortgagors.....		5,566	10	3	Balance due Consolidated Fund...	20,500	0	0	
Interest received from Bank of New Zealand, Wellington.....		3,127	19	2	Accrued interest on debenture loan.....	22,376	14	3	
Interest received from Bank of New Zealand, London.....		2,902	19	10	Accrued interest on instalments...	0	15	2	
Interest on debentures (temporary investments).....		552	6	6					
Interest received from Public Trust Office Debenture Sinking Fund.....		20	17	3					
Amount paid by Treasury as profit derived from deposit of money in London.....		2,000	0	0					
Advances from the Treasury.....		31,269	16	0					
Accrued interest on mortgages....		4,734	17	4					
Accrued interest on temporary investments.....		653	14	0					
Overdue interest on mortgages....		439	12	6					
Approximate interest on London Bank balances.....		490	0	0					
Balance, being the excess of all expenditure or expenses of management over income, up to the 31st March, 1896.....		31,159	0	6					
		<u>£85,541</u>	<u>18</u>	<u>5</u>					<u>£85,541 18 5</u>

Of the sum of £439 12s. 6d., which appears in the foregoing account as overdue interest on mortgages, an amount of no more than £70 10s. is outstanding now. An amount of interest will always appear as overdue at the close of the period for which the accounts may be rendered, even if the borrowers should all pay such interest at the due date, for the amount of the payment is, as a general rule, lodged at a post-office, and does not, in every case, reach the Accountant in Wellington in time to be entered as paid at the due date.

The Amendment Act of last session, besides widening the definition of securities for the purpose of advances, so as to include suburban lands occupied for farming, dairying, or market-gardening purposes, perpetual leases, and leases in perpetuity of educational and other reserves subject to "The Land Act, 1892," Crown land held by licence under the deferred payment system, and land held under lease from a leasing authority as defined by "The Public Bodies' Powers Act, 1887," authorised the application of the amount of a loan from the Advances to Settlers Office on the security of a village homestead lease to the repayment of any advance which the Land Board may have made on the lease. Thus, by the process of an advance from this office, may be cleared off a debt which was formerly a perpetual charge on the land.

The Amendment Act also authorised the temporary application to the purchase of such securities as the Governor in Council should sanction of so much of the balance in the Investment Account as may not be immediately required for investment on mortgage. The advances have not been made on the large scale on which it was reasonable to form an estimate when the rates were high of the interest required for private loans. The settlers of the colony who can offer the required security can now obtain their necessary advances of capital from other sources than the Advances to Settlers Office. They can obtain from private capitalists the relief for which it may have been thought that a direct application under the Act would be necessary; and there are many cases of a successful applicant to this office for an advance withdrawing the application, in consequence of an existing mortgagee consenting to rather reduce the rate of interest than lose the investment. This is a development which, if insisted upon as being more favourable to the interests of the settlers in want of capital than there was hope to expect from the Act, will yet be acknowledged to be a development of the same benefit which, in a lesser degree, was to flow from the measure.

It may with some reason be urged that the expectations of the Act are more than realised, if these expectations are allowed to have been that the only source of capital to the settlers at a low rate of interest would be the Advances to Settlers Office. It is, in any case, obviously more gratifying to the borrowers that the rates of interest on advances from all sources of capital should be low, and that relief to the settlers from high rates of interest and high charges should be offered on every hand, than that there should, as the consequence of a less beneficial result, be a large demand upon and a rapid exhaustion of the funds of the Advances to Settlers Office, though, from a narrower point of view, the direct success of the Advances to Settlers Office, as indicated by its balance-sheet, might be regarded as not consisting with that greater development of benefit to the colony which should prevent the rapid issue of the fund.

At the present date, 15th June, 1896, the amount temporarily invested is £606,344, while the amount which has been authorised to be advanced, and which applicants have agreed to accept, is £735,967. The annual income and expenditure, on the basis of advances made to that amount, and the funds temporarily invested as at present, may be stated approximately as follows:—

<i>Income.</i>	£
The advances authorised and accepted amount to £735,967, on which the annual income at 5 per cent. is	36,798
The temporary investment of £606,344 in Government securities, of the balance uninvested in advances, is yielding an annual income at the rate of 3.42 per cent.	20,747
The balance on current account with bank of £51,805 may be estimated to produce 2 per cent., or an annual income of....	1,036
Estimated rate of total annual income on 15th June, 1896, from £1,394,116	£58,581
<i>Expenditure.</i>	
Annual charge for interest at 3 per cent. per annum on £1,500,000	45,000
Salaries for the year	3,700
Other expenses, including interest on advances from Treasury ...	2,800
Mortgage tax, estimated	1,800
Estimated rate of total annual expenditure on 15th June, 1896	53,300
Balance of income over expenditure	5,281
	£58,581

A similar amount on the basis of the amount actually issued and paid to the applicants, £587,815, will also leave a balance of income over expenditure. It will be seen, therefore, that the time has arrived when the income is sufficient to meet the expenses of management, and begins to yield a surplus such as should soon repay the amount by which, during the earlier stage—the stage of institution—the expenditure naturally exceeded the income.

I have, etc.,

J. K. WARBURTON,
Superintendent.

The Hon. the Colonial Treasurer.

SESS. II.—1897.

NEW ZEALAND.

GOVERNMENT ADVANCES TO SETTLERS OFFICE.

(Report by the Superintendent of the, for the year ending 31st March, 1897, presented to both Houses of the General Assembly by command of His Excellency.)

The scheme for providing the country settlers of the Colony with money at a reasonable rate of interest, combined with certain facilities for repayment, with which to improve their holdings at a minimum cost, was embodied in "The Government Advances to Settlers Act, 1894." Under that Act a loan of £1,500,000 was raised in London, and of the proceeds of this loan a sum of £1,112,775 had been authorised to be lent on mortgages of land in the Colony at 31st March last. Although the amount raised in London was, as stated, £1,500,000, the discount and flotation charges amounted to £105,897, the sum available for lending to settlers being £1,394,102. The balance uninvested in mortgages after the passing of the Act of 1895 was temporarily invested in readily realisable securities, bearing about 3½ per cent. interest, which are sold from week to week as funds are required.

It will be seen by the attached list of these temporary investments what securities were held at the 31st March last. Since that date a portion of the 3½ per cents held in London has been sold at a considerable premium, and it is hoped that, when the balance of these securities is realised, the premium received will enable the indebtedness of the Consolidated Fund to be largely reduced. This indebtedness, it will be noted by reference to the statement of accounts attached, stood at £46,500 on the 31st March. In explanation of this it may be necessary to state that at the commencement of lending operations some months elapsed before the Department was by law empowered to invest any portion of the loan in temporary securities, and in consequence a large portion of the loan lay in the bank totally unproductive. It then became necessary to borrow from the Consolidated Fund for the purpose of meeting the half-yearly payments of interest. These advances are not in any sense to make good losses, and will ere long be entirely repaid, the interest receivable now being much more than the amount payable each half-year. It will be some years, however, before it can be hoped that the initial flotation and discount charges can be recouped out of profits; but the Department recognises this as a liability to be provided for, and it will be taken in hand when the Consolidated Fund advances are cleared off.

As will be seen from the tables attached hereto, a considerable number of applications were declined by the General Board, and in many instances also the amounts which the Board offered were not accepted by the applicants, through being insufficient for their requirements. This explains the large difference in the amount lent and the amount applied for. Taking the last year by itself, 2,687 applications for loans were received and considered by the General Board, representing a sum of £862,179. Of this amount the Board granted £681,638, the balance being represented by securities which the Board did not consider it advisable to accept.

The first meeting of the General Board for the purpose of considering applications for loans was held on the 23rd February, 1895, and up to the 31st March, 1897, the Board had authorised 4,501 advances, amounting to £1,404,065, and declined 1,112 applications for £360,268. The total amount applied for by the 4,501 applications granted in full and partially was £1,654,002. Five hundred and eighty-one applicants declined the partial grants offered them, amounting to £291,290; so that the net advances authorised at the 31st March, 1897, numbered 3,920, and amounted to £1,112,775. The security for the net authorised advances was valued at £2,566,756. The number of applications received up to the 31st March, 1897, was 5,809, for an aggregate amount of £2,081,633. Sixty-five per cent. of the total amount applied for was wanted for the purpose of paying off existing mortgages at rates of interest higher than 5 per cent.

The number of applications for "fixed" loans has so far been inconsiderable. They are, however, increasing, though great preference is shown for the instalment loans.

The transactions of the year can be gleaned from the accounts attached hereto. It will be observed that these are compiled somewhat differently from those of last year.

Attention has been given during the year to the question of reducing the cost of administration. The Chief Valuers, whose salaries have hitherto been a charge on the Advances to Settlers Account, will in future be paid by the Valuation Department, as their services will be almost exclusively used in the administration of the "Government Valuation of Land Act." The Advances to Settlers Office will, however, be called upon to pay a contribution to the Valuation Department, which, it is believed, will not exceed the fees received from applicants for the valuations required. This alone will mean a reduction in expense of over £2,000 a year. The charges for rent and a variety of other items will be much reduced, as accommodation will shortly be provided in the Government Buildings for the Head Office staff, and the Valuation Department will bear part of the cost of the rent in the various centres.

A reduction in the staff has also been effected, through the simplification of the work as the result of experience, and the diminution of much work inseparable from the initiation of such an undertaking.

The only new expense will be a contribution to the Post Office for assistance rendered by that department and for postages. Hitherto nothing has been paid, although the correspondence has been carried free of charge, and valuable assistance has been rendered by the Postal Department in every part of the Colony in receiving the instalments from mortgagors, thus saving them the cost of remitting to Wellington.

The year ending the 31st March last was free from loss of any kind, and of the amount outstanding at the 31st March for instalments of principal and interest—£1,891 2s.— a considerable sum had been paid, but could not be received from the Post Office till after the 31st March, and the sum of £1,701 3s. 6d. has since been received, leaving the amount now outstanding in respect of sums due at the 31st March £189 18s. 6d. Of this sum the amount at that date overdue one month was £58 5s. 6d.; overdue two months, £20 3s.; three months, £13 12s., and four months, £4.

The Department has had wonderful immunity from losses in connection with the extensive bush fires which occurred in the Wairarapa and Pahiatua Districts during the summer, and the floods which occurred in Hawke's Bay and Rangitikei recently. Only one of the Wairarapa securities was affected in any way by the fires, and that to an inconsiderable extent, the loan being, moreover, a small one; and in the case of the flooded districts, there are only a few properties which have suffered. I believe that permanent injury will not result, and that a little consideration in the matter of paying instalments will be the only action necessary by the Board.

The partial failure of the harvest in some places in Central Otago and Southland through drought has led to the time for paying instalments being extended in a few instances, but in no case beyond a month or two.

It may not be out of place to refer to the way in which instalments are met by mortgagors, and it cannot be considered otherwise than highly creditable to the settlers (the great bulk of whom are small farmers), and satisfactory to the Department. A considerable percentage pay before the due dates, 90 per cent. pay within a fortnight of the due date; of the remainder, the greater number are dilatory, and the balance may be classed as troublesome.

It may be that losses will fall on the Department in the course of time; but, considering that the average loan granted is under £300, and that a large number of the loans have been for the purpose of improvements, thus adding to the value of the securities, and, further, that the liability in each case is being steadily reduced, I do not think that, with care and vigilance in preventing the accumulation of arrears, losses, if they do fall upon the office, will ever be heavy.

In conclusion, I venture to say that, by means of a scheme which will shortly be perfected, the accumulation of arrears to any great extent will be prevented, and the necessity for so much correspondence (which is perplexing, and therefore somewhat distasteful to most country settlers) removed.

An inspection of securities upon which advances have been made for buildings, fences, bush-felling or other improvements, will be made at an early date.

Recognising that the moneys issued to solicitors for payment to mortgagors are essentially public moneys until they reach those who are entitled to receive them, regulations have been framed for the guidance of solicitors in dealing with these funds, and apprising the Department as to their disposal, in a manner somewhat analogous to the mode of accounting by Treasury imprestees. A copy of these regulations is appended to this report.

Rigid economy, inspection of securities, prevention of arrears, and consolidation of work and effort will, it is hoped, bring about the success of the scheme which the Government and the Legislature are entitled to expect.

JOHN MCGOWAN,
Superintendent.

Government Advances to Settlers Office, 31st May, 1897.

THE FOLLOWING SHOWS THE MYSORE (INDIA) SYSTEM.

AGRICULTURAL BANKS, MYSORE.

Extract from the Dewan's Desara Speech of 1894.

GENTLEMEN,—Before concluding this address, I wish to make a few observations regarding the establishment of agricultural banks in this country, which on more than one previous occasion you pressed upon the attention of the Government. The subject has now received that careful study and investigation which its vital importance demands and I am able to place in your hands to-day the Kanarese draft of a scheme whereunder banks for the special benefit of agriculturists can most readily be established in this country. The details of the scheme are set forth in full in the draft before you, but I may in this place add a few remarks in explanation of its more salient features.

On the one hand we have large accumulations of unused capital in the country as evidenced by the balances in the Presidency and other exchange banks, the refusal of the former to receive any private deposits except as current ones carrying no interest and the high premium which the Government of India $3\frac{1}{2}$ per cent. securities command. On the other hand, we have the agriculturist suffering from inability to raise the funds required for his *bonâ fide* purposes except at ruinous rates of interest. In our own State the balance of the Government Savings Banks' deposits has risen from 4 lakhs in 1881 to 28 lakhs during the last year, though the rate of interest was recently reduced to $3\frac{1}{4}$ per cent., but the borrowing power of our raiyat is nevertheless as low as ever. The substantial agriculturist, especially the coffee planter and the grower of exportable produce, is able to obtain some credit from the foreign buyer on the security of his crops at 9 and 12 per cent. interest, but the ordinary raiyat is unable to get any credit except at usurious rates. How to bridge over the wide gulf that thus separates capital from want is one of the most important problems of the day in this country, and it is not without considerable diffidence that His Highness' Government approach its solution; but we derive the hope of eventual success from what has already been accomplished in some European countries, where conditions very similar to ours have existed. These countries have tried various experiments for the re-organisation of land credit by interposing an intermediate body, such as the Land Credit banks of the Continent, between the capitalist and the agricultural borrower. These experiments have been attended with varying degrees of success according to the degree of identification attained, of the interests of the intermediate body with those of the borrower, but the most successful system has been proved to be that in which the agriculturists, forming themselves into an association on strictly co-operative principles, substituted their own united credit for that of the intermediate body, thus securing for themselves the fullest return for their own credit as agriculturists and doing away with the profits of the middlemen.

The existing conditions among us offer no insuperable obstacle in the way of the establishment and successful working of similar associations in this country under the designation of agricultural banks. Indeed, speaking of our own Province, the tracts in which the *Suttigé* and crop advance systems exist, afford highly favourable conditions for their establishment. The essential principles underlying their constitution are—

- (i.) Every bank to be an association of landholders, formed on strictly co-operative principles, and enlisted on the basis of mutual confidence arising from the mutual information of each others character and resources. The object to be the common benefit of cheap credit and not the earning of divisible profits;

- (ii.) There should be no share capital, the funds required for the bank being obtained by means of loans raised or deposits received ;
- (iii.) The members to contribute their liability only. They will be at full liberty to limit this liability by prescribing a maximum for each individual loan or for the sum total of all loans, or to resign at any time and thus escape from further liability ;
- (iv.) The funds raised by the bank to be lent only to its members, at such moderate rates of interest as will leave the bank a small margin for the actual expenses of management and for the gradual formation of a reserve fund ;
- (v.) The affairs of the bank to be managed by a body elected from among the members themselves and giving their services gratuitously ; and
- (vi.) No loan to be made except for an approved purpose, such as some agricultural operation which, with ordinary care, may be expected to yield enough to repay the loan and to leave some profit for the borrower.

The subordinate principles and the details of the practical working, you will find fully described in the Kanarese draft before you (of which an English abstract is appended to this address). And it only remains for me to add that a bank thus constituted and doing business on such conditions must be solvent and will be able eventually to command ample credit in the open market ; but while such credit is in the process of growth—and its growth will take time—the Government will be prepared to help the bank with deposits of money at favourable rates of interest. The Government will in addition be able to grant exemption from stamp and other duties, to provide for the special registration of loans and their ready recovery, for the custody of funds in public treasuries, for the periodical audit of accounts, &c., but the co-operative spirit to which the association is to owe its existence must emanate from the agriculturists themselves. I have no doubt such a spirit is to be found in most parts of the Province, at least to the extent of enabling us to make a small beginning. Small beginnings and early struggles are the necessary conditions of vigorous life, and I indulge in the hope that the scheme, carefully worked on a moderate scale and in places where the conditions are most favourable, will soon be the means of establishing a system of agricultural banks throughout the country. They will be a great education to the people in thrift and co-operation, and they will be the means of creating a wholesome public opinion against unproductive expenditure and extravagance of all kinds.

K. SHESHADRI IYER,
Dewan of Mysore.

Mysore, 12th October, 1894.

AN ABSTRACT OF THE DRAFT SCHEME FOR THE ESTABLISHMENT OF AGRICULTURAL BANKS IN MYSORE.

I. Every bank to be an association of land holders formed on strictly co-operative principles, not for the purpose of earning any profit divisible among its members, but for the purpose of obtaining money by their own united credit and lending it among themselves according to the actual requirements of each member to the extent the others have confidence in him.

II. There is to be no share capital ; there may be a small irrecoverable entrance fee for membership.

III. The members to be elected with reference to their honesty, general character and habits.

IV. The members to contribute their liability only. They may practically limit this liability by prescribing that not more than a fixed sum is to be lent to any one man or that not more than another fixed sum is to be lent out in all.

V. Every member to be at liberty to resign at any time and thus escape from all further liability.

VI. The funds of the bank to be raised by receiving deposits from the members or others or by loans from others.

VII. The security for repayment of the bank's loan to one of its members is the borrower's own character and resources, and those of two sureties who shall also be members.

VIII. No loan to any one who is not a member is to be made on any account.

IX. No loan is to be made except for an approved purpose, which generally should be some operation which, by its profit, will repay the loan. It may in exceptional cases include an approved *bond fide* domestic requirement. It should include the redemption of land from an existing mortgage, the liquidation of existing debts of any kind whatsoever, the purchase of agricultural stock, the extension of the holding, &c., always subject to the next condition regarding time for repayment.

X. The loan should generally be for less than one year when for the ordinary annual requirements of cultivation. It may be for longer periods, in which case the repayment should be by equal annual instalments well within the borrower's annual margin of profits.

XI. Every borrower should be bound to spend what he borrows for the express purpose for which he borrows. Default in this to lead to the recall of the loan by a three months' notice.

XII. Absolute punctuality of repayment to be strictly enforced,

XIII. The members to give their services gratuitously.

XIV. The funds raised by the bank to be lent to its members at such moderate rates of interest as will leave the bank a small margin for the actual expenses of management and the gradual formation of a reserve fund.

XV. The reserve fund to be used for the common purposes of the members, but not to be divided among them. If the bank is wound up, the reserve to be used for some purpose of local utility.

XVI. The members of the bank to be drawn from a limited area. The bank to be essentially rural in its constitution.

XVII. The general meeting to be the absolute final authority in all matters. An Executive Committee of five or less, to meet monthly or oftener and to grant loans, receive deposits, &c., and generally to conduct the business of the bank. A larger committee to supervise the operations and especially to watch that borrowers fulfil the objects for which they borrow.

—o—

MODEL MEMORANDUM AND ARTICLES OF ASSOCIATION OF AN AGRICULTURAL BANK.

MEMORANDUM AND ARTICLES OF ASSOCIATION OF AN UNLIMITED COMPANY HAVING NO SHARE CAPITAL.

MEMORANDUM OF ASSOCIATION.

The name of this Association is the Agricultural Bank.

2. The registered office of the bank will be situate at of the
. Taluk, in the District.

3. The bank is essentially rural in its constitution, and is established for the relief of agricultural indebtedness within the limited area comprising the villages of
. in Taluk, in the District, by lending money to individual members of the bank at moderate rates of interest out of funds raised by means of the united credit of all the members.

4. We, the several persons whose names and addresses are subscribed, are desirous of being formed into an agricultural bank in pursuance of this Memorandum of Association:—

Number.	Signature of member.	Address, giving father's name, residence and description of member.	Witness to signature of Member.	Date.

ARTICLES OF ASSOCIATION.

Members.

1. No person who does not hold arable land within the local limits mentioned in paragraph 3 of the Memorandum of Association, or who does not live within such limits, shall be admitted as a member of the bank.

2. The bank shall consist of the members who have signed these articles, and of such other members as may hereafter be admitted in manner following; and the whole of the members for the time being shall together constitute the general assembly.

Provided however that no person who, owing to minority or other cause, is suffering from a legal disability, shall be admitted as a member except upon the written application of his duly appointed guardian or guardians.

3. Any person desirous of being admitted a member shall make a written application to the Board of Directors hereinafter mentioned, who shall place the same before the next meeting of the general assembly. His admission will depend upon the unanimous consent of all the members present at such general meeting. Any member absent from such meeting shall be considered to have waived his right to vote against such admission.

4. An entrance fee of half a rupee shall be paid by each of the members who have signed these articles, as well as by each new member who may hereafter be admitted.

Management.

5. The general assembly shall, subject to the provisions hereinafter mentioned, be the final authority on all matters connected with the business of the bank. The general assembly shall appoint one of the members as President and another Agent, and the President and the Agent thus appointed shall hold office until relieved therefrom by others appointed by the general assembly to succeed them. The Agent shall be Chief Accountant of the bank, and shall be responsible for the proper and correct keeping of the bank's accounts.

6. The cash balance in hand, the registers, accounts, title-deeds, documents, and all other property belonging to the bank shall be kept in the bank premises in the custody of the President and the Agent, who shall be responsible for their safety.

7. The registers and accounts to be kept in the bank, in addition to those named below, which are indispensable, and all the details in connection with the management of the bank, shall be settled by the general assembly in a manner not inconsistent with these articles, and recorded in the minute book maintained in the bank:—

1. Register of members.
2. Register of applications for loans, with the purpose thereof.
3. Cash book.
4. Ledger.
5. Minute book.
6. Half-yearly cash balance statement.

General Meetings.

8. The first meeting of the general assembly shall be held at such time, not more than three months after the incorporation of the association, and at such place as the members may determine.

9. Subsequent general meetings shall be held, at the least, once in every six months, and at such place as the general assembly may prescribe.

10. The above-mentioned general meetings shall be called ordinary meetings; all other general meetings shall be called extraordinary.

11. The directors hereinafter mentioned may, whenever they think fit, and they shall, upon a requisition made in writing by any three or more members, convene an extraordinary general meeting.

12. Any requisition made by the members as above shall express the object of the meeting proposed to be called, and shall be left at the registered office of the bank.

13. Upon the receipt of such requisition, the directors shall forthwith proceed to convene an extraordinary general meeting. If they do not proceed to convene the same within twenty-one days from the date of the requisition, the requisitionists, or any other three members, may themselves convene an extraordinary general meeting.

Proceedings at General Meetings.

14. Seven days' notice at the least, specifying the place, the day and the hour of meeting, and, in case of special business, the general nature of such business, shall be given to the members in manner hereinafter mentioned, or in such other manner, if any, as may be prescribed at a general meeting; but the non-receipt of such notice by any member shall not invalidate the proceedings of any general meeting.

15. All business shall be deemed special that is transacted at an extraordinary meeting, and all that is transacted at an ordinary meeting, with the exception of the consideration of the accounts, balance sheets and the ordinary report of the directors.

16. No business shall be transacted at any meeting unless a quorum of members is present at the commencement of such business. Such quorum shall be ascertained as follows, that is to say, if the members of the bank at the time of the meeting do not exceed ten in number, the quorum shall be five; if they exceed ten, there shall be added to the above quorum one for every five additional members, with this limitation, that no quorum shall in any case exceed fifteen.

17. If, within one hour from the time appointed for the meeting, a quorum of members is not present, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week at the same time and place; and if at such adjourned meeting a quorum is not present, it shall be adjourned *sine die*.

18. The President shall preside as Chairman at every general meeting.

19. If at any general meeting the President is not present within fifteen minutes after the time appointed for holding the same, the members shall choose some one of their number to be Chairman of such meeting.

20. The Chairman may, with the consent of the meeting, adjourn any meeting from time to time, and from place to place; but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

Votes of Members.

21. Every member shall have one vote and no more; and the resolution of the meeting shall be determined by the majority of votes unless otherwise expressly provided.

22. If any member, owing to minority or other cause, is suffering from a legal disability, he may vote by his duly appointed guardian, or any one of such guardians if more than one.

23. No member shall be entitled to vote at any meeting if he is a defaulter at the time of such meeting.

24. Votes may given either personally or by a proxy appointed in writing duly signed by the appointer.

25. No person shall be appointed a proxy who is not a member, and the instrument appointing him shall be deposited at the registered office of the bank not less than forty-eight hours before the time of holding the meeting at which he proposes to vote.

26. Any instrument appointing a proxy shall be in the following form:—

..... Agricultural Bank.

I..... of..... being a member of the..... Agricultural Bank, hereby appoint..... of..... as my proxy to vote for me and on my behalf at the general meeting of the Bank to be held on the..... day of..... and at any adjournment thereof (or at any meeting of the Bank that may be held in the year.....).

Date.....

Signature.....

Witness.....

Board of Directors.

27. In subordination to the general assembly, the affairs of the bank shall be managed by a Board of Directors, consisting of the President and the Agent, and of not less than five and not more than seven members chosen every half-year by the general assembly.

28. The President and the Agent shall have joint power to sign and to transact business on behalf of and under the instructions of the Board of Directors. The Agent shall prepare the balance sheet of the bank for every half-year ending 30th June and 31st December, and lay it before the President on or before the 15th of July and 15th of January, respectively, following.

29. If the office of President or Agent becomes vacant, the remaining members of the Board of Directors shall forthwith appoint any member of the bank (whether on the Board or not) as Provisional President or Agent, as the case may be, and convene a meeting of the general assembly on the earliest date possible for appointing a permanent successor to the vacant office.

30. A retiring Director shall be re-eligible.

31. Subject to the maximum and minimum laid down in paragraph 27 above, the general assembly may from time to time in general meeting increase or reduce the number of members constituting the Board of Directors.

32. Any casual vacancy occurring among the members of the Board of Directors may be filled up by the remaining members of that Board; but any person so chosen shall retain his office so long only as the vacating Director would have retained the same if no vacancy had occurred.

33. A general meeting may remove any Director before the expiration of his period of office, and may appoint another person in his stead. The person so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

Proceedings of Directors.

34. The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit, and determine the necessary quorum for the transaction of business. Questions arising at any time shall, unless otherwise expressly provided for in these articles, be decided by a majority of votes. In case of an equality of votes, the President shall have a second or casting vote. A Director may at any time summon a meeting of the Board of Directors.

35. The President shall be the Chairman of the meetings of the Board of Directors; but if at any meeting the President is not present at the time appointed for holding the same, the Directors present shall choose one of their number to be Chairman of such meeting.

36. The Board of Directors may delegate any of their powers to a committee consisting of the President, the Agent, and such member or members of their body as they think fit. Such committee shall be called the Executive Committee, and shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on it by the Board of Directors.

Bank's Funds.

37. The bank shall have no share capital, but shall carry on its business with funds raised by means of loans, as well as from deposits received from the members themselves or from others. The aggregate amount of such funds shall not for the present exceed Rs. The general assembly shall, however, be competent to resolve upon an increase of the funds of the bank if such a course should at any time hereafter be found necessary owing to the expansion of business.

38. The rates of interest to be paid on loans and deposits shall, from time to time, be prescribed by the general assembly.

39. The liability of the members of the bank shall be equal as between themselves, and joint and several as regards all others.

40. The cash balance in the hands of the Board of Directors shall not ordinarily exceed Rs. All sums above this limit shall be lodged in a Government Treasury or deposited in a Government Savings Bank and be drawn upon from time to time as occasion may arise.

Loans.

41. Loans will be granted only to the members of the bank and will be of the following classes:—

Class I.—On the security of immovable property.

Class II.—On joint pro-notes.

Class III.—On joint instalment bonds.

Class IV.—On *mubadala* or hand loans.

42. A loan of Class IV. shall not exceed Rs., while a loan of any other class may be granted to the extent of Rs. Provided however that no member shall at any time be indebted to the bank in a larger sum than Rs., including loans of all kinds granted both to himself and to other members on his security.

43. No person who is not a member of the bank, shall be accepted as security for any loan.

44. No loan shall be made except for an approved purpose connected with some agricultural operation which by its profits would enable the borrower to repay the loan, or for the redemption of land from an existing mortgage, or for the liquidation of debts of any kind whatsoever existing at the time of the formation of the bank or at the time of the admission of the borrower as a member of the bank. The agricultural operation referred to above shall include the extension or improvement of the borrower's holding, and the purchase of manure, seed, cattle and implements, and other similar purposes.

45. An application for a loan may be made to the Board of Directors, or where there has been a delegation, to the Executive Committee, either verbally or in writing. The Board of Directors, or the Executive Committee, as the case may be, shall enquire into the object of the loan and into the sufficiency or otherwise of the security offered, and make a record of the result of such enquiry in the register of applications for loans. The applicant and his surety or sureties shall be bound to make true statements on matters thus enquired into. After making all such enquiry as may be necessary, the Board of Directors or the Executive Committee, as the case may be, shall either grant or refuse the loans applied for. Appeals from their refusal shall lie to the general assembly. If a clear majority of not less than two-thirds of the total number of members of the bank other than the applicant and his proposed surety or sureties, if any, should not be in favour of the grant, the refusal made as above shall be affirmed.

46. A loan of class I.—On the security of immovable property—shall ordinarily be repayable in less than five years, and in special cases, in any period not exceeding ten years, by equal annual instalments well within the borrower's annual margin of profits.

47. Loans of Classes II. and III.—On joint pro-notes and joint instalment bonds—shall ordinarily be repaid in less than a year. They may however be allowed to be renewed from time to time on good cause shown.

48. Loans of Class IV.—Hand loans—shall not be granted for any period exceeding three months. Renewals may be permitted.

49. No security in addition to the hypothecation of immovable property is ordinarily required in respect of loans belonging to Class I., though in special cases the additional

security of one or more members may be required. Nor need any security be demanded for loans falling under Class IV. As regards loans coming under Classes II. and III., there should be at least two sureties.

50. The highest rates of interest chargeable on the different kinds of loans are as follow :

Class I., 6 per cent. per annum if the loan does not exceed Rs. 100, and $5\frac{1}{2}$ per cent. when it exceeds Rs. 100. Where the loan is repayable by annual instalments, interest is chargeable only on so much of the loan as is actually outstanding in the beginning of each year.

Class II., 7 per cent. when the loan is Rs. 100 and under, and 6 per cent. when it exceeds Rs. 100.

Class III., 8 per. cent. when the loan is Rs. 100 and under, and 7 per cent. when it exceeds Rs. 100. The interest is chargeable only on so much of the loan as is actually outstanding on the first of every month.

Class IV., 1 pie per diem for every Rs. 20.

51. The general assembly shall be at liberty to fix from time to time the actual rates at which interest should be charged, such rates not exceeding the maxima above prescribed.

52. The general assembly shall likewise be competent to fix and prescribe from time to time, the time at which and the mode in which the interest chargeable on the several descriptions of loan made by the bank, shall be recovered.

53. When a loan is repaid or recalled before the time fixed for its repayment, a proportionate reduction or refund shall be allowed of the interest payable or paid on account of such loan.

54. Absolute punctuality of repayment shall be enforced under pain of such fine as may be imposed by the general or special direction of the general assembly for ordinary and excusable defaults, and of expulsion, as hereinafter provided, for persistent defaults.

55. No loan shall be appropriated for any other purpose than that for which it is obtained. Its appropriation for any other than an approved purpose shall render it liable to be recalled by a notice not exceeding three weeks.

Disposal of Profits.

56. The interest due on loans and deposits, the charges of establishment and the cost of contingencies, shall be met from the interest levied on the different kinds of loans made by the bank and from the entrance fee levied from the members on admission, as also from the fines referred to in paragraph 54 above. The surplus shall form a reserve fund which shall not be divisible among the members, but shall, after meeting unforeseen losses, if any, go towards the reduction of the loans and deposits required for carrying on the business of the bank.

57. The members shall receive no remuneration for their services in connection with the bank.

Removal, Resignation, Death, &c.

58. Any member persistently guilty of default or of violation of the rules, or of gross neglect of duty, shall render himself liable to removal from membership by the votes of a majority of the general assembly.

59. Any member who may permanently leave the local limits referred to in paragraph 1 or who may cease to hold arable land therein, shall cease to be a member of the bank from the date of such departure or cessation.

60. Any member shall be at liberty to sever his connection with the bank by tendering a written resignation to the Board of Directors or the Executive Committee.

61. The death of any member shall result in the removal of his name from the Roll of Members, unless his legal heir or representative shall, in writing, consent to take his place with all his liabilities and obligations.

Provided, however, that if such legal heir or representative is, owing to minority or other cause, suffering from a legal disability, he shall not be allowed to take the place of a deceased member except upon written application made by his duly appointed guardian or guardians.

62. The removal or resignation of a member under paragraphs 58, 59, 60 or 61, shall secure for him and his assets, or for his assets, as the case may be, freedom from all liability for loans and deposits obtained, or in respect of loans made, and acts done or omitted to be done, subsequent to the date of his removal or resignation, but shall in no way affect liabilities contracted by the bank previously thereto.

Accounts.

63. The accounts of the bank shall be audited by a committee of three members, to be called the Audit Committee.

64. The first Audit Committee shall be nominated by the Board of Directors out of the body of members of the bank.

65. Subsequent Audit Committee shall be nominated by the general assembly.

66. The Audit Committee shall be supplied with a copy of the balance sheet, and it shall be their duty to examine the same with the accounts and vouchers relating thereto.

67. The Audit Committee shall have a list delivered to them of all books kept by the bank, and they shall at all reasonable times have access to the books and accounts of the bank ; and they may, in relation to such accounts, examine the President or Agent or any other member of the Board of Directors.

68. The Audit Committee shall make a report to the general assembly upon the balance sheet and accounts ; and in every such report they shall state whether, in their opinion, the balance sheet is a full and fair balance sheet containing the particulars required, and properly drawn up, so as to exhibit a true and correct view of the state of the bank's affairs, and in case they have called for explanations or information from the Board of Directors, whether such explanations or information have or has been given by the Board, and whether they or it have or has been satisfactory ; and such report shall be read together with the report of the Board of Directors at the next ordinary general meeting.

69. The powers conferred, and the duties imposed upon the Audit Committee shall, as far as may be, be exercised and performed by such officer or officers as the Government may, from time to time, appoint for the purpose of auditing the accounts of the bank or enquiring into its affairs.

Notices.

70. A notice may be served by the bank upon any member, either personally, or by sending it through the post in a letter addressed to such member at his registered place of abode.

71. Any notice, if served by post, shall be deemed to have been served at the time when the letter containing the same would be delivered in the ordinary course of the post ; and, in proving such service, it shall be sufficient to prove that the letter containing the notice was properly addressed and put into the Post Office.

General.

72. No member shall so deal with his property as materially to diminish his resources and affect his solvency, on the strength of which he has been admitted to the benefits of this bank.

73. It shall be lawful for the Board of Directors or the Executive Committee as the case may be, subject to the approval of the general assembly, to re-call by three week's notice any loan made to, or on the security of, any member who by his conduct or dealings has endangered the security of any loan granted by the bank or who has ceased to be a member of the bank under paragraphs 58, 59, or 60, or whose legal heir or representative after his death, does not take his place notwithstanding the non-existence of any legal disability.

Provided however that no loan shall be liable to be recalled by reason merely of such legal heir or representative not taking the place of the deceased member in consequence of his minority or other legal disability.

74. Any loan made to the bank by Government shall be deemed to be an advance made for agricultural objects to the members of the bank as holders of arable land, within the meaning of section 194 of the Mysore Land Revenue Code, and the same shall be recoverable from the members jointly and severally as an arrear of land revenue under the provisions of the Mysore Land Revenue Code or of any other law for the time being in force.

75. If, owing to resignations, deaths, removals or other causes, the total number of members of the bank should at any time fall below two-thirds of the number which constituted the bank on the date of its formation or on the date of the augmentation of its funds, or if according to a majority of votes at a general meeting there exists a disagreement among the members so serious as to render the further continuance of the bank undesirable, or if Government directs the recovery of loans made by it to the bank on the ground that the affairs of the bank are in an unsatisfactory condition, all further transactions shall be stopped, and all outstanding loans of whatever description shall be recalled by a notice not exceeding three months,

The following are copies of Orders of the Government of Mysore for the formation of three Agricultural Banks, in response to applications for the same to show the Practical Working of the System.

No. 3,071-74—R. F. 162-96, DATED BANGALORE, 21ST SEPTEMBER, 1897.

ORDER THEREON.—With the above letter, the Deputy Commissioner submits the Memorandum and Articles of Association, in duplicate, of the proposed Agricultural Bank at French Rocks, Seringapatam taluk.

2. The Bank is proposed to be established for the benefit of the marginally noted 12 villages, and there are 30 members who own 233 acres and 15 guntas of kandayam, and 422 acres and 8 guntas of inam, lands, the aggregate value of which, as estimated by the panchayat, is Rs. 56,350, with an incumbrance of Rs. 22,610.
- | | |
|---------------------|-------------------------|
| 1. Hirode | 7. Birsettahalli |
| 2. Devagaudankoppal | 8. Hirimarly |
| 3. Chikkade | 9. Tirumalasagar kasaba |
| 4. Nelamane | 10. Haravu kasaba |
| 5. Patsomanhalli | 11. Belvadi |
| 6. Harohalli | 12. Koranhalli |

3. The members propose to start the Bank with a capital of Rs. 30,000. The Deputy Commissioner, taking the *net value of the lands into consideration, recommends the grant of a loan of Rs. 20,000, or *Rs. 56,350—22,610 = Rs. 22,740. But the Inspector of Agricultural Banks is of opinion that on the security of the above property the loan of Rs. 30,000 applied for may be granted to enable the members to discharge the existing debts which amount to Rs. 22,610 and utilize the balance towards agricultural improvements.

4. Under all the circumstances of the case and having regard to the aggregate value of the property held by the members, Government are pleased to sanction an advance not exceeding Rs. 30,000, being made for the Agricultural Bank at French Rocks, and to authorise the Deputy Commissioner to place the aforesaid amount in the Seringapatam Taluk Treasury on that account. Interest must be recovered from the Bank half-yearly up to 30th June and 31st December of each year, at 4 per cent per annum, on the sums actually borrowed by the Bank.

5. As regards the suggestions made by the Deputy Commissioner in para 2 of his letter No. 1851, dated the 10th June, 1897, that a clause may be added to para 72 of the Articles of Association to the effect that the members will release their properties from present encumbrances and will not, until the Government loan is fully liquidated, alienate their properties otherwise than as security to the Bank itself, the Deputy Commissioner's attention is drawn to para 4 of the Government Proceedings No. 5439-42—R. F. 100-95, dated the 14th December, 1896, and he is informed that the existing provision seems quite sufficient for the purpose inasmuch as the loan now sanctioned by Government is intended to be applied both for the discharge of the existing liabilities and for further improvements, and the Bank is expected to secure proper documents from the borrowing members and to deposit them in Public Treasuries. Steps should be taken to see that the existing encumbrances are all discharged and that the documents in connection therewith are got back and properly secured.

6. The Memorandum and Articles of Association submitted by the Deputy Commissioner, with public service transfer receipt for Rs. 1-8-0, being the registration fee, will be forwarded to the Registrar of Joint Stock Companies for registration.

No. 6,916-19—R. F. 117-95, DATED BANGALORE, 1ST FEBRUARY, 1897.

ORDER THEREON.—With the above letter, the Deputy Commissioner submits the Memorandum and Articles of Association of an Agricultural Bank proposed to be established at Chikmagalur by Mr. C. Srinivasa Rao and twenty-five other coffee planters holding lands in forty-one villages of the Chikmagalur taluk.

2. On a perusal of the papers submitted, the Government observe that the signatures of the members have not been affixed to the Memorandum and the Articles of Association as required by the form laid down for the purpose. This omission should be supplied.

3. The Bank is proposed to be started with a capital of rupees three lakhs. The aggregate value of the property held by the members is put down as Rs. 19,98,400 (or 20 lakhs in round numbers) with an encumbrance of Rs. 32,000.

4. The Deputy Commissioner thinks that some penal clause should be inserted in the rules so as to provide against the loan obtained from Government being applied for purposes other than those stated in the application; but Government consider that para 55 of the Articles of Association sufficiently provides for such cases, and that no additional clause is required as suggested.

5. The valuation of the property remains to be verified by the Inspector of Agricultural Banks with the aid of a respectable panchayat and with special reference to the market value of the lands as ascertained from the books of the Registration Department.

6. The applicants propose to regulate the grant of loans by the Bank, not according to the limit laid down in para 6 of Government Proceedings No. 5038-47—Fl. 274, dated 2nd December, 1893, but according to a scale under which a loan of Rs. 1,000 is admissible under class IV. "Mubadala or hand loans," and of Rs. 40,000 under any other class, with a proviso that no member shall at any time be indebted to the Bank in a larger sum than Rs. 40,000, including loans of all descriptions granted both to himself and to other members on his security. Government are of opinion that the circumstances of this Bank are such as to justify a departure from the first mentioned scale, which is intended only for Banks with a small limited capital. A larger limit may, therefore, be permitted in this case as follows.—

	Rs.
Class I. On the security of immovable property	25,000
" II. On Joint pro-notes	3,000
" III. On Joint instalment bonds	1,500
" IV. On Mubadala	500

A fresh Memorandum and Articles of Association on the lines above indicated should be obtained from the members and duly registered.

7. The Deputy Commissioner, instead of submitting an extract from the taluk map, has sent up the taluk map itself marking thereon the villages of the applicants. As it is likely that this map will be required for reference in the District office, the Deputy Commissioner is requested to submit an extract therefrom as early as possible.

8. With the above observations, Government are pleased to sanction the grant of an advance not exceeding Rs. 3,00,000 at 4 per cent. interest per annum, subject to the condition that no money should be advanced until the Inspector of Agricultural Banks shall have, by local inspection and careful enquiry, satisfied himself as to the solvency of the members, and the correctness of the valuation of their lands and made a report to that effect to the Deputy Commissioner. The amount should then be advanced in such instalments as the Deputy Commissioner may consider proper. Interest should be recovered half-yearly on 30th June and 31st December, commencing from the date of each instalment.

9. The Inspector should see that all existing encumbrances are duly discharged, that the documents connected therewith are all taken back, and that in the case of all large loans to the members, duly registered deeds of hypothecation, together with title deeds, and discharged bonds are secured by the Bank and lodged in the Government Treasury.

10. The members of this and other Agricultural Banks must be made distinctly to understand that the Government have come to their rescue as a temporary measure only, and that they should use their utmost endeavour to place themselves, within a reasonable time, in a position to depend upon their own resources and to dispense with the help of Government. This is best done by the members constituting the Banks, saving out of the usufruct of their lands all that can possibly be saved after defraying their ordinary expenses and meeting other legitimate requirements, as well as by putting by the difference between the exorbitant interest which they have hitherto been paying and the very moderate interest which they will hereafter have to pay. They must be clearly warned that Government aid is liable to be withdrawn at once if the above important consideration be not constantly borne in mind and readily given effect to.

No. 5,439-42—R. F. 115-92, DATED BANGALORE, 14TH DECEMBER, 1897.

ORDER THEREON.—With the above letter, the Deputy Commissioner submits (in manuscript) the Memo. and Articles of Association of an Agricultural Bank proposed to be established at Saklespur by Sundekere Srikantaiya and eleven other native coffee planters holding lands in 34 villages of the Manjarabad taluk and three villages of the Belur taluk. On perusal of the papers submitted, the Government first make the following observations:—

(1.) The signatures of the members affixed to the Articles of Association have not been attested as required by the form laid down for the purpose. This omission should be supplied, the Memo. and the Articles of Association being obtained in printed form.

(2.) The Bank is proposed to be started with a capital of four lakhs. The aggregate value of the property held by the members being Rs. 7,60,950, with an encumbrance of Rs. 2,66,900, the Deputy Commissioner thinks that the advance of four lakhs applied for by the members may be granted at 4 per cent. interest, as in the case of similar banks already opened. The value of the lands has been estimated by the members themselves. Neither the Amildar nor any other responsible officer has inspected and valued them. The valuation should now be made by the Inspector of Agricultural Banks, with the aid of a respectable panchayet, and with the special reference to the market value of the lands as ascertained from the books of the Registration Department.

(3.) The grant of loans is proposed to be regulated, not according to the limit laid down in para 6 of Government Proceedings No. 5,038-47—Fl. 274, dated 2nd December, 1895, but according to the scale hereunder given:—

- Class I., on the security of immovable property, Rs. 60,000 ;
- Class II., on joint pro-notes, Rs. 15,000 ;
- Class III., on joint instalment bonds, Rs. 3,000 ;
- Class IV., on "Mubadala," or hand loans, Rs. 2,000 ;

with a proviso that no member shall at any time be indebted to the Bank in a larger sum than Rs. 75,000, including loans of all descriptions granted to himself and to other members on his security. Under the last sentence of para 6 of Government proceedings No. 5,038-47—Fl. 274, dated 2nd December, 1895, the case appears to call for exceptional treatment, the objects with which the advance is applied for by the members being (1) the discharge of heavy existing liabilities and (2) the raising of funds for current expenses and future improvements.

2. Under these circumstances, the Government are pleased to sanction the grant of Rs. 4,00,000, recommended by the Deputy Commissioner, at 4 per cent. interest per annum, subject to the condition that no money should be advanced until the Inspector of Agricultural Banks shall have satisfied himself as to the solvency of the members and the correctness of the valuation of their lands and made a report to that effect to the Deputy Commissioner. The amount should then be advanced in such instalments as the Deputy Commissioner may consider proper. Interest should be recovered half-yearly, on 30th June and 31st December, commencing from the date of each instalment. The grant of loans under Classes II., III. and IV., as proposed by the members, is, however, unduly high. They should be reduced to the following limits:—

- Class II., 5,000,
- Class III., 1,500, and
- Class IV., 1,000.

3. A fresh Memorandum and Articles of Association on the lines above indicated should be obtained from the members and duly registered.

4. As regards the doubt expressed by the Deputy Commissioner as to the priority of Government claim over the property of the members in the absence of any deeds of hypothecation in favour of Government, Government observe that it is not their wish that any immovable property should be directly mortgaged to them as security, but in the case of such exceptionally large advances as the present, which is applied for mainly for the discharge of existing liabilities, etc., they expect Agricultural Banks to secure proper documents from the borrowing members and to deposit the same in public treasuries. This safeguard, which secures to the Bank priority over subsequent encumbrances, coupled with the watchfulness on the part of the Bank and constant careful supervision on the part of the Inspector and other Government officers, is considered sufficient for the present.

5. The Inspector should, therefore, see that in the present case all the existing debts are really discharged, that the documents connected therewith are all duly taken back, and that, in the case of all large loans to its members, duly registered deeds of hypothecation, together with title deeds and discharged bonds, are secured by the Bank and lodged in the Government Treasury.

—o—

Submitted by Mr. Gosnell and adopted by the Committee.

RAIFFEISEN "LOAN BANKS."

No two people setting out for substantially the same goal could have started from two more directly opposite points than did Schulze-Delitzsch and Raiffeisen.

The excessive distress caused by the "Jews" in their oppression of the peasantry of Prussia started Raiffeisen to take up the cudgels on their behalf.

He first established a co-operative bakery which proved a signal success, as it enabled the peasantry to purchase their bread at just half the current price. The next step taken was the formation of a co-operative cattle-purchase association, and this move attacked the Jews in one of their strongest outworks, and reduced their mastery at a vital point. Raiffeisen now put his scaling ladder to the very citadel. With a balance of £300 which in all he had succeeded in raising with a good deal of trouble, in 1849 he set up his first loan bank, and offered the peasantry who would subscribe to his rules to supply them with money for their needs. It was five years before a second bank was formed, and it was not until 1880 that they began to multiply perceptibly. From that time forward, however, they spread with astonishing rapidity. By 1885 their number had in Germany alone grown to 245, by 1888 to 423, by 1891 to 885. The very material service which they rendered to agriculture in that terrible year of drought, 1893, added a further stimulus to their multiplication. In that period of trial it was shown that they could do more to give assistance by self-help than the State with its well-filled purse. By May 1st, 1896, their number had increased to 2,169. Governments now encourage them, Provincial Diets ask for them, priests and ministers pronounce their benisons upon them, the peasantry love them. Dr. Schenck in the last issue of his annual report candidly owns that the largest increase recorded in the returns belongs to them. Both their spread and their reputation seem deserved, especially since, after 46 years' experience, they can make it their boast that by them neither member nor creditor has ever lost a single penny.

It is difficult to compare Raiffeisen's banks with those of Schulze-Delitzsch. Both have grown up amid essentially different surroundings, in different spheres of action, with different tasks. Schulze's banks could not benefit the very poor. Raiffeisen's specific object was to benefit those very poor people in the most effective way. So he came to the conclusion that he must exact nothing from members joining, and that he must make long credit the rule. Calling upon a poor man to pay down money, who deliberately joined to borrow money, amounted in his mind to sheer mockery. His very reasonable principle was this: To make a loan at all serviceable to a poor or embarrassed man sufficient time must be given the borrower to allow it to repay itself; to tax other resources for repayment would be to cripple the borrower. He might want the money for buying manure, seed or feeding stuffs; give him at least twelve months to repay. If he borrowed to improve his herd or live stock, or to build a barn, or sink a well, or drain a field, he must be given credit for two years, for five years, or ten, or even more.

In brief outline the system upon which the Raiffeisen practice is based is this. Raiffeisen begins by confining each Association to one particular district. He does not favour districts with less than 400. Within these narrow limits members are elected on application with great care by those who have already joined. The object is not to secure a large roll of members, but rigidly to exclude every one who is not really eligible.

A Committee, consisting of five, is charged with all the executive work, and the Council of Supervision, with from six to nine members, according to the size of district, is entrusted

with checking and supervising the Committee. Neither of these bodies draw any salary of commission. One man only is paid, namely, the cashier, and he has no say whatever in the employment or distribution of the money. "Banking" in the ordinary sense of the term is strictly forbidden. Banking profits are very acceptable in their way, but they must mean risk, and risk is the one thing which Raiffeisen Associations set themselves to avoid. There are no acceptances, no pledges. It is all personal credit, and they supply that personal credit only by borrowing, and borrowing is the credit of the Association. As the rules were originally framed, no member was asked to pay down anything on joining, either for shares or in entrance fees. The Legislature ordered in 1889 that there must be shares. The Raiffeisen Associations met this dictation by making their own shares as small as possible, generally ten or twelve marks, payable by instalments. Then Raiffeisen would have no dividends, because there was no direct profit. Again the Legislature overruled him. The members voted all their dividends away consequently to two different reserve funds. As individuals are to derive no benefits, except the privilege of borrowing, every penny is claimed for the two reserve funds. One of these is an ordinary reserve fund out of which to meet occasional deficiencies. The other is really the backbone of the whole system. Two-thirds of the annual profits without fail must go to it. Its first object is to meet deficiencies or losses, for which only with hardship could individual members be made responsible. Its next is to supply the place of borrowed capital, and so make borrowing cheaper to members. And should it outgrow the measure of such employment it may, at the discretion of the Society, be applied to some work of common utility benefiting the district. Not even in the event of the Association being dissolved is any sharing-out permitted, lest a rich Association be tempted to dissolve for the sake of the spoils. In the case of a dissolution it is provided that the money must be handed over to some public institution to be kept in trust until required for the endowment of a new Association formed in the same district under the same rules. The same principles of safety and caution are applied to the practice of lending. Money will be found for every one who needs it, but he must first make out his case, and prove alike that he is trustworthy and that his enterprise is economically justified. Confidence is now so fully established that in those two critical epochs of crucial testing of Germany's credit, the years of the two great wars, 1866 and 1870, when deposits were withdrawn wholesale from other banks, and when even diplomatists like Sir R. Morier found it difficult to supply themselves with money, deposits were actually *pressed* upon the Raiffeisen banks for safe keeping, though it should be without any interest at all.

The multiplication of loan banks has, as a matter of course, led from co-operation between individuals to co-operation between Associations. Every large district has its own union, with a representative Council. Since 1877, moreover, the union of Associations possess their own central bank in which the affairs and interests of the whole system are focused.

Here are some figures:—

The Raiffeisen Loan Banks.

In 1893 there were 610 Raiffeisen Associations with 17,720,871 marks (£886,043) outstanding in loans, in addition to 3,068,334 marks (£153,411) advanced in cash credits, therefore 1,039,454 in all, at the rate of about £1,706 each. They held 473,758 marks (£23,688) in share capital, and 1,176,389 marks (£58,814) in two reserve funds, and 24,620,600 marks (£1,231,040) in savings deposits.

Total management expenses, 240,905 marks (£12,045), about £19 13s. each.

6,830,114 marks (£341,505) was lent out in the course of a year in addition to 4,380,452 marks (£219,022) in cash credits, in all nearly £919 per Association.

Savings had been taken in the course of the year to the amount of 10,542,561 marks (£527,128), and loans had been repaid to the amount of 5,030,473 marks (£251,523).

In 1896 there were nearly four times the number of banks in 1893.

REPORT OF SELECT COMMITTEE

—ON—

BILL NO. 49—LOANS TO FARMERS ON EASY TERMS.

MR. SPEAKER :

We, your Special Committee appointed to inquire into the methods adopted in other countries to help farmers to obtain loans on easy terms, and to which Bill No. 49 was referred for consideration, by Order of the House dated 18th April, 1898, beg to report the same back to the House with the following recommendations :—

We think sections 16 and 17 should be amended so as to provide for a yearly election of Managing Committee, and that only one-half shall retire at a time:

Section 19 to amend that the seal should be registered, and may change and alter the same with the consent of the Lieutenant-Governor in Council:

Section 20, sub-section (1), amend by adding, with the approval of the Lieutenant-Governor in Council:

Section 32. Attention is drawn to the want of protection to Depositors who have paid in money to repay loans:

Section 33. Security on real estate to be compulsory for loans over five per cent. of the value of the property :

Section 37. Add as sub-section (6), to enable a member to pay off an existing mortgage in order to secure the Association by a first mortgage on the property :

It is the general opinion of the Committee that in the formation of Banks, the payment of existing mortgages on farm property should be the primary consideration.

Respectfully submitted,

THOMAS KIDD,
Chairman.

VICTORIA, B. C. :

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