REPORT OF THE WORKING GROUP ON INDUSTRIAL FINANCING THROUGH CO-OPERATIVE BANKS

PART ONE

RESERVE BANK OF INDIA
BOMBAY

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FIRST PUBLISHED NOVEMBER 1968

Printed by Pyarelal Sah at the Times of India Press, Bombay, India, and published by Dr C. D. Datey for the Reserve Bank of India, Agricultural Credit Department, Bombay, India

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INTRODUCTION

This Working Group owes its origin to the deliberations of the Reserve Bank's Standing Advisory Committee on Rural and Co-operative Credit. The question of industrial financing through co-operative banks was considered by the Committee at its thirty-fifth and thirty-sixth meetings held on 2 December 1966 and 23 May 1967 respectively against the background of the pressing need to accelerate the development of cottage and small-scale industries and co-operative processing industries. The key position which they occupy in the country's plans for economic development derives not only from their potential for raising rapidly the existing levels of income and employment with relatively low capital outlays but also from the need to ameliorate the economic condition of some of the weaker sections of the society. Co-operative banks have been financing co-operative processing, industrial, and weavers' societies but their potentialities in the sphere of industrial financing have yet to be fully developed. For instance, some of the larger processing co-operatives faced with the problem of financing their block capital requirements on account of the inability of the specialized term-lending institutions to meet them, have been unable to look to the co-operative banking structure for any substantial assistance to tide them over their difficulties. Similarly, a large number of small-scale industrialists, artisans and craftsmen engaged in traditional industries have no ready access to institutional credit, notwithstanding the steady progress made by the commercial banks in recent years in meeting the credit requirements of this class of entrepreneurs. The gap which remains uncovered is still so wide that, for instance, the urban co-operative banks with people of small means in towns and cities as their constituents and an almost unlimited scope for directing their activities into productive channels, have not been able to do this to any significant extent.

2. For an assessment of the reasons for the existing position, the types of inducements and encouragement needed by co-operative banks to enable them to develop their potentialities in this sphere and the nature of organizational reform which they will have to undergo in order to make a significant impact on the development of this sector of the economy, a comprehensive review was considered necessary by the Standing Advisory Committee. Accordingly, it recommended the

setting up of a Working Group by the Reserve Bank to consider the whole matter and make suitable proposals. In pursuance of this recommendation, the Governor of the Reserve Bank appointed the following Working Group on 26 June 1967 in consultation with the Standing Advisory Committee: Shri P. N. Damry, Deputy Governor, Reserve Bank of India (Chairman); Prof. D. R. Gadgil, Chairman, All-India State Co-operative Banks' Federation (Member); Shri B. Majumdar, Chairman, West Bengal State Co-operative Bank (Member); Shri R. T. Popawala, Chairman, All-India Industrial Co-operative Banks' Federation (Member); Dr P. Natesan, President, George Town Co-operative Bank, Madras (Member); Shri V. Subramanian, Registrar of Co-operative Societies, Maharashtra State (Member); and Dr C. D. Datey, Chief Officer, Agricultural Credit Department, Reserve Bank of India (Member-Secretary). Prof. D. R. Gadgil attended only the first meeting of the Working Group held on 27 July 1967 prior to his appointment as Deputy Chairman of the Planning Commission. Shri V. Subramanian continued to be a member of the Working Group after his subsequent appointment as the Commissioner of Sales Tax, Government of Maharashtra. Shri K. N. R. Ramanujam, Chief Officer of the Reserve Bank's Industrial Finance Department, attended our meetings by invitation. Shri V. M. Joglekar, General Manager, Maharashtra State Co-operative Bank, and Shri D. Varthamanan, Secretary, Madras State Co-operative Bank, assisted the Working Group as Joint Secretaries.

3. The terms of reference of the Working Group were as follows: (*a*) To examine the existing situation regarding resources available to co-operative processing industries and co-operative cottage and small-scale industries from the co-operative banking structure; (*b*) To identify the nature of the existing difficulties, if any, encountered by co-operative processing industries and co-operative cottage and small-scale industries in getting adequate resources from the co-operative banking structure; (*c*) To suggest concrete measures necessary to ensure adequate flow of funds to co-operative processing industries and co-operative cottage and small-scale industries, on the part of the co-operative banking structure and the higher financing agencies; (*d*) To examine the role of urban co-operative banks in financing cottage and small-scale industries; to identify the nature of existing difficulties, if any, and to suggest concrete measures necessary to enable the urban co-operative banks to play a positive role in financing cottage and small-scale industries; (*e*) To recommend measures necessary for bringing closer inter-relationship between the various types of co-operative

financing agencies e.g., state and central co-operative banks, industrial co-operative banks and urban co-operative banks and also between the higher financing agencies and these banks in regard to the provision of resources to co-operative processing industries and cottage and small-scale industries; and (*f*) To suggest concrete measures necessary to ensure that state co-operative banks are in a position to act as promotional and financing agencies in regard to the provision of resources to co-operative processing industries and cottage and small-scale industries including the necessary working arrangements with higher financing agencies.

4. A purposeful discussion of the wide range of questions referred to the Group was not immediately possible, since information available with regard to the existing situation in the various parts of the country was extremely limited. Accordingly, at its first meeting on 27 July 1967 the Working Group drew up 7 questionnaires for issue to various interests. Only after sufficient material had been gathered from replies to these questionnaires, as well as to other requests for data subsequently made by the Secretariat, was the Working Group able to hold a second meeting on 30 and 31 May 1968. At this and the subsequent meetings held on 27 June and 12, 13, 27 and 29 July 1968, the Group examined all the issues arising from its terms of reference and considered various alternative propositions. The final report was signed on 12 August 1968.

5. We think it worth while to express, in passing, our surprise at the tardiness of the response to our questionnaires in a number of cases, particularly on the part of the directorates of industries and departments of co-operation of some of the states. We mention this not by way of criticism but as being suggestive of the relatively small degree of importance accorded to the subject at levels of administration where we should have expected a greater aliveness to the problems of the smaller co-operative processing industries and cottage and small-scale industries. By way of contrast, we may mention that some of the replies to the questionnaires particularly those submitted by co-operative banks and some state khadi and village industries boards were replete with interest, thought-provoking and prompt.

6. Our Report issues in two parts. This is the first part consisting of our recommendations which are given in Section II. These recommendations have been made on the basis of the existing state of cottage and small-scale industries, and co-operative processing industries, the present arrangements for their financing, and the main problems arising in this context as given briefly in Section I. The detailed information

gathered by us in regard to the working of these industries is presented in the second part of the Report, which is under preparation. We would, however, like to make it clear that in making our recommendations we have freely drawn upon the comprehensive data collected and the arrangement regarding division of the report into two parts has been made merely to facilitate quick action being taken on our recommendations.

ACKNOWLEDGEMENTS

7. We are grateful to those of the state governments, khadi and village industries boards, state financial corporations, state co-operative banks, central co-operative banks and urban co-operative banks and to others, including certain individuals, for having sent detailed replies to our questionnaires.

8. We are grateful to the authorities of the Reserve Bank for providing us a Secretariat drawn from the staff of the Agricultural Credit Department. We should like to express our appreciation of the very hard work put in by the Secretariat, headed by Shri D. Mohanakrishnan, Assistant Chief Officer, in assembling the data, marshalling the facts and preparing material for the Working Group. We are indebted to Shri K. Madhava Das, Joint Chief Officer, and Shri A. N. Choksi, Deputy Chief Officer, for their unstinted assistance at all stages of the preparation of our report. We are grateful to our Joint Secretaries, Shri V. M. Joglekar, General Manager, Maharashtra State Co-operative Bank, and Shri D. Varthamanan, Secretary, Madras State Co-operative Bank, for their very valuable assistance. We have drawn upon their long practical experience in co-operative banking in connexion with our report.

SECTION ONE

BRIEF REVIEW OF THE POSITION OF COTTAGE AND SMALL-SCALE INDUSTRIES AND CO-OPERATIVE PROCESSING INDUSTRIES

9. This section gives a factual account of the position of cottage and small-scale industries in the country in the co-operative sector and outside it together with that of the co-operative processing industries. The role of co-operative banks in financing these industries has also been discussed in this context. The general term ' industrial co-operative society ' denotes weavers' societies, industrial societies other than weavers' societies and processing societies. In the case of industrial societies including weavers' societies the members themselves are generally producers whereas in agricultural processing societies production is generally organised in factory-units with membership drawn from the growers of agricultural produce or the consumers of such produce or even the workers engaged in the processing plants. It should be made clear that the term processing society or industry has reference only to the processing of agricultural produce throughout the report.

WEAVERS' CO-OPERATIVE SOCIETIES

10. There were 12,947 primary weavers' societies at the end of June 1966. The number of dormant societies was 4,497, forming 34·7 per cent of the total*. The percentage of dormant weavers' societies was above 50 in three states viz., Madhya Pradesh, Rajasthan and Uttar Pradesh; between 25 and 50 in six states viz., Assam, Gujarat, Kerala, Orissa, Punjab and West Bengal as well as in the Union Territories of Delhi, Himachal Pradesh, Manipur and Tripura and below 25 in four other states viz., Andhra Pradesh, Madras, Maharashtra, and Mysore. The average value of production of an active weavers' society for the country was Rs 0·63 lakh. It was above Rs 0·50 lakh in Andhra Pradesh, Kerala, Madras, Maharashtra, Orissa, West Bengal and Pondicherry, between Rs 0·25 and Rs 0·50 lakh in Bihar, Gujarat, Madhya Pradesh, Mysore, Rajasthan, Uttar Pradesh and Andaman and Nicobar, and below Rs 0·25 lakh in Assam, Jammu and Kashmir, Punjab, Himachal Pradesh, Manipur and Tripura. Nearly 42 per cent of the total or 5,437 weavers' societies worked at a profit during 1965-6.

11. The total borrowings of primary weavers' co-operative societies outstanding as on 30 June 1966 amounted to Rs 18·56 crores. The share of the different financing agencies was as under: (1) the apex and

* Data for Jammu and Kashmir are not available.

central banks, Rs 8·63 crores; (2) government, Rs 8·20 crores; and (3) others, Rs 1·72 crores. The extent to which the borrowings were for working and block capital requirements is not available except in the case of co-operative banks which have replied to our questionnaires. This is discussed below separately. The paid-up share capital of primary weavers' co-operative societies aggregated Rs 6·47 crores as on 30 June 1966 and comprised Rs 0·11 crore from government, Rs 0·01 crore from other societies and Rs 6·36 crores from individuals, of which Rs 0·77 crore represented contributions made out of government loans provided for the purpose.

12. The main finding emerging from the above data is that about three-fifths of the weavers' societies were unable to work profitably and about one-third of them were dormant. It is thus evident that a large number of weavers' societies have been organized without regard to their ability to function as viable units. This is a lesson for the future.

13. Section 17(2) of the Reserve Bank of India Act was amended in 1953 by the addition of clause (bb), which enabled the Reserve Bank to provide accommodation for financing the production and marketing activities of cottage and small-scale industries specifically approved by the Bank. This was an important development and the Reserve Bank made a tentative start in 1957-8 with accommodation to apex banks for financing the cotton handloom weavers' societies. Recently approval has been extended by the Bank under this section to silk and woollen handloom weavers' societies and to powerloom societies in the co-operative sector. In order to enable the Bank to evolve suitable procedures for financing handloom weavers' societies and with a view to speeding the progress of the cotton handloom weaving industry organized predominantly in the co-operative sector, a pilot scheme for handloom finance was introduced in 1960. In consultation with the All-India Handloom Board, 9 districts in 8 states (Andhra Pradesh, Bombay (now Maharashtra), Bihar, Madhya Pradesh, Madras, Kerala, Mysore and Orissa) were selected for the purpose.

14. The pilot scheme which was operated by the co-operative financing banks, in conjunction with the state governments, had the following objectives in view: (*i*) to bring as large a number of handlooms as possible in the area within the co-operative fold; (*ii*) to make available adequate finance to these societies with reference to definite targets of production; (*iii*) to study and solve the organizational problems regarding handloom weavers' societies; (*iv*) to make adequate arrangements for supervision and audit and for technical assistance to

the societies; (*v*) to provide proper representation to weavers' societies on the management of the central bank concerned; and (*vi*) to strengthen the share capital of the banks by participation by the state government to enable them to finance weavers' societies adequately.

15. The pilot scheme though started eight years ago, has not yet made any significant impact on the viability of the primary weavers' societies or enabled them to get adequate credit facilities from the central banks. Actually, the number of active looms within the co-operative sector has shown a decline in the areas selected for the pilot scheme in Andhra Pradesh and Mysore since the introduction of the scheme. The targets for production fixed were not achieved in Andhra Pradesh, Gujarat, Madhya Pradesh and Orissa. Special staff for supervision and audit of the weavers' societies as required under the pilot scheme has not been appointed in Kerala and Madhya Pradesh. In Mysore, the special staff was subsequently withdrawn.

16. At the fourth meeting of the Standing Finance Committee of the All-India Handloom Board held in Madras on 20 March 1967, the question of continuing the pilot scheme was discussed. The committee was generally of the opinion that the scheme had not met with the success expected of it. The Committee referred to the production-oriented system of financing handloom weavers' societies introduced by the Reserve Bank in 1965-6. Under this system, instead of sanctioning loans on a per-loom basis, the eligibility for loans of primary weavers' societies would be determined on the basis of the value of production. However, in view of several difficulties which had come to light in the working of the pattern of finance evolved by the Reserve Bank, the Committee recommended that the pilot scheme should be continued from the point of view of finding a solution to these difficulties.

INDUSTRIAL CO-OPERATIVE SOCIETIES OTHER THAN WEAVERS' SOCIETIES

17. We now give a brief account of the industrial co-operative societies other than those for weavers. There were 34,950 primary industrial co-operative societies other than weavers' societies in the country at the end of June 1966. These societies have been classified under seventeen categories according to the type of industrial activity in which they are engaged for the purpose of the Statistical Statements

relating to the Co-operative Movement in India published annually by the Reserve Bank of India. Their distribution based on data for the year 1965-6 is given below:

Type of Industrial Activity	*No. of Societies*
Oil Crushing	4,463
Palm Gur	4,141
Handicraft Industries§	2,790
Flaying and Tanning	2,303
Leather Goods	2,253
General Engineering*	1,898
Hand Pounding of Paddy and Cereals	1,701
Pottery	1,322
Construction Material	1,110
Cane Gur and Khandsari	700
Coir	652
Chemical Engineering†	566
Spinners' Societies	193
Sericulture	104
Canning of Fruits and Vegetables	24
Miscellaneous Industries‡	6,211
Other Village Industries¶	4,470

Notes

§ The term handicraft industries comprises a group of 28 industries including *bidri* and *jari* work, papier mache, jewellery and ornament making, etc.

* The category general engineering comprises a group of 30 small-scale industries ranging from hosiery and garment-making to various types of metal, brass and aluminium-ware industries as well as manufacture of agricultural implements, sewing machines, motor and bicycle parts and electrical accessories.

† The term chemical engineering comprises a group of 12 industries including pharmaceuticals, glassware, rubber and plastic goods, perfumery and soap-making.

‡ The term miscellaneous industries comprises a group of 18 industries such as manufacture of beedies, buttons, sports goods, etc., as well as industrial societies organized for the welfare of women.

¶ The term other village industries comprises a group of 7 industries, e.g., carpentry and blacksmithy, bee-keeping, honey and honey products, handmade paper and cottage match.

18. Of the 34,950 primary industrial co-operative societies, however, as many as 15,503 societies were dormant*. The percentage of dormant industrial societies was above 50 in Andhra Pradesh, Madhya Pradesh, Rajasthan, Uttar Pradesh and Andaman and Nicobar; between 25 and 50 in Assam, Gujarat, Kerala, Maharashtra, Mysore, Orissa, Punjab, West Bengal, Delhi, Manipur and Tripura; and below 25 per cent in Bihar, Madras and Himachal Pradesh. Out of a total of 24,703 societies, for which detailed information is available, 18,270 were engaged in production and 6,433 were of the service type. The average value of production per society engaged in production was Rs 0·15 lakh for the country as a whole. It ranged between Rs 0·25 lakh and Rs 0·50 lakh in three states viz., Bihar, Gujarat, and Orissa; and below Rs 0·25 lakh in the remaining states. Nearly 28 per cent of the total, or 9,865 industrial societies worked at a profit. In terms of the number of societies working at profit, the number of dormant societies and the average size of operations per society, the working of industrial societies other than weavers' was thus even more unsatisfactory than that of weavers' societies.

19. The total borrowings of industrial co-operative societies other than weavers' outstanding as on 30 June 1966 amounted to Rs 17·13 crores. The share of the different financing agencies was as under: (1) government, Rs 7·87 crores; (2) apex and central banks, Rs 6·14 crores; and (3) others, Rs 3·12 crores. The assistance provided by khadi and village industries boards by way of loans is not included under the category 'others' in the case of all the states. Information on the extent to which the loans were for working or block capital requirements is not available except in the case of co-operative banks which have replied to our questionnaires. This is discussed below separately. The total paid-up share capital of the industrial co-operative societies other than weavers' societies amounted to Rs 8·53 crores as on 30 June 1966 and comprised Rs 0·22 crore from other societies, Rs 1·20 crores from government and Rs 7·11 crores from individuals, of which Rs 0·56 crore represented contributions made out of government loans provided for the purpose.

20. As many as 19,371 industrial societies or 55 per cent of the total came under the purview of the state khadi and village industries boards. During 1965-6, the state khadi boards provided loans aggregating Rs 515·69 lakhs, and grants totalling Rs 219·32 lakhs to various types of khadi and village industries, including loans to industrial

* Data for Jammu and Kashmir are not available.

co-operative societies. As on 31 March 1966, the loans outstanding from industrial co-operative societies in respect of eleven state khadi boards aggregated Rs 823·31 lakhs, of which Rs 181·35 lakhs, or 22 per cent of the total were overdue.

21. Reference may be made here to two important categories of co-operative societies viz., labour contract societies and forest labour societies. As on 30 June 1966, there were 4,786 labour contract (construction) societies consisting of 4,674 societies for execution of works and 112 societies for loading and unloading of goods. Their membership stood at 2,99,708. The number of active societies was 3,007 forming 62·8 per cent of the total. The share capital and working capital of the labour contract societies at the end of June 1966 amounted to Rs 93·26 lakhs and Rs 486·70 lakhs, giving an average of Rs 0·02 lakh and Rs 0·10 lakh per society respectively. The value of works executed by these societies during 1965-6 amounted to Rs 911·59 lakhs or an average of Rs 0·30 lakh per working society. During 1965-6, 1,609 societies worked at a profit, the average profit for such societies amounting to Rs 0·02 lakh per society.

22. There were 1,255 forest labour (contract) societies at the end of June 1966 consisting of two categories viz., 1,038 for tribals and 217 for non-tribals. Their membership came to 1,17,915. Of the total number of societies, 837 societies or 66·7 per cent of the total were active. The share capital and working capital of the forest labour societies amounted to Rs 32·53 lakhs and Rs 189·64 lakhs or an average of Rs 0·03 lakh and Rs 0·15 lakh per society respectively. The value of business executed by these societies during 1965-6 amounted to Rs 462·07 lakhs, giving an average of Rs 0·55 lakh per working society. During 1965-6, 576 societies worked at a profit, the average profit being Rs 0·15 lakh per society making a profit.

CO-OPERATIVE INDUSTRIAL ESTATES

23. There were 107 co-operative industrial estates in the country as on 30 June 1966. These industrial estates were distributed among ten states, their number being relatively large in three states viz., Maharashtra (57), Gujarat (21) and Uttar Pradesh (11). Their membership stood at 6,657 consisting of 358 co-operative societies and 6,299 individuals and others. Their paid-up capital as on 30 June 1966 amounted to Rs 194·54 lakhs, of which Rs 48·25 lakhs came from the

government. The deposits of the industrial estates aggregated Rs 93·49 lakhs and constituted 20 per cent of their working capital. Their borrowings amounted to Rs 154·62 lakhs, of which Rs 72·46 lakhs came from the government, Rs 62·31 lakhs from the Life Insurance Corporation, Rs 13·45 lakhs from the central financing agencies and Rs 6·41 lakhs from others. The working capital of the estates amounted to Rs 467·81 lakhs, giving an average of Rs 4·37 lakhs per estate. The estates provided employment, both directly and through their members, to 7,087 persons. During 1965-6, the estates completed the construction of 1,007 worksheds, of which 856 worksheds were occupied as at the end of June 1966. During the same period, they advanced loans aggregating Rs 33·43 lakhs to their members. During 1965-6, 53 estates made a profit of Rs 4·12 lakhs (an average of Rs 0·08 lakh per estate working at a profit), 31 estates incurred losses aggregating Rs 2·26 lakhs, while 23 estates showed neither profit nor loss.

SMALL-SCALE INDUSTRIAL UNITS OUTSIDE THE CO-OPERATIVE SECTOR

24. An important recent development connected with small-scale industries has been the revision by the Government of India, in October 1966, of the definition of such industries to include units with an investment of not more than Rs 7·50 lakhs in plant and machinery irrespective of the number of persons employed. In the case of ancillary industrial units the capital investment should be not more than Rs 10 lakhs. A census of small-scale industrial units in the country has not so far been attempted. Under the Factories Act, 1948, factories which employ 50 or more workers with the aid of power or 100 or more workers without the aid of power should be registered thereunder. There were 41,877 small-scale industrial units registered under the Factories Act in the country according to the latest annual Survey of Industries for 1964 brought out by the Central Statistical Organization of the Government of India in 1968. The largest number of such units were among the food manufacturing industries (10,259); 7272 units manufactured textiles and 3541 machinery other than electrical machinery. An all-India Directory and Handbook of Small-scale Industries was published in September 1966 by the Federation of Associations of Small Industries of India. This Directory has listed 55,713 small-scale industrial units in the country. This list does not

appear to be exhaustive. According to it, 19·31 per cent of the small-scale industrial units belonged to the category 'manufacturing steel and other metal products', followed by 'textiles' and 'mechanical engineering industries' forming 16·25 per cent and 12·15 per cent, respectively, of the total. A large number of small-scale industrial units including those within the scope of the Factories Act totalling 1,12,904 as on 31 December 1966 were registered with the Directorate of Industries in various states. Their division according to the type of industries is not available. The largest number of units was in Punjab (20,355), followed by Maharashtra (19,003), Uttar Pradesh (13,441), West Bengal (11,015) and Madras (10,431). It is not possible to give any indication regarding the number and type of small-scale and cottage industries in the rural areas in the absence of data.

25. Financial accommodation is available to small-scale industrial units from the state governments (under the state aid to industries acts), the various statutory boards (such as the state khadi boards), the State Bank of India and other commercial banks, the state financial corporations, the National Small Industries Corporation, the state small industries corporations, etc. The details relating to the credit facilities made available by some of these agencies are given in Appendix I.

26. The problem of finance for working and block capital is particularly pronounced in the case of those small-scale industries or individual entrepreneurs who cannot, for various reasons, provide security to the full extent required. It would appear that such units are being driven to non-institutional sources for their credit requirements at relatively high rates of interest.

PROCESSING SOCIETIES

27. We may now refer briefly to the present position of co-operative processing societies. There were 2,192 co-operative processing societies in the country as on 30 June 1966 comprising 78 sugar factories, 65 spinning mills, 155 cotton ginning and pressing societies and 1,894 units of other types including 142 rice mills, 329 paddy husking societies and 298 oil crushing societies. The number of societies working at a profit was 566 or 26 per cent of the total. About 50 per cent of the cotton ginning and pressing societies and sugar factories and less than 25 per cent of the spinning mills and other processing societies worked at a profit during 1965-6. The outstanding borrowings of all

the processing units amounted to Rs 8,874·82 lakhs, of which Rs 7,017·10 lakhs were borrowed by co-operative sugar factories (an average of Rs 90 lakhs per unit), Rs 1,243·31 lakhs by the spinning mills (an average of Rs 19·1 lakhs per mill) and Rs 339·01 lakhs by the cotton ginning and pressing societies (an average of Rs 2·2 lakhs per society).

28. Some of the important factors limiting the development of processing units as indicated by the replies of the state governments to our questionnaire are: inadequacy of block capital (Andhra Pradesh, Bihar, Gujarat, Kerala, Madras, Maharashtra, Mysore, Uttar Pradesh and West Bengal); delay in getting loans from financial institutions (Andhra Pradesh, Gujarat, Madhya Pradesh, Madras, Maharashtra, Mysore and Uttar Pradesh); lack of technical 'know-how' (Kerala, Mysore and Uttar Pradesh); inability of members to raise the required share capital speedily (Maharashtra and Uttar Pradesh); inability of units to provide margin money (Maharashtra) and lack of raw materials (Kerala and Madras).

29. Of the total borrowings of processing societies outstanding as on 30 June 1966 which amounted to Rs 88·75 crores, the share of the different financing agencies was as under: (1) apex and central banks, Rs 34·79 crores; (2) government, Rs 3·14 crores; (3) the Industrial Finance Corporation, Rs 24·99 crores; (4) the State Bank of India, Rs 12·39 crores; and (5) others, Rs 13·44 crores. The Industrial Finance Corporation and the government provide finance for block capital. About half the finance provided by 'others' (which would include the state financial corporations) and about one-third of that provided by the State Bank of India was for block capital. The extent to which state co-operative banks provided finance for block capital is referred to below in paragraph no. 32. The total paid-up share capital of these processing societies amounting to Rs 46·31 crores as on 30 June 1966 was distributed among different types of societies as under: sugar factories (Rs 28·91 crores); spinning mills (Rs 12·00 crores); cotton ginning and pressing societies (Rs 2·48 crores); and all others (Rs 2·92 crores). The contribution of the government to the share capital of processing societies amounted to Rs 19·45 crores.

VAIDYANATHAN COMMITTEE

30. A committee on the financing of co-operative processing units appointed by the National Co-operative Development Corporation

under the chairmanship of Shri P. P. I. Vaidyanathan, Additional Secretary, Department of Co-operation, Ministry of Food, Agriculture, Community Development and Co-operation, which submitted its report in January 1968 has estimated that block capital requirements of processing co-operatives during the three-year period ending 1970-71 would be Rs 165 crores. Of these, Rs 105 crores would have to be financed by loans for block capital, the balance consisting of the share capital contribution of members and the government. The loan requirement for block capital of large-sized processing units such as sugar factories, spinning mills, solvent extraction plants, etc., have been estimated at Rs 60 crores whereas those of others at Rs 45 crores. The committee has recommended that the block capital requirements of the large-sized units should be met mainly by the Industrial Finance Corporation and to some extent by the Industrial Development Bank and the Life Insurance Corporation. However, no attempt has been made to allocate any specific amounts to each of these institutions. It has recommended that the central government should make necessary arrangements for augmenting the resources of these financing agencies, particularly the Industrial Finance Corporation, to enable them to provide loans of the order envisaged by the committee. As regards the block capital requirements of small and medium-sized processing units which are expected to be of the order of Rs 45 crores till 1970-71, the committee's view is that these will have to be met partly by the financing institutions such as the State Bank, the state financial corporations and the co-operative financing agencies and partly by the state governments. The committee is of the opinion that in the light of previous experience, these financing agencies (other than the state governments) may not be able to provide anything more than Rs 7 crores to meet the block loan requirements of small and medium-sized units. There will thus be a gap of Rs 38 crores in regard to loans to these types of units which, according to the committee, will have to be met by the state governments. In order to enable the state governments to meet the shortfall the committee has suggested two alternatives: the central government should provide the requisite long-term funds to the National Co-operative Development Corporation for the purpose of assisting the state governments: alternatively, the National Co-operative Development Corporation Act, 1962, should be amended to enable the corporation to raise resources through debentures and by borrowing from national and international agencies. These suggestions, in so far as they have a bearing on the terms of reference of our Working Group, have been referred to in section II.

ROLE OF CO-OPERATIVE FINANCING AGENCIES

31. We have so far referred briefly to the main types of industrial co-operative societies and to small-scale industries. We now state briefly the arrangements in regard to the financing of these units by the co-operative banking structure. The following table gives the important particulars:

(Rs Lakhs)

Type of financing bank	Processing Societies: No. of financing banks during 1965-6	No. of units financed	Loans outstanding as on 30.6.66	Weavers' Societies: No. of financing banks during 1965-6	No. of units financed	Loans outstanding as on 30.6.66	Other Industrial Societies: No. of financing banks during 1965-6	No. of units financed	Loans outstanding as on 30.6.66
State Co-operative Banks*	10	111	2415·43	7	17	203·07	5	103	76·74
Central Co-operative Banks£	65	297	827·42	161	2481	624·00	134	1476	200·16
State Industrial Co-operative Banks†	Nil	Nil	Nil	1	6	5·68	2	216	147·28
Central Industrial Co-operative Banks‡	4	4	2·18	15	415	100·36	17	374@	87·28§

* Out of 25 apex banks, 18 have furnished replies to this part of the Questionnaire for the year 1965-6.

£ Out of 342 central banks, 329 banks have furnished data.

† There are now three state industrial co-operative banks. The State Industrial Union in Uttar Pradesh is in the process of being amalgamated with the Uttar Pradesh State Co-operative Bank.

‡ Twenty-five out of the 26 central industrial co-operative banks have furnished replies to our Questionnaire; 4 out of 25 reporting banks have not furnished data regarding financing of industrial units; two other banks have not financed any unit.

@ Based on data furnished by 16 central industrial co-operative banks.

§ Includes loans outstanding against weavers' societies in respect of one bank.

State Co-operative Banks

32. The Haryana, Nagaland, Punjab, Rajasthan, Himachal Pradesh and Chandigarh State Co-operative banks did not finance industrial co-operatives directly during 1965-6. The Mysore, Uttar Pradesh, West Bengal, Delhi and Himachal Pradesh State Co-operative Banks have not furnished information relating to the financing of industrial co-operatives by them during 1965-6. The data for the remaining twelve apex banks which furnished information relating to the year 1965-6 indicate that as on 30 June 1966, Rs 203·07 lakhs were outstanding against seventeen apex, regional or primary weavers' societies; Rs 76·74 lakhs were outstanding against 103 other industrial societies and Rs 2415·43 lakhs were outstanding against 111 processing societies including a sum of Rs 772·96 lakhs for block capital.

Central Co-operative Banks

33. Of the 342 central banks in the country, 329 banks have furnished information on the financing of industrial co-operatives. Of these, 65 banks had financed 297 processing societies, the amount involved being Rs 827·42 lakhs. One hundred and sixty-two banks had financed 2,481 weavers' societies to the extent of Rs 624·00 lakhs and 134 banks had financed 1,476 other industrial societies to the extent of Rs 200·16 lakhs as at the end of 1965-6. Central co-operative banks in 13 states had provided medium-term and long-term finance. The outstanding medium-term and long-term advances of reporting central banks amounted to Rs 104·41 lakhs, forming 6·32 per cent of their advances to industrial co-operatives. The overdues of central banks from industrial co-operatives stood at Rs 205·33 lakhs as on 30 June 1966 forming 12·43 per cent of the outstanding advances of these banks to industrial co-operatives.

State-level Industrial Co-operative Banks

34. All the three state-level industrial co-operative banks (Madras, Mysore, and Rajasthan) have furnished information relating to the financing of industrial co-operatives. These banks have been declared as state co-operative banks by the respective state governments.

35. Of the three states in which an industrial co-operative bank at the apex level has been organised viz., Madras, Mysore, and Rajasthan, there is no separate organization at the district level for financing industrial co-operative societies in Madras and Rajasthan. The banks

differed considerably in the size of their operations, their working capital as on 30 June 1966 ranging from Rs 19·36 lakhs in Rajasthan to Rs 212·90 lakhs in Mysore. As on 30 June 1966, as against outstanding loans of Rs 183·84 lakhs of the Mysore State Industrial Co-operative Bank, its deposits amounted to Rs 15·18 lakhs and the bulk of its resources were derived from borrowings, viz., Rs 106·80 lakhs entirely from the government. As much as Rs 74·56 lakhs of its outstanding loans of Rs 183·84 lakhs were overdue. In the case of the Madras State Industrial Co-operative Bank, as against the outstanding loans of Rs 62·45 lakhs as on 30 June 1966, its deposits amounted to Rs 22·88 lakhs. At the end of June 1966, the outstanding loans of the Rajasthan State Industrial Co-operative Bank aggregated Rs 11·80 lakhs while its deposits amounted to Rs 7·37 lakhs. The society-membership of the Madras State Industrial Co-operative Bank as on 30 June 1966 was 345, of which it had financed only 61 societies. The society-membership of the Rajasthan State Industrial Co-operative Bank was 201, of which it had financed a mere 43.

CENTRAL (DISTRICT-LEVEL) INDUSTRIAL CO-OPERATIVE BANKS

36. Of the 26 central industrial co-operative banks in the country, the area of operation of each of 23 banks was confined to a revenue district. The Southern Gujarat Industrial Co-operative Bank and the Saurashtra Industrial Co-operative Bank in Gujarat State and the Hassan and Coorg Industrial Co-operative Bank in Mysore State have an area of operation covering 3 districts, 7 districts and 2 districts, respectively. The Southern Gujarat Industrial Co-operative Bank has five branches. The Saurashtra Industrial Co-operative Bank, with an area of operation covering seven districts, functioned without any branches. In the case of the Hassan and Coorg Industrial Co-operative Bank serving Hassan and Coorg Districts, a new bank has since been organized with its area of operation covering the Coorg district alone.

37. The membership and nature of advances of the central industrial co-operative banks have been furnished in Appendix II. It will be seen therefrom that in almost all the central industrial co-operative banks, the number of individual members far exceeded that of societies. The entire amount of loans outstanding in the case of the Jullundur Bank [illegible] June 1966 was against societies while in the case of the

remaining banks in the country excepting Bijapur, Dharwar, Sholapur and Southern Gujarat, a large portion of the outstanding loans was against individuals.

Urban Co-operative Banks

38. Out of about 600 urban (primary) co-operative banks in the country, more than three-fourths were in four states viz., Maharashtra (173), Gujarat (104), Mysore (102) and Madras (98). There were no urban banks in Jammu and Kashmir, Nagaland, Uttar Pradesh, Andaman and Nicobar, Chandigarh, Himachal Pradesh and Tripura. The urban banks are thus unevenly distributed in the country. Our questionnaire was sent to 116 selected banks i.e., about twenty per cent of the total. The urban banks in the various states were classified into five groups on the basis of their owned funds and about twenty per cent from each group were selected at random. In respect of the states where the number of such institutions was five or less than five, the questionnaire was addressed to one bank only. Of the 116 banks, all of which have replied to our questionnaire, only 18 had financed industrial units. According to the details furnished by these 18 banks, 444 industrial units had been financed by them, their outstanding advances against such units aggregating Rs 117·01 lakhs as on 30 June 1966.

GUARANTEE ARRANGEMENTS

The Credit Guarantee Scheme

39. The credit guarantee scheme for small-scale industries was introduced in July 1960 by the Government of India initially in 22 selected districts and was extended to the whole country with effect from 1 January 1963. Under the scheme, the Reserve Bank has been designated as the guarantee organization and administers the scheme as agent of the Government of India. Advances sanctioned by credit institutions approved in this behalf by the Reserve Bank to small-scale industrial units engaged in the manufacture, processing or preservation of goods and organized on a co-operative basis or otherwise are eligible for guarantee under the scheme. The scheme provides for the lending institution's losses being shared between it and the guarantee organization. The guarantee facilities can be availed of also by credit institutions not on the approved list of the Reserve Bank, in participation

with approved institutions provided the share of advance or risk assumed by the latter is not less than 25 per cent of the total amount of the advances. The guarantee available under the scheme to credit institutions covers a minimum of between 64 per cent and 68 per cent of the amount in default, depending on the amount guaranteed. In certain circumstances, the full amount of default may be met by the guarantee organization. The maximum amount of loss recoverable against a guarantee in respect of any one advance is fixed at Rs 2 lakhs. The working of the scheme has been constantly reviewed in the Reserve Bank and suitable relaxations made from time to time in the provisions of the scheme. The procedures adopted by the Bank in the disposal of guarantee applications have also been somewhat modified, so as to minimise the time taken in the issue of guarantee certificates; principally, the forms of application for guarantee and the annexures prescribed for the purpose of the scheme have been simplified from time to time. The submission of financial statements by the borrower has been waived in cases where the aggregate guarantees for the limit sanctioned to one unit does not exceed Rs 50,000 (Rs 30,000 for term loans where the guarantee is for periods exceeding 2 years), provided the credit institution certifies the financial position of the borrower.

40. Initially, in so far as the co-operative banking structure was concerned, only the state co-operative banks were eligible for guarantee under the scheme. In August 1966, besides the 21 state co-operative banks, all the central co-operative banks and the four industrial co-operative banks (viz., Belgaum, Bijapur, Dharwar, and Sholapur which have been recognized by the Reserve Bank for the routing of concessional finance under section 17(2)(bb) of the Reserve Bank of India Act) and licensed primary (urban) co-operative banks were made directly eligible for guarantee under the scheme. Other co-operative banks may derive the benefit of the scheme only in participation with approved credit institutions.

41. Up to 30 November 1967, only the Maharashtra and the Delhi State Co-operative Banks and the central co-operative banks of Nagaur, Bhopal, Ujjain, and Bilaspur have made use of the facilities under the scheme, the number of guarantees outstanding as on 30 November 1967 and their coverage being 15 and Rs 3·07 lakhs.

The Ninety-Per-cent Guarantee Scheme

42. This scheme was introduced by the Government of India in 1957. Certain important changes in it were made in 1961. Losses arising out

of repayment of loans covered under the first scheme of 1957 and the amount in default in respect of loans covered by the scheme of 1961 are shared by the central government, the state government, and the banks in the ratio of 50 : 40 : 10. Under both the schemes, the maximum aggregate amount payable by the Government of India shall not exceed 5 per cent of the total funds disbursed in the state and outstanding under the schemes on 30 June or 31 December preceding. The first scheme for granting loans to handloom co-operative societies was introduced in 1957 in order to cover 90 per cent of the losses incurred by the banks on their advances to handloom co-operatives. It is being implemented in all states and covers all advances to handloom co-operatives coming under the Reserve Bank of India's scheme for handloom finance. This scheme does not cover defaults but only the ultimate losses. Under the second scheme introduced in 1961, defaults arising from loans provided by the co-operative financing banks are met under the guarantee scheme, the share of the central government, state government and the banks being in the ratio of 50: 40: 10 as in the case of the first scheme. This scheme provides for payment on default. It was initially meant to cover advances made by co-operative banks but was extended in 1962 to loans and advances sanctioned by the State Bank and its subsidiaries in areas where co-operative banks were unable to finance industrial co-operatives. This scheme covers all types of industrial co-operatives such as those undertaking production or sales activities or service societies as well as federal societies as also processing societies. It has been introduced in Gujarat, Maharashtra, Madhya Pradesh, and Punjab for industrial co-operatives other than weavers' societies. The Governments of Kerala and Pondicherry have accepted the scheme in principle. In the case of other states, no final decision has been taken by them regarding the introduction of the scheme.

43. The amounts guaranteed and outstanding on 31 March 1965 and 31 March 1966 for the states in which the second scheme is in operation with the exception of Punjab, for which this information is not available, are indicated in the table on page 23.

SOME GENERAL OBSERVATIONS

44. The above factual account summarizing the present position of industrial co-operatives and of small-scale industrial units outside the

	Amounts guaranteed outstanding on 31 *March* 1965	Amounts guaranteed outstanding on 31 *March* 1966
	Rs	Rs
Gujarat	8,90,000	15,98,000
Maharashtra	3,17,225	5,17,992
Madhya Pradesh	3,11,200	1,68,400

co-operative sector, as well as the part played by co-operative banks in financing them may be supplemented by a reference to the difficulties reported by various agencies in the operation and financing of these industries. The difficulties of industrial co-operatives reported by 18 state governments and 16 state khadi and village industries boards are summarized below:

Nature of Difficulty	*No. of States/Khadi boards reporting the difficulty* *States*	*Khadi Boards*
Inability of societies to procure raw materials at competitive rates	13	15
Inadequate credit facilities	13	12
Marketing difficulties	14	12
Lack of loyalty of members	8	9
Lack of trained managerial personnel and supervisors	9	9
Lack of technical guidance and common facilities and equipment	8	10
Weak financial position of societies	2	2
Intrusion of vested interests	—	2

Industrial co-operatives are experiencing various difficulties especially in regard to production of goods as well as in disposing of the finished products at remunerative prices. The difficulty of getting trained managerial personnel appears to have accentuated their other problems.

45. The views expressed by central co-operative banks regarding the difficulties faced by them in financing industrial societies may be taken note of in the context of the inadequacy of credit facilities to such societies referred to by the state governments and the state khadi and village industries boards. Of the 329 reporting central banks, 221 have given their views in this regard. Similarly, out of the 25 reporting central industrial co-operative banks, 19 have given their views. These are summarized below:

Nature of Difficulty	*No. of central banks reporting the difficulty*	*No. of central industrial co-operative banks reporting the difficulty*
Weak financial and organizational structure of societies	68	6
Inadequacy of medium-term and long-term resources	46	13
Complicated procedure of financing weavers' societies	13	—
Existence of separate financing agency for industrial societies	45	—
Pressing demand of the agricultural sector	23	—
Restriction in by-laws regarding sanction of loans exceeding one year etc.	12	6
Unsatisfactory repayment performance and working of industrial societies	36	1

The co-operative banks have drawn pointed attention to the weak financial position of industrial societies. The banks have also referred to their limited resources for financing such societies. Obviously, in ensuring an increased flow of credit to industrial co-operative societies these limitations will have to be rectified. However, our own impression in regard to the various difficulties referred to by the central banks in financing industrial co-operatives is that many of them could have been overcome or reduced to manageable proportions by the exercise of initiative and leadership which these banks ought to provide. We attach considerable importance to this aspect of the role envisaged by us for co-operative banks in the future, in the field of industrial financing.

46. Whereas central co-operative banks finance industrial societies, the co-operative financing agency available to small-scale industrial units which are not organised into co-operative societies is the urban co-operative bank. The difficulties expressed by 101 urban banks in financing small-scale industrial units out of a total of 116 reporting banks are summarized below:

Nature of Difficulty	*No. of banks reporting the difficulty*
Paucity of overall resources	63
Lack of or restrictive provision in the by-laws regarding membership, ceiling on loans etc.	60
Inadequate medium-term and long-term resources	53
Lack of demand from industrial units	26
Risks involved in financing	18
Limited area of operation	1

Urban banks have also emphasized the problem of resources. They have also referred to some procedural difficulties, e.g., the restrictive provisions in their by-laws. An increased flow of finance to small-scale industrial units through urban co-operative banks would be possible if these difficulties are overcome in a suitable manner.

47. The Government of India in introducing its Credit Guarantee Scheme in 1960 contemplated even those small-scale industries being assisted, the profitability of which could not be forecast with absolute certainty. Why the facilities available under the scheme have not been used to any significant extent by co-operative banks has not been explained by the majority of the reporting banks, although specific questions in this regard were addressed to them in the questionnaires. It appears that the co-operative banks are not yet sufficiently familiar with the scheme.

48. The organizational weaknesses and financial inadequacy of cottage and small-scale industries and the limitations in regard to the financial assistance available to them through co-operative banks and other agencies emerge prominently from the preceding paragraphs of this section. We now turn to our recommendations.

SECTION TWO

RECOMMENDATIONS

Reorganization of Societies

49. Section I discloses that 34·7 per cent of the weavers' societies and 44·4 per cent of the industrial co-operative societies other than weavers' societies are dormant. Financial accommodation to any such society should be dependent upon its being revived and strengthened so as to ensure its viability. This objective will not be achieved by any general, omnibus plan. There is no panacea. The reorganization of each individual society will call for close attention to its peculiar problems and a careful assessment by a field study of the local circumstances making for, or militating against, its viability. Wherever viability for an individual unit is not in sight, the possibility of merging two or more existing societies so as to make one viable unit must be closely explored before a decision is taken to resort to liquidation in any case.

50. The reorganization and strengthening of existing societies whether or not involving liquidation of dormant societies which have no prospect of becoming viable and the amalgamation of weak societies, are in our view executive responsibilities to be shouldered primarily by the state governments, no doubt with the close and active involvement of the state co-operative banks and central co-operative banks. In this context, we find it desirable to set down in detail the principal lines of action which the state governments might with advantage adopt. These are:

(*i*) Determination of the minimum level of production and sales, and, where relevant, ancillary services, during a year which would give each society an income, assuming a reasonable margin on its credit and trading activities, which is adequate for meeting its operational and other costs. Such costs would relate to the following important items: (*a*) having an office; (*b*) payment of salary to the secretary or manager and other staff required for performing the requisite services; and, at the appropriate time; (*c*) contribution to reserves and (*d*) payment of a reasonable dividend.

(*ii*) Delimitation of the area of operation of each society in such a manner, having regard to the existence of the number of craftsmen, artisans and other small entrepreneurs, as to enable the society to acquire adequate membership. Other local considerations which are important in this context may be mentioned: (*a*) the engagement of members in the activities within the purview of the society should be regular and not merely casual; (*b*) there should be reasonable prospects of the mutuality of interests being recognized by the members and their loyalty to their society being assured; (*c*) there should exist territorial cohesion among the members. Thus, the membership of the society should be drawn from villages or areas which are situated within a reasonable distance from the headquarters of the society or should be clustered in an industrial estate or notified industrial area. By contrast, the concept of cohesion as applicable to co-operative processing societies in which production is organized in factory units and not carried on by members individually postulates their membership being drawn from growers of the raw material used by the societies who are to be found in an area large enough to ensure an adequate supply of raw material to the societies, but not so large as to render uneconomic the cost of raw material supplied to the societies; (*d*) the necessary raw material and equipment are available and reasonably good prospects exist for the marketing of the finished products.

(*iii*) Identification of individual viable and potentially viable societies which are to be retained, on the basis of criteria such as those referred to above.

(*iv*) Identification of weak societies and their absorption by stronger ones or their unification with other weak societies to create single units with a fair chance of achieving viability.

(*v*) Enlargement of the area of operation of some societies which cannot be amalgamated with existing viable or potentially viable societies if such enlargement is feasible and is likely to make them viable.

(*vi*) Prompt and effective action to take into liquidation societies which have no prospects of becoming viable.

51. The reorganization of existing industrial co-operative societies is clearly the responsibility of the registering authority in each state, viz., the Registrar of Co-operative Societies, of course, with the assistance of the Director of Industries and other appropriate authorities. This task is formidable and calls for persistent effort. In the light of experience with similar programmes affecting weak primary agricultural credit societies, we have become convinced that it cannot be accomplished with the machinery ordinarily available to the state governments in the co-operative departments or industries departments with the speed, thoroughness and meticulous attention to detail which it demands. This programme is of large dimensions considering the number of societies involved. It is complicated by the fact that hitherto practically no attention whatsoever has in a large number of cases been bestowed either by the co-operative departments or by the industries

departments of the state governments on this vital task of reform and reorganization of the weaker among existing industrial co-operative societies. For undertaking this executive responsibility speedily and effectively, we recommend that the Registrar of Co-operative Societies should be given adequate staff, as suggested later in paragraph 52. It is also essential that the Registrar of Co-operative Societies should have ready access to expert advice in implementing this difficult programme. The state governments may make appropriate arrangements for the purpose. A suitable method would be to set up in the co-operative department, a special committee (designated, say, the Industrial Co-operative Reorganization Committee) which should be in a position to give advice and guidance regarding all aspects of the reorganization programme. It is essential that on this committee a very important role should be assigned to the Registrar of Co-operative Societies or the Additional or Joint Registrar if he is exclusively in charge of industrial co-operatives. We also strongly recommend that it may have as its other members the Director of Industries or the Joint Director of Industries and the Managing Director of the state co-operative bank. Such committees may, with advantage, be formed at the district levels also, and be headed by the Divisional or Deputy Registrar of Co-operative Societies, with the Divisional or Deputy Director of Industries and the Managing Director or Secretary of the central co-operative bank as its other members.

52. We are strongly of the view that any time-lag between survey and the taking up of practical measures to reorganize the societies is likely seriously to detract from their efficacy. We do not, therefore, envisage that the commencement of the process of reorganization of the societies should await the completion of the survey of all the societies in the state. The work should proceed area by area and by groups of societies in the area of operation of each central bank, care being taken to ensure that each area selected is compact or otherwise homogeneous enough for effective implementation of the programme by the field staff of the co-operative department assisted by the supervisory staff of the co-operative banks. We also strongly recommend that preparatory action to appoint the requisite full-time staff, including auditors, inspectors and liquidators should be taken at as early a stage of the programme as is possible, and that the course of their action should not be allowed to be interrupted by their diversion to other duties or their subsequent reduction in number. The task is of a long-term developmental character and justifies the inclusion in the states' Fourth Plan of a suitable financial allocation to cover its whole cost.

We feel that if the arrangements for the staff are placed on the systematic footing above visualized, it should be possible for the identification of weak or dormant societies to be very closely followed by their reorganization. It is the considered view of our Group that the entire task can be accomplished in this manner during a period not exceeding two years given continuity of effort and unremitting attention to it by the state governments. We suggest that the requirements of staff for this work should be assessed on this basis.

Organization of New Societies

53. Our examination of the situation of existing industrial co-operative societies has given us much food for thought regarding the formation of new ones. If these are not to meet the fate of a large number of those already in being, the registering authority in the states must apply with care and jealousy a number of tests of survival-capacity, failure to satisfy which should result in a ruthless rejection of the application for registration. We suggest below a few important guidelines. The possibility of utilising an existing society, if necessary after strengthening it, should first be explored. Next, the criteria of viability we have outlined in dealing with the existing societies should be applied even more stringently to proposed new ones. Thirdly, even where socio-economic objectives have to be fulfilled, as in the case of industrial societies for the benefit, primarily, of *adivasis*, scheduled tribes and other economically weak classes, the capacity for ultimately achieving viability must still be looked for. Such societies are usually enabled to survive the initial period of gestation and growth only by means of state subvention. But obviously, such extraneous assistance cannot be perpetual. The capacity for an eventual self-sustaining existence must be sought by the registering authority having due regard to the availability of resources in manpower, the traditional skills and, where this is relevant, ready accessibility to raw materials, a reasonably assured market and freedom from exploitation by the middleman. Where state aid is material, care should be taken to ensure that there is a reasonable commitment on the part of the government to continue to make adequate budgetary and plan provisions of capital to sustain the society until it can achieve self-reliance. This has specific reference to the capital base on which its borrowing power will depend. Societies of this class will also have to look to the government for close supervision and guidance as well as assistance in employing managerial staff. All these essential pre-requisites should be made certain of before the society is registered.

54. The extent of stagnation and moribundity in existing societies of which we have taken note impels us to stress the importance of correctly assessing the economic prospects of new societies before their registration. It should be only when new societies fully satisfy these rigid tests that they should be considered eligible for various forms of assistance available to industrial co-operative societies including, of course, financial accommodation from the banking system. Indeed, the foundation upon which rest the various credit facilities later recommended by us is the assumption that the suggested programme of reorganizing existing societies will be purposefully undertaken and the strictest tests of potential viability will be applied to proposed new ones. It is only by the exercise of such discipline that the optimum utilisation of the scarce resource of the co-operative banks and the state governments will be ensured.

Technical Advice

55. We have stated earlier that the responsibility for the sound reorganization of existing industrial co-operative societies and for promotion of the growth of new industrial co-operative societies which will be economically viable rests squarely on the state governments in the relevant departments, viz., the co-operation and the industries departments. The success of these programmes will depend not only on the groundwork done but on the continual supply of expert technical advice and guidance to the industrial co-operative societies. We recommend to the state governments to employ wholetime experts who should be available to give advice to any society on the basis of an on-the-spot study. In fact, we cannot see how, without the assistance of such experts, the Registrar of Co-operative Societies will be able to frame criteria of viability in respect of existing societies and to assess the prospects of new ones. The Registrar should, therefore, have ready access to these experts in whichever department of government they may be located.

Role of Apex Banks and Central Banks

56. In carrying out the task of reorganization of existing industrial co-operative societies and ensuring that only viable societies are allowed to be organized in future, the state governments will have to induct—and indeed lean heavily upon—the state co-operative banks and central co-operative banks. A practical course will be to include their

chief executive in the Industrial Co-operative Reorganization Committees (or by whatever name called) both at the apex level and at the district level. Such participation will of course involve the entire institutional framework of the state and central co-operative banks.

57. It being common ground that finance must flow in ever-increasing measure through them, co-operative banks will have to enlarge their developmental role in industrial financing and play it more aggressively than heretofore. Their capacity to do so will depend largely on their administrative arrangements, strained as these will be already by the task of reorganizing existing societies. An organizational change which will ensure the requisite concentration and continuity of effort on industrial financing is called for. We make the following specific suggestions in this behalf.

Industrial Section

58. We recommend that each apex bank and the bigger among the central banks which deal with industrial co-operatives to any considerable extent should set up an industrial section to specialize in the problems of financing and developing industrial co-operative societies. The section should be manned by well-trained personnel, administrative, supervisory and technical, both for work at the headquarters and in the field. The section will form an integral part of the administrative machinery of the apex bank and the central banks, but will function as a specialized department. To start with, the industrial section may consist of a cost accountant, an industrial engineer who has mechanical or construction experience with special reference to the layout of industrial units, and the required number of subordinate staff. The exact size of staff necessary, the desirable rate of its growth and other details will have to be worked out by each apex bank and central bank in consultation with the co-operation department and the industries department or other appropriate agency of the state government. The cost of the staff required for the industrial sections should be a charge on the resources of the co-operative banks. These may be supplemented by state assistance, on which however we suggest undue reliance should not be placed. The apex and central banks should consider such an outlay as investment which will pay good dividends in the shape of profitable new business which it will stimulate. Besides, such financial resources as the states can spare would be better employed in direct assistance to the weaker primaries, in the manner recommended by us later.

59. The broad functions of the industrial section will be (*i*) to assist the state co-operative department by providing data on the working of industrial co-operative societies, with special reference to their financial operations; (*ii*) to offer advice on proposals for setting up of new industrial co-operatives received from the co-operative department; (*iii*) to arrange for the training of the secretaries or managers of industrial co-operative societies; and (*iv*) to take vigorous follow-up action in regard to the schemes for the reorganization of existing industrial co-operative societies in the area of operations of each central bank.

Technical Groups

60. The industrial sections recommended above will need guidance on policy and allied matters. It is, of course, one of the basic functions of the board of directors of the state co-operative bank and the central co-operative bank to give such guidance in regard to policy matters. However, the board of directors may feel the need for a technical group including specialists somewhat on the lines, for example, of the Industries Commission of the Maharashtra State Co-operative Bank details regarding which are given in Appendix III. Similar technical groups may be formed at the district level also in regard to some of the central co-operative banks. The chairmen of the groups, at the apex banks' level and the central banks' level might with advantage be the president of the apex bank and the chairman of the central bank, with provision made for representation of the Registrar of Co-operative Societies, the Zonal or Deputy Registrar, the Director or Deputy Director of Industries and also of institutions dealing with industrial co-operatives such as the khadi and village industries board, and other boards of a similar nature, state financial corporations and other officials concerned. The proposed industrial section in the bank will function as the secretariat of this specialised group. We state only the broad idea; the actual *modus operandi* will have to be evolved by each of the banks to suit its own circumstances.

Capital Structure

61. A strong capital structure is even more important to an industrial co-operative society than to a purely credit institution. It is usual for the financing agencies to determine the eligibility for loans of a borrowing society in relation to the size of the owned funds of this society.

This is, of course, a sound banking principle and should be adhered to. At the same time, however, we recognize that the capacity of small artisans and small industrialists to contribute substantially to the resources of their co-operative societies even in the form of share capital, let alone by way of deposits, is limited. This would make it difficult for small industrial co-operative societies to provide the customary margin demanded by co-operative financing institutions. Strengthening of the share capital base of industrial co-operative societies by assistance from government or government-sponsored institutions would make it relatively easy for them to provide the margins required by the financing banks. The problem can also be solved to some extent if guarantees are provided to the financing banks in consideration of their lowering their normal margins. These and related issues in regard to: (*a*) industrial co-operative societies other than processing societies whose membership consists largely of small artisans and (*b*) processing societies are referred to below, together with our recommendations.

Industrial Co-operative Societies other than Processing Societies

62. Industrial co-operative societies other than processing societies should be required to raise share capital from their members which is equal to at least 20 per cent of their estimated requirements of working capital and block capital. This recommendation is based on the assumption that at least 10 per cent, or one-half of the amount of share capital collected from members, will be available for providing margins, the other half being required for acquiring fixed assets, purchase of shares of the financing institutions, etc. However, even this level of share capital contribution by members may still be too high for certain classes of small artisans. It was in recognition of this factor that a scheme was formulated by the Government of India to enable state governments to give loans to artisans for purchasing shares in industrial co-operative societies. The general pattern of assistance, which is confined to the production-type of societies engaged in small-scale industries in which the workers themselves are members and share profits is that 75 per cent of the share capital which a member is required to contribute to the society is advanced to him as a two-year loan, the balance being found by the member himself. We recommend that this scheme should be continued in the Fourth Plan and assistance given under it in deserving cases so as to facilitate collection of share capital from members.

63. The problem of shortfall in furnishing margins is not confined to artisans' societies. In a number of cases of small entrepreneurs, a margin of more than 10 per cent against financial accommodation might prove beyond their capacity to find. We suggest that this type of difficulty could be dealt with by extending the protection of the 90 per cent Guarantee Scheme now existing or the Credit Guarantee Scheme for small-scale industries, so as to safeguard the lending institutions against the added risk of relaxing the margin to 10 per cent. This low margin can be expected to be found from out of the share capital contributed by members. An alternative or even additional solution might be for the state government to contribute to the share capital of the industrial co-operative societies so as to make good the shortfall in the stipulated margin. No norms of state assistance can be laid down for this sort of case and the circumstances of the entrepreneurs will have to decide the size of state contribution. For instance, for the small artisans' societies, a ratio of 1 : 3 as between the members' contribution and that of the government would not, we feel, be unduly generous.

64. For contributions of the nature visualized above, the state governments will ordinarily draw on their own resources. We recognize, however, that resources of the order required may not always be available to state governments. In similar circumstances, in the case of primary agricultural credit societies, assistance would have been available to the state governments from the Reserve Bank's National Agricultural Credit (Long-term Operations) Fund. We consider the strengthening of the capital base of industrial co-operatives no less important a responsibility than furnishing share capital to primary agricultural credit societies. We strongly recommend, therefore, that the scope of the Long-term Operations Fund be extended to enable loans to be made to state governments for subscribing directly or indirectly to the share capital of industrial co-operative societies (other than processing societies), particularly where membership is drawn from the weaker sections of the community. As in the case of agricultural credit societies, however, such assistance should be made available to state governments with reference only to those industrial co-operative societies which are at least potentially viable and employ paid secretaries or managers.

65. Perhaps, there will be comparatively rare cases where assistance of the above nature cannot on account of administrative failure be availed of or resorted to. We can visualize circumstances also where it would be in order for co-operative banks, when the viability of the

borrowing societies is not in doubt, to take a calculated risk by further lowering the margin requirement below the level allowed for under the guarantee scheme. We recommend in both types of cases that such further relaxation should not exceed 5 per cent.

Co-operative Processing Societies

66. In connexion with a scheme for government participation in the share capital of processing societies, certain norms have been evolved by the National Co-operative Development Corporation indicating the ratio between equity and loan capital for financing block cost, together with the share of members and the government in the equity capital, as under:

Block Cost per Unit	*Ratio between Equity and Loan Capital*	*Ratio between Members' and Government's contribution in Equity Capital*	*Remarks*
Less than Rs 1 lakh	100 : 0	No fixed ratios. The major portion is found by Government	These are mostly processing units set up as adjuncts to marketing societies
Between Rs 1 lakh to Rs 10 lakhs	25 : 75	Varies from 50 : 50 in developed areas to 20 : 80 in underdeveloped areas	The entire loan capital to be provided by the state governments
Between Rs 10 lakhs to Rs 20 lakhs	50 : 50	As above	As above and also from other financing agencies
More than Rs 20 lakhs	40 : 60	50 : 50	Loan capital to be provided by the Industrial Finance Corporation and other sources

67. The financing institutions providing term loans for block capital lend generally with margins varying between 35 per cent and 50 per cent. Working capital loans are provided by banks with margins varying between 25 per cent and 40 per cent depending upon the nature of the security offered. Where, however, a guarantee is provided by the government or any other body, the financing agencies may agree to

lend on the basis of margins which are lower than those indicated above. The equity capital required by a processing society may be assessed keeping in view the higher or lower margins as the case may be. In the case of processing societies, other than sugar factories, spinning mills etc., where the membership is drawn from the less affluent classes of society, somewhat generous treatment from the government may be justified in the matter of participation in equity capital and we feel that as in the case of industrial societies composed mostly of small artisans a ratio of 1 : 3 between the members' contribution and that of the government would not be unduly liberal. Consequently, the proportion between the individual members' contribution and that of the government in respect of societies whose block capital cost is between Rs 1 lakh and Rs 20 lakhs may not be made dependent upon whether it is situated in a developed or underdeveloped area, but upon whether it is composed of predominantly weaker sections of society. If our recommendations made in this para are accepted, the pattern at present adopted by the National Co-operative Development Corporation in sanctioning loans to state governments for contribution to the share capital of co-operative processing societies may require suitable modifications.

68. We have referred subsequently, while discussing the role of the Reserve Bank of India, to the scheme of providing medium-term loans to members of processing societies for purchase of shares in such societies by co-operative banks availing themselves of loans for this purpose from the Reserve Bank's Long-term Operations Fund. We have suggested that the Reserve Bank should examine the possibility of extending this facility to other types of processing societies. This would facilitate purchase of shares by members of processing societies. The members of societies, eligible for loan-assistance for purchase of shares, may comprise entirely growers of agricultural produce or entirely consumers of the finished products or partly producers and partly consumers. It is possible also to imagine a processing society formed entirely by the labourers engaged in it or partly of such persons and partly of producers and consumers. The Reserve Bank may have to be enabled to provide loans to state co-operative banks to be advanced ultimately to growers, consumers or labourers forming the processing society through primary agricultural credit societies, industrial societies or urban banks. We should like to make it clear here that this assistance should flow to members of such processing societies as are engaged in the processing of agricultural produce.

69. If our suggestions are implemented, the higher levels of the co-operative credit structure namely, the apex banks and central banks will find it easy and profitable to finance industrial co-operatives not only in regard to working capital but also, to some extent, in regard to block capital requirements. In a later paragraph, we shall deal with the question of the resources of co-operative banks and the manner in which the working capital and block capital requirements of industrial co-operative societies can be met by the co-operative banks. Our view is that with an improvement in the structure of industrial co-operative societies, provision of supplementary resources to the co-operative financing institutions and also to the state governments to enable them to take shares in industrial co-operative societies, and fuller use of the guarantee schemes, a negative or even passive attitude on the part of the state co-operative banks or the central co-operative banks towards the financing of industrial co-operative societies would be wholly unwarranted. It is for these co-operative banks to adopt a positive, developmental attitude towards industrial co-operative societies. They should actively stimulate the creation and flow of business from the societies to them. An earnest of their desire to play a more dynamic role would be the speed and thoroughness with which they set up the industrial sections and technical groups recommended by us.

Industrial Co-operative Banks

70. While placing squarely upon the apex co-operative banks and the central co-operative banks the onus of supplying to the primary industrial societies the requisite directive force and stimulus, as well as financial accommodation, we might at this stage attempt an assessment of the role played hitherto by co-operative banks at the apex and at lower levels which have confined their operations to industrial finance alone. If our observations and recommendations appear on the whole somewhat adverse to these specialist institutions, this will not be because of any doctrinaire approach on our part in favour of the normal apex and central co-operative banking institutions.

State-level Industrial Co-operative Banks

71. As apex industrial co-operative banks with jurisdiction spread over an entire state are likely to find it impracticable to maintain effective supervision, and, therefore, render any useful service, organization of new industrial co-operative banks at the state level will not

be desirable as a general rule. Only one such bank, viz., the Mysore State Industrial Co-operative Bank has been organized so far as a federation of central industrial co-operative banks. Its performance, to which a brief reference has been made in Section I, has been conditioned by the weaknesses of most of the central industrial co-operative banks affiliated to it. The other two state level industrial co-operative banks viz., those of Madras and Rajasthan are financing primary industrial co-operative societies directly. Such direct financing has given rise to various problems both from the point of view of supervision of the societies and the difficulties experienced by societies on account of the long distance between them and the state level institutions.

72. In view of the above considerations, we believe that at present no strong justification exists for us to request the Reserve Bank to depart from its policy of not recognizing state level industrial co-operative banks independently of the state co-operative banks either for the provision of financial accommodation from the Bank or for the purposes of the Credit Guarantee Scheme.

Central Industrial Co-operative Banks

73. A financial institution, whether existing or proposed, should have justification primarily arising from its ability to attract business which is adequate to enable it to function as a viable unit. In the case of central industrial co-operative banks which are expected to be federations of primary industrial co-operatives, this would imply that the adequacy of business, whether existing or potential, should be judged in terms of the number of viable or potentially viable industrial co-operative societies in its area and their credit requirements. A bank which extends its area to a number of districts in a state or even to the whole of the state may, in theory, have adequate business potential. However, the extent to which these potentialities can be realized would depend upon the physical and financial capacity of the bank to serve these societies, keep in close touch with their problems and requirements, and supervise and guide their working. The societies, in turn, should not be required to go to distant branches for getting the banking facilities needed by them. Judged from this angle, it can be said that if an industrial co-operative society is not in a position to get banking facilities within a reasonable distance, it would hardly be appropriate to consider it as a prospective client of a central industrial co-operative bank.

74. It cannot be gainsaid that the demand for the organization of separate central industrial co-operative banks grew partly out of a lack of initiative or in some instances out of an apathetic or unenlightened attitude on the part of the co-operative financing banks and partly out of a sense of frustration in industrial co-operative societies arising from the fact that only a small number of them could hope to stake a claim on the resources of the central co-operative banks. This was due, in some measure, to factors such as the limited number of industrial societies with clear prospects of functioning as successful business ventures and, in some cases, even the feeling that they were intended to be catered to by the state khadi and village industries boards and the state governments. Thus, it is possible to concede that the central industrial co-operative banks have stepped into a vacuum created by inadvertence, incapacity or even by default of the normal central co-operative banks. It is our considered view that in the present circumstances, this vacuum would not persist given satisfactory implementation of the various proposals made by us for facilitating the financing of industrial co-operative societies. Where overall shortage of the resources in the hands of industrial co-operative societies for providing appropriate margins to banks is at the root of the matter, the concrete measures we have suggested for imparting internal strength and stability to industrial co-operative societies, by way of their reorganization and the strengthening of their capital structure, as well as through appropriate guarantees to the financing banks, should supply a complete solution. Where, on the other hand, it is paucity of resources with the financing banks which prevents them from playing a more positive role in accommodating the industrial societies, our suggestion made later in this section that the Reserve Bank of India may provide expanded credit facilities to co-operative banks for financing industrial co-operatives should go a long way to providing a solution. In view of the above, we think that the prospects of central co-operative banks playing an active and effective role in financing industrial co-operative societies are definitely good. Moreover, we attach considerable importance to the need for bending all efforts towards ensuring that these prospects materialize, not because we consider separate banks for industrial co-operatives as undesirable *per se* on merely theoretical considerations, but because we believe that the organization of such banks does not necessarily or even frequently provide an easy alternative on account of the problems which arise in regard to matters such as resources, management and supervision. The fact that of the 26 industrial co-operative banks in

the country, the majority have not been able to collect deposits or develop business to a significant extent and that, even among the few which have succeeded in doing so, dependence on the business with individuals is still generally heavy, is a reflection of the inherent limitations of this alternative.

75. Our proposals in regard to the future role of central industrial co-operative banks are set out below in the light of the foregoing general observations:

(*i*) Such of the existing industrial co-operative banks as have already developed into viable institutions should be encouraged to continue to function by extending to them the facilities to which the central co-operative banks are entitled. Specifically, this means that they should be: (*a*) considered on merits for licensing under the Banking Regulation Act, 1949; (*b*) recognized as approved institutions for purposes of the Credit Guarantee Scheme; and (*c*) recognized also for the purpose of channelling financial accommodation from the Reserve Bank.

(*ii*) Such of the existing industrial co-operative banks as are not viable at present but can be developed into viable institutions over a period of time should be given an opportunity to develop in this direction. As soon as the Reserve Bank is satisfied that a particular central industrial co-operative bank shows promise of functioning as a viable unit, it should be given the same facilities as the institutions under the first category above.

(*iii*) Industrial co-operative banks which do not satisfy the criteria of viability or potential viability should be merged with central co-operative banks in suitable cases or, if they have a large membership of individuals, reorganized into primary co-operative banks.

(*iv*) If the above courses are not practicable or warranted, the central industrial co-operative bank concerned should be taken into liquidation without any delay.

76. A general problem in regard to industrial co-operative banks has been their disproportionately large dealings with individuals as distinct from co-operative societies. It does not seem to us that, with a few exceptions, any active measures have been taken by them to organize primary industrial co-operative societies. We note, however, that a trend has set in in some areas favourable to the financing of societies rather than individuals. We are of the view that the highest priority in the loan operations of central industrial co-operative banks should be given to the financing of primary industrial co-operative societies. Simultaneously, it should be the clear responsibility of these

banks to ensure that the individuals whom they are now financing, are organized into primary industrial co-operative societies so that their lending to individuals can be progressively eliminated. If there are certain classes of individuals who are not in a position to join primary industrial co-operative societies, the banks should endeavour to persuade them to seek accommodation instead from urban co-operative banks. The aim, therefore, should be for central industrial co-operative banks gradually to eliminate their financing of individual members. This would make it easy for them to function in a compact manner in the sense that their members, consisting largely of industrial co-operative societies, are within a reasonable distance of the bank's headquarters.

77. We expect that if our recommendations for stimulating the flow of funds to industrial co-operative societies are implemented by the state governments and the co-operative banking system, there will be a positive response from the apex banks and central banks in regard to the financing of industrial co-operative societies. We recommend that the Reserve Bank of India should review the position in this respect at the end of two years from the acceptance of our recommendations by the state governments and the co-operative banks. Such a review will enable the authorities to decide whether in particular contexts and in particular areas where apex co-operative banks and central co-operative banks have failed to play the role expected of them in the promotion and financing of industrial co-operative societies, it is necessary to introduce alternative financial arrangements, for instance, in the shape of central industrial co-operative banks.

Co-ordination Bewteen Co-operative Banks and Other Agencies

78. The foregoing proposals would imply that there should be only one co-operative bank in an area for financing industrial co-operative societies and this bank would generally be the district central co-operative bank. Even so, problems of co-ordination in assisting industrial co-operative societies would remain as between the co-operative financing agencies on the one hand and the other agencies providing assistance to such co-operatives on the other. The main issues involved and our proposals are adumbrated below.

79. At present, the state khadi and village industries boards and similar bodies and the state governments provide various forms of assistance to industrial co-operative societies. These are mainly in the form of grants and loans. The loans are for short, medium, or long-term periods, depending upon the purposes for which they are given.

It is obvious that when a society is already indebted to one lending agency, another lending agency can come into the picture only if sufficient assets are in the hands of the society unencumbered, to secure the loans sought. Keeping these considerations in view, our proposals in regard to the question of co-ordination between co-operative banks and other agencies providing financial assistance to industrial co-operative societies are as follows:

(*i*) The responsibility for ensuring such co-ordination and evolving suitable procedures for the purpose should be placed on the technical groups which we have proposed at the level of the apex and central co-operative banks. The technical group's advice in the matter should be strictly adhered to by the parties concerned.

(*ii*) The working capital requirements of industrial co-operative societies should be provided by the co-operative banking structure. This will be facilitated by co-operative banks adopting a somewhat more progressive attitude to this and allied needs of industrial co-operative societies. The block capital requirements and also the element of grant and subsidies should continue to be provided by the state khadi and village industries boards and the state governments. In certain cases, it may be possible for the state financial corporations to meet the block capital requirements of some of the industrial co-operative societies.

(*iii*) The assets of a society which are demanded as security by way of pledge, or hypothecation, or mortgage should be adequate in relation to the volume of finance provided. However, insistence by the financing agency on creating a general charge on *all* the assets of a society, particularly when the loans required are of a small size, should be avoided so that the industrial co-operative society concerned is not deprived of its legitimate facility of borrowing from more than one agency for different purposes on account of its inability to provide the security required by the different financing institutions.

Finance for Block Capital

80. We now turn to the question of financing the block capital requirements of industrial co-operative societies. Such financing involves term-lending which may extend beyond a period of 5 years to say, 15 years. Before we proceed to make our recommendations on the subject, there are two general observations we have to make. Firstly, co-operative banks have an active and constructive role to play in meeting the block capital requirements of industrial co-operative

societies. Secondly, our recommendations, even though they relate to industrial co-operative societies in general, have relevance particularly to co-operative processing societies in which the required investment in block capital is of a sizeable order.

81. For the purpose of examining the sources of funds for meeting block capital requirements the co-operative processing societies may be grouped into two broad categories, those which need less and those which need more than, say, Rs 10 lakhs. So far as the first category of societies is concerned, it may be possible for the apex and central co-operative banks in a state to divert a portion of their disposable medium-term resources for the grant of long-term loans for 5 years but not exceeding 10 years. In calculating the long-term resources, account may be taken of the paid-up capital and reserves, excluding the statutory reserve which has to be invested outside the business, and only long-term deposits for 3 years and more. The disposable long-term resources will be arrived at after excluding the investment of a bank in shares, buildings, furniture, fixtures, etc. Only a small portion of the disposable resources may be available for long-term loans to processing societies as a bank will have to set aside a substantial portion of such resources for medium-term loans for agricultural purposes and for absorbing overdues in respect of various types of loans.

82. It is, however, the requirements of larger units such as co-operative sugar factories which present major problems. Full advantage of the credit facilities available from the Industrial Finance Corporation of India and the Industrial Development Bank of India will have first to be taken both for expansion of existing units as well as by the new units. There may, however, be cases where there are no prospects of getting the required funds from the Industrial Finance Corporation or the Industrial Development Bank and it is in such a context that we have considered a desirable role for the co-operative banking system. In view of the various commitments on their available resources towards loans for short-term and medium-term agricultural purposes, which have to be accorded the highest priority, as well as towards loans to non-agricultural societies such as consumers' stores, housing societies, urban banks and employees societies, etc., it may not be realistic to expect most co-operative banks to be able to provide substantial assistance for meeting the block capital requirements of large processing units. Further, there is also the important principle of sound banking that short-term resources should not be diverted to long-term investment. In view of these considerations, the co-operative banks cannot divert a considerable portion of their working funds for

investment in long-term loans to large processing units. There should, however, be no objection to the banks utilizing a small part of their disposable long-term resources for that purpose, provided this does not lead to the refusal of an unduly large proportion of the claims of the other sectors normally financed by co-operative banks. In this connexion, we suggest that, subject to the maximum eligibility as per the accepted standards and subject also to the satisfaction of the condition regarding non-overdue cover, the Reserve Bank may provide refinance for short-term and medium-term agricultural purposes to central co-operative banks to facilitate diversion of their working funds to long-term investment. Obviously, it would be imprudent to allow such diversion to more than a limited extent.

83. While the scope for diversion of working funds to long-term investment is obviously limited, the co-operative banks may perhaps be able to utilize that portion of their resources which by statute they have to maintain as liquid assets against their time and demand liabilities. Section 24 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) specifies the forms in which the liquid assets may be maintained by a co-operative bank. One of these forms is a trustee security, the principal of which, with interest, is guaranteed by a government. Co-operative banks which are at present required to maintain liquid assets at 20 per cent of their total demand and time liabilities will have to maintain them at 28 per cent with effect from 1 March 1969. The liquidity requirements will, therefore, increase by 8 per cent within a few months from now. It is for consideration whether advantage of this situation may be taken by the co-operative banks to give support to a programme of establishing large processing units whose economic and technical feasibility have been certified by the licensing authority. Advantage of this situation can certainly be taken if the investments which the co-operative banks are required to maintain for satisfying Section 24 of the Banking Regulation Act can be channelised into bonds or debentures carrying government guarantee which are specially floated for meeting the block capital requirements of processing societies. In our opinion, the device of bonds or debentures can be a very useful method of gathering resources for financing the bulk of the block capital requirements of co-operative processing societies in cases where there are no prospects of getting them from the Industrial Finance Corporation or the Industrial Development Bank.

84. An important point which arises is whether the bonds or debentures should be issued by the processing society itself or whether

they should be issued by a financing institution such as the apex co-operative bank. If each individual processing society is to float debentures, it can do so only after the factory is erected i.e., after the entire investment is made. It may not be prudent to allow the society to float the debentures for financing the block capital expenditure which is yet to be incurred for, in such a case, a portion of the debentures will not be backed by tangible security. Further, the society will have temporarily to invest the surplus funds as short-term deposits earning a lower rate of interest than on the debentures. If the debentures are to be floated after the factory is erected, the processing society may have to approach the apex co-operative bank, or in a few cases, a central bank for interim accommodation for meeting the difference between the total block cost and the share capital raised from individual members and the government. If there is a programme of establishing a number of processing societies within a short period of time, the burden on the apex or the central co-operative bank for interim finance may prove beyond its capacity to meet. If, however, an apex or central co-operative bank floats bonds or debentures, it may be able to do so, not necessarily after each of the processing units is erected, but with reference to the loans it may have advanced to individual units which are in different stages of construction. In this manner, the financial burden on the apex or central co-operative bank of providing loans to the processing societies before the issue of bonds or debentures may be within its capacity to bear. Apart from this advantage, the apex or central co-operative bank has a better standing in the money market than a newly established processing society and will be technically more competent than individual co-operative processing societies to deal with the specialized task of floatation of bonds or debentures and the constitution and management of sinking funds that will go with them. In view of these various considerations, we feel that it may be desirable to entrust the work of floatation of bonds or debentures for raising the resources required for meeting the block capital requirements of co-operative processing societies to apex or central co-operative banks. We do not, however, rule out the possibility of individual processing societies themselves floating debentures for meeting their block capital requirements.

85. The scheme of bonds or debentures outlined above envisages substantial support to them from the co-operative banking system. But that should not be taken to mean that there would not be much scope for support from individuals. We are of the opinion that there is sufficient scope for mobilizing support from individuals residing in an

area where a processing society is proposed to be established or even elsewhere in a state if an appeal is made to local sentiment. The bonds or debentures suggested by us will provide an important instrument through which savings of individuals can be appropriately channelised to provide the required support to co-operative processing societies. We may, in this connexion, refer to the scheme of rural debentures initiated by the Reserve Bank in 1957 with a view to augmenting the resources of central land development banks. The main features of the scheme are: the rural debentures can be subscribed to only by individuals; the Reserve Bank contributes to them in the ratio of 8 : 7 as between itself and individuals and the rate of interest offered on the debentures is higher than the rate offered on the ordinary debentures floated by the land development banks. We recommend that the Reserve Bank may devise a corresponding scheme of rural debentures for financing the block capital requirements of co-operative processing societies and contribute to such debentures more or less on the same terms as apply to the rural debentures floated by central land development banks. Co-operative processing societies established on sound lines could make for transformation of a static rural society into a dynamic one. We believe that a scheme of rural debentures somewhat on the lines broadly indicated by us, if imaginatively worked out and vigourously implemented, holds out good prospects for tapping rural savings and channelising local enthusiasm and resources for building of large co-operative processing enterprises even when the necessary financial resources cannot be found from the normal sources viz., the Industrial Finance Corporation or the Industrial Development Bank. We recommend that the Reserve Bank of India Act may be amended suitably to enable the Bank to contribute to the rural debentures floated by apex or central co-operative banks or by co-operative processing societies as the case may be. Pending amendment to the Reserve Bank of India Act, we recommend that the debentures may be purchased by the Bank as part of its investment in various trustee securities.

86. Our recommendations, therefore, would in effect mean the floatation of two types of bonds or debentures. The first type would be available largely to banks, charitable trusts and all other institutions which are required to keep their funds in government and trustee securities even though individuals will be free to subscribe to these debentures if they desire. However, individuals may find the terms in regard to the second type of debentures viz., the rural debentures more attractive. These debentures should be available for subscription

only to individuals and the Reserve Bank. While subscriptions to the first type of debentures may come largely from the co-operative banks within the state and outside, it should be possible to mobilize support to them also from commercial banks and the Life Insurance Corporation. We recommend that to start with, these institutions may give whatever support which they can give to the debentures specially floated for the establishment of large processing units whose economic and technical feasibility has been certified by the licensing authority.

87. There are certain important aspects which we should like to emphasize in connexion with the above scheme of bonds or debentures: (*a*) The bonds or debentures should be guaranteed by the state governments particularly since such guarantee will confer on them the status of trustee securities and would facilitate their purchase by co-operative banks and commercial banks as part of their liquid assets. (*b*) The institution floating them should be required to make suitable arrangement for amortisation. The sinking fund should be invested only in government and trustee securities. (*c*) The permission to float bonds or debentures should be given by the government only after the portion of the block capital outlay to be incurred before the processing society goes into production which is proposed to be raised from individuals and the government in the form of share capital has been fully paid up. This precaution is necessary; otherwise the institution issuing bonds or debentures will be faced with a shortfall in capital resources which might dislocate its entire programme.

88. We have to refer to certain problems which will arise if the bonds or debentures are floated by state co-operative banks. If they are not solved in the manner indicated by us, the scheme of the banks floating bonds or debentures will not be workable. The amounts realised from the debentures or bonds will be reckoned as liabilities under sections 18 and 24 of the Banking Regulation Act, 1949, against which the banks will have to maintain liquid assets at 20 per cent including cash reserves at 3 per cent at present and 28 per cent from 1 March 1969. Similarly, they will also be treated as liabilities for the purpose of section 42 of the Reserve Bank of India Act against which each scheduled state co-operative bank has to maintain with the Reserve Bank a minimum balance of not less than 3 per cent of the liabilities. Only the owned funds and borrowings from the Reserve Bank, the State Bank, any notified bank, the Industrial Development Bank and the Agricultural Refinance Corporation and the reserve fund deposits of societies are not treated as liabilities for the purpose of sections 18 and 24 of the above Act and section 42 of the Reserve Bank

of India Act. If, therefore, a state co-operative bank has to set aside a substantial portion of the debenture proceeds as cash reserve or liquid assets, it may not find it attractive enough to float any bonds or debentures. We have recommended in the foregoing paragraph that the institution issuing bonds or debentures will make suitable arrangements for their amortisation. We are suggesting in the next paragraph that the loans issued by a state co-operative bank out of the proceeds of the bonds or debentures should be guaranteed by the state government. If these conditions are satisfied, the question whether the debenture liability should not be excluded from 'liabilities' as defined in sections 18 or 24 of the Banking Regulation Act would appear to merit consideration. Correspondingly, the investments of the sinking fund in government and trustee securities may not also be reckoned as assets maintained in India within the meaning of section 24. If the suggestions cannot be given effect to by granting the exemption provided for under section 53 of the Banking Regulation Act, the question of amending sections 18 and 24 of the Banking Regulation Act may have to be considered. We suggest that the whole question should be examined by the Reserve Bank and appropriate action taken in the matter. So far as section 42 of the Reserve Bank of India Act is concerned as provided for in subsection (7) of that section, the Reserve Bank may consider the question of granting an exemption in respect of the debenture liabilities of scheduled state co-operative banks subject to the conditions mentioned above for exemption under sections 18 and 24 of the Banking Regulation Act.

89. The state co-operative banks will float bonds or debentures guaranteed by the government so that the interests of the debenture-holders will be adequately protected. The proceeds of the bonds or debentures will be used by the banks in granting long-term loans to the processing societies. We feel that there is need for protecting the interests of the banks which are essentially agencies for short-term loaning and to a limited extent for medium-term loans extending upto five years. We, therefore, recommend that the state governments may guarantee the loans advanced by the state co-operative banks to the processing societies for financing their block capital requirements. The governments may consider favourably the extension of such guarantees inasmuch as they are already guaranteeing the loans advanced by the Industrial Finance Corporation to co-operative sugar factories and spinning mills.

Finance for Working Capital

90. Meeting the requirements of working capital of processing societies is a legitimate responsibility of co-operative banks and has been recognized as such by the Reserve Bank while dealing with their applications for sanction of credit limits for financing short-term agricultural purposes. As a primary society, a processing society may first look to the central co-operative bank of the district. If that bank cannot satisfy the demand, we see no objection to the state co-operative bank itself financing the society directly if it can spare the necessary resources. Where even the apex bank cannot itself find the required funds it should be possible for it to approach the State Bank of India for refinance. If, however, the necessary resources cannot be found within the co-operative banking system, supplemented by accommodation from the State Bank, the processing societies may have to approach the State Bank or any other commercial bank for direct financial accommodation. The Registrar of Co-operative Societies will have to ensure that the necessary permission for the purpose is granted promptly in all deserving cases. A simplified procedure should be evolved for the purpose of stipulating the conditions under which a processing society may approach a commercial bank for direct financing, obviating the need for referring each individual case to the Registrar of Co-operative Societies.

Margins Against Advances

91. Industrial co-operative societies other than weavers' societies may be grouped broadly in two categories consisting firstly of those which are covered by the 90 per cent guarantee scheme or by the Credit Guarantee Scheme and secondly of the societies which are not covered under any of the above guarantee schemes. So far as the societies in the first category are concerned, we recommend that co-operative banks may in all suitable cases prescribe margins lower than the customary margins against the pledge or hypothecation of goods. The margin requirements may vary from commodity to commodity and industry to industry according to the nature of the risks involved. However, we feel that co-operative banks may have to prescribe margins for accommodation to industrial co-operative societies covered by any of the guarantee schemes taking into account the fact that the margin has not been lower than 10 per cent in any of the schemes of guarantee approved by the Government of India. So far as societies in the second category are concerned, the banks will not be

protected by a guarantee and, therefore, the lower margin which may be prescribed in respect of societies coming under the first category will obviously not be applicable in respect of accommodation provided to societies in this category. The banks will have to determine these margins taking into account the nature of the risks involved in the business transacted by the societies.

92. In regard to processing societies, the Reserve Bank has suggested that the clean limits sanctioned to them should not exceed the owned funds of the societies less government contribution to their share capital or Rs 5 lakhs, whichever is less. In the case of marketing-cum-processing societies, it has suggested that clean limits should not exceed their owned funds after deducting the amount invested in block assets. The main purpose underlying these suggestions was to ensure that clean limits were not misused by the societies for purposes other than the financing of part of their working capital requirements, particularly expenditure on items such as payment of wages, etc., which cannot be covered by borrowings against pledge or hypothecation limits. We fully recognize the need for exercising caution in the matter of granting clean limits to co-operative societies. However, we feel that the purpose which the Reserve Bank has in view would be adequately served if clean limits are sanctioned to processing societies or marketing-cum-processing societies on the basis of unencumbered assets held by these societies. We, therefore, recommend that the standards suggested by the Reserve Bank for financing processing societies and marketing-cum-processing societies by co-operative banks may be relaxed in case of need on the basis indicated above.

Urban Banks

93. We have so far confined our attention to the question of ensuring an adequate flow of finance to industrial co-operative societies. We now turn to the question of securing adequate finance for small-scale industrial units which are run by individuals, firms and companies and not by societies. Among the co-operative financing agencies, a suitable institution which can undertake this function is the urban co-operative bank. There are about 600 such banks in the entire country. These are moreover concentrated in four states, viz., Maharashtra, Gujarat, Madras and Mysore and even there, their distribution is not at all even. Therefore, in the absence of an appropriate agency a large number of industrial units not organized as industrial societies may have perforce to remain outside the co-operative banking structure. This situation

has to be remedied as quickly as possible for it is feared that without an urban co-operative bank, most of the units may have no institutional agency to look to for meeting their financial requirements and may be forced to obtain funds on prohibitive terms from private sources. A very dynamic programme of extending the spheres of influence of urban co-operative banks has to be chalked out urgently and our recommendations in that behalf are as under:

(*i*) High priority should be given to the organization of urban co-operative banks in areas where there is a sufficient concentration of cottage and small-scale industries carried on by individual units. The share capital of these banks could be strengthened by government contribution on the lines recommended later.

(*ii*) Existing urban co-operative banks may be allowed to extend their area of operations so as to make it possible for them to have dealings with individual units which are not too far away from an office of the bank to render supervision both costly and difficult.

(*iii*) The banks should be permitted to open a branch office anywhere in the district or the state, where there are good prospects for business with industrial units and these are not being served by local urban co-operative banks.

94. Side by side with the expansion of banking facilities through urban banks on the lines indicated in the above paragraph, there may have to be some liberalization in the rules and regulations governing the business of these banks. Certain state co-operative societies acts have provisions which do not permit membership of firms and joint-stock companies in co-operative societies. In a few states, even though there is provision in the co-operative societies acts for admission of firms and joint-stock companies as members, the by-laws of the urban banks preclude admission of partnership firms and joint-stock companies as their members. Other restrictions in the by-laws of these banks relate to the size of loans which can be given to a single borrower and the purposes for which loans can be given. We recommend that, wherever necessary, the by-laws of urban co-operative banks should be amended to enable these banks to provide loans to a single borrower up to a limit which will be adequate for the purposes of financing small-scale industries. Care will have to be taken, however, to ensure that the facilities are not monopolised by a few affluent individual members. We recommend that the state governments should take up this question with a sense of urgency and ensure that, wherever necessary, the co-operative societies acts and the by-laws of the urban co-operative banks are suitably amended to remove such of those provisions, if any,

which restrict the financing of small-scale industrial units regardless of whether they are individuals or partnership firms or joint-stock companies. In addition to these amendments, a change is necessary in the attitude brought to bear by urban co-operative banks on their financing operations. Their loaning must now adopt a strong bias in favour of economically productive activities rather than the financing of mere consumption and other non-productive items.

95. Apart from providing working capital loans to small-scale industrial units, at least the bigger urban co-operative banks might be expected to have enough medium and long-term resources for providing block capital loans to small-scale industrial units. The by-laws of urban co-operative banks should contain a clear provision enabling them to provide such loans. Existing restrictions, if any, which inhibit them from advancing block capital loans, should also be removed.

96. Apart from the restrictive provisions in their by-laws, lack of adequate resources has been given by the urban co-operative banks as one of the reasons for their inability to finance small-scale industrial units. Our proposals for supplementing the resources of urban co-operative banks so as to encourage them to take up the financing of small-scale industrial units are discussed below along with the proposals in connexion with the role of the Reserve Bank of India.

Reserve Bank of India

97. We have referred at various places in the preceding paragraphs to the need for supplementing the resources of co-operative banks to enable them to undertake industrial financing to a significant extent. Larger access to the Reserve Bank for refinance is one of the principal means we have in mind.

98. Under section 17(2)(bb) of the Reserve Bank of India Act, the Bank is authorized to transact the following business:

> . . . The purchase, sale and rediscount of bills of exchange and promissory notes drawn and payable in India and bearing two or more good signatures, one of which shall be that of a state co-operative bank or a state financial corporation, and drawn or issued for the purpose of financing the production or marketing activities of cottage and small-scale industries approved by the Bank and maturing within twelve months from the date of such purchase or rediscount, exclusive of days of grace provided that the payment of the principal and interest of such bills of exchange or promissory notes is fully guaranteed by the state government.

The Reserve Bank has so far recognized weavers' co-operative societies as one of the cottage and small-scale industries eligible for assistance under this section. We understand that the Bank has been reviewing this question from time to time. For instance, among the weavers' societies, it had recognized only the cotton handloom weavers' societies for the purpose of assistance under section 17(2)(bb) of the Reserve Bank of India Act initially. The Bank has now decided to recognize silk and woollen handloom co-operative societies and also the societies employing powerlooms, for accommodation under that section.

99. In view of our recommendation that industrial co-operative societies of all types should be recognized so as to satisfy strict criteria of economic working, at least a selected number of societies from almost all categories are likely to emerge as units sound enough to be financed by the co-operative banking structure. We, therefore, recommend that the approval of cottage and small-scale industries for the purpose of financial accommodation under section 17(2)(bb) of the Reserve Bank of India Act should no longer be confined to specific categories of industries. On the other hand, the emphasis should be positively shifted to the performance of individual units and their eligibility for accommodation adjudged on the basis of sound banking criteria. We are, therefore, of the view that the Reserve Bank of India should make as comprehensive as possible the list of approved cottage and small-scale industries for the purpose of financial accommodation under section 17(2)(bb) of the Reserve Bank of India Act.

100. We may refer particularly to two groups of co-operative societies in this connexion viz., labour contract societies and forest labour societies, a brief mention of which has been made in Section I. We understand that the question whether the activities of such societies can come within the scope of section 17(2)(bb) of the Reserve Bank of India Act is not free from doubt. We recommend that the Reserve Bank of India should examine this question at an early date. In view of the fact that labour contract societies and forest labour societies are intended for the weaker sections of the community, we recommend that any legal difficulties standing in the way of such societies being eligible for financial accommodation under section 17(2)(bb) of the Reserve Bank of India Act should be removed by a suitable amendment of the Reserve Bank of India Act.

101. It should be made quite clear that we envisage that financial accommodation will be provided by the Reserve Bank only to viable and potentially viable cottage and small-scale industrial co-operative societies which are of the production and sale type. For instance, service societies performing purely supply functions will be excluded even though financed by central banks.

102. The initial selection of individual societies which are to be taken up for purposes of financing should be the clear responsibility of the co-operative banking structure which should ensure that the societies selected satisfy the criteria of viability and potential viability and are engaged in production and sale activities. This is in keeping with our recommendations which envisage an active promotional and developmental role for the apex co-operative banks and central banks in the growth of all types of industrial co-operative societies.

103. The finance from the Reserve Bank for cottage and small-scale industries will flow to industrial co-operative societies through apex co-operative banks and the district central co-operative banks and in certain cases through central industrial co-operative banks. It may also flow through apex co-operative banks directly to urban co-operative banks without the apex banks routing the funds through the central co-operative banks. However, if, in certain areas, urban co-operative banks have large dealings with central banks, the funds from the apex banks may flow to them through the central banks, depending upon the arrangements preferred by the urban banks.

104. In connexion with the question whether this finance can flow through apex and central co-operative banks to primary agricultural credit societies to enable the latter to finance artisans in the villages, certain features may be noted. In the first place, there may be a small number of artisans who are members of primary agricultural credit societies. The central co-operative banks should take note of the credit requirements of such artisans while providing accommodation to the primary agricultural credit societies in case these societies are financing or have financed artisans. In so far as the Reserve Bank is concerned, the Bank already takes into account the commitments of the co-operative banks in regard to non-agricultural credit while fixing credit limits for seasonal agricultural operations and marketing of crops. Secondly, if an industrial co-operative society of village artisans can be formed with due regard to the prospects of its being able to function as a viable or potentially viable unit in a compact area, such a society, if it is of the production and sale type, should be eligible for accommodation under section 17(2)(bb) of the Reserve Bank of India Act through the state and central co-operative banks in the same manner as industrial co-operative societies organized in urban or semi-urban areas. Finally, if the jurisdiction of an urban bank covers the villages in question, these banks may be able to finance the individuals and obtain refinance from the Reserve Bank through the state or central co-operative bank.

105. It will be observed from the foregoing that central co-operative banks and urban co-operative banks will have to turn to their apex co-operative banks for financial accommodation under section 17(2)(bb) of the Reserve Bank of India Act. On the rare occasions when the apex co-operative banks are not in a position to provide the requisite financial facilities to urban co-operative banks, it may be necessary for the urban co-operative banks to approach a scheduled commercial bank. In this context, it may be necessary, at an appropriate stage, to amend section 17(2)(bb) of the Reserve Bank of India Act to provide for channelling financial accommodation from the Reserve Bank under this section not only through a state co-operative bank or a state financial corporation as at present but also through scheduled commercial banks. We recommend that the Reserve Bank may examine this matter at the appropriate time and take suitable action.

106. In addition to widening the scope of section 17(2)(bb) of the Reserve Bank of India Act so as to facilitate an adequate flow of funds to cottage and small-scale industrial units through the banking structure, there are certain other matters in this sphere in relation to which the Reserve Bank has to play an important role. Some of these have been referred to earlier as for example, helping apex co-operative banks to float bonds or debentures for meeting the block capital requirements of co-operative processing societies; preparing a scheme of rural debentures for financing the same purpose broadly similar to that of the existing scheme of rural debentures floated by co-operative land development banks; and providing refinance, subject to the maximum eligibility according to the accepted standards and subject also to the satisfaction of the condition regarding non-overdue cover, for short-term and medium-term agricultural purposes to central co-operative banks so as to facilitate a reasonable diversion of their working capital as additional contribution to the bonds or debentures to be floated by the apex banks or processing societies as referred to above.

107. The other issues where action on the part of the Reserve Bank is called for relate mainly to: (*i*) provision of medium-term agricultural loans from the National Agricultural Credit (Long-term Operations) Fund to enable members of co-operative processing societies to purchase shares in these societies; (*ii*) expanding the scope of operations of the National Agricultural Credit (Long-term Operations) Fund to provide for loans to state governments for enabling them to contribute to the share capital of (*a*) industrial co-operative societies, other than processing societies, whose membership is drawn mainly from the class of small artisans and (*b*) to urban

co-operative banks, and (*iii*) strengthening the Reserve Bank's Agricultural Credit Department to enable it to shoulder the heavy additional responsibilities involved in the foregoing proposals. These are referred to in the following paragraphs:

108. The Reserve Bank is at present providing medium-term loans to state co-operative banks from its National Agricultural Credit (Long-term Operations) Fund for the purpose of enabling members of co-operative processing societies to purchase shares in such societies. This facility which was available initially for purchasing shares in co-operative sugar factories has recently been extended to co-operative societies engaged in the processing of cotton, groundnut and paddy. We recommend that the Reserve Bank should examine the possibility of extending this facility to other types of co-operative societies undertaking the processing of agricultural produce in which the membership is drawn predominantly from the growers of agricultural produce, regardless of the nature of the processing activity undertaken by these societies. We understand, in this connexion, that this subject is under the consideration of the Bank's Standing Advisory Committee on Rural and Co-operative Credit on the basis of certain proposals made by the National Co-operative Development Corporation which has been requested by the Reserve Bank to collect data to enable further consideration of the subject. Further, as suggested in para 68 of our report, the loans should become available to producers, consumers and even labourers forming the processing societies. It may be necessary to amend section 46A(2)(b) of the Reserve Bank of India Act to facilitate the grant of such loans out of the Long-term Operations Fund. We recommend that this may be done.

109. Next, as regards the expansion of the scope of operations of the National Agricultural Credit (Long-term Operations) Fund, we have already recommended, while dealing with the question of strengthening the capital base of industrial co-operative societies that the Bank should provide loans from the Long-term Operations Fund to state governments for enabling them to contribute to the share capital of industrial co-operative societies, other than processing societies, which have a membership drawn largely from the class of small artisans. We have added that this assistance should be made available only in respect of such industrial co-operative societies which are viable or potentially viable and have paid secretaries or managers.

110. As regards urban co-operative banks, we envisage that their operations will be considerably expanded especially in regard to the financing of small-scale industries and small-scale industrialists. In

order to enable urban banks to discharge this responsibility, it will be necessary to strengthen their share capital base. We recommend that the Reserve Bank should provide loans to the state governments from the National Agricultural Credit (Long-term Operations) Fund for enabling them to contribute to the share capital of urban co-operative banks. If an amendment of the Reserve Bank of India Act is called for to facilitate this, we recommend that this may be carried out. We have to emphasize that contribution to the share capital of urban co-operative banks by the state governments out of loans obtained from the Reserve Bank's Long-term Operations Fund should be made only on a very selective basis, after it has been fully established that the urban co-operative bank cannot increase its share capital base in the short run in any other manner; its working is satisfactory; and it has a concrete programme of action for financing small-scale industries. In other words, this scheme for share capital participation by the state government, on a very selective basis, will be confined in its application to such urban banks as are engaged or interested in productive activities relatable to the financing of small-scale industries.

111. When scheduled commercial banks refinance loans made by a co-operative bank to a small-scale industrial unit, they are not at present eligible for the concessions in the computation of liquidity ratio and in the rate of interest on borrowings from the Reserve Bank in respect of their incremental rise in loans to co-operative banks for financing small industrial units. It would be worth while to encourage participation between the co-operative and the commercial banks in financing the small-scale industrial sector. Accordingly, the concessions that are now extended to scheduled commercial banks in respect of the incremental rise in the advances made by them direct to this sector may also be made available to them in respect of the loans made by a co-operative bank and covered under the credit guarantee scheme and refinanced by them. In other words, the loans made by the scheduled commercial banks to co-operative banks for financing the small-scale industrial sector may be taken along with the advances made by them direct to this sector for arriving at the figure of incremental rise in the level of such advances for extending the concessions referred to above.

112. The Reserve Bank's role in the sphere of industrial financing will grow considerably if our recommendations are accepted by the Reserve Bank and the other agencies concerned. In this context, we recommend that the Agricultural Credit Department of the Reserve Bank should be adequately strengthened, both in the head office and

in the regional offices, to enable the Bank to shoulder the additional responsibilities involved in regard to co-operative industrial financing.

Guarantee Arrangements

113. We have covered in the preceding paragraphs important issues relating to the viability of primary industrial societies, strengthening of their capital structure, organizational arrangements in the co-operative banks for financing industrial co-operatives, co-ordination between co-operative financing agencies and also between these agencies and others assisting small-scale industries, financing of small-scale industrial units run by individuals through urban co-operative banks, adoption of suitable loan policies by co-operative banks and the role of the Reserve Bank in supplementing the resources of these banks to ensure an adequate flow of finance to industrial co-operatives. The various proposals which we have made in regard to the issues referred to above would have far-reaching financial, administrative and organizational implications. It has to be ensured that an expansion in industrial financing by co-operative banks is accompanied by appropriate safeguards. This is necessary not only in the interests of the financing banks and the borrowing constituents but also in the interest of a programme of sustained expansion which cannot be implemented without due regard to the consideration of the safety of funds of the financing institutions. It is in this context that the need for a guarantee to co-operative banks in respect of their advances to cottage and to small-scale industrial units on limited margins arises. The nature and extent of facilities available under the existing guarantee schemes have been indicated in paragraphs 39-43. Our proposals regarding the role and scope of these arrangements are given below:

114. If an industrial unit, whether in the co-operative sector or outside, has demonstrated its ability to work at profit and has good prospects of continuing to do so in the future, it would not be necessary for the financing institutions to seek a guarantee which is in excess of the difference between the customary margins and the margins actually provided by the borrowing constituents. A number of cottage and small-scale industrial units may be expected to emerge as viable propositions from the point of view of the financing institutions in the course of the next few years if the proposals made by us in this regard are implemented and the policy of encouraging the development of cottage and small-scale industries is continued. Meanwhile, the existing guarantee arrangements should be continued. Co-operative banks

financing weavers' societies and industrial co-operative societies other than weavers' societies on the basis of a limited margin of 10 per cent as recommended by us should avail themselves of one or the other of the two guarantee schemes in operation at present which would adequately cover the additional risks taken by them in relaxing the customary margins. The need for a separate guarantee scheme to cover the risks of the banking structure on account of a lowering of the customary margins does not arise, in view of the above. Our observations and recommendations regarding the two guarantee schemes are given below:

(*i*) In regard to the 90 per cent Guarantee Scheme covering defaults, we recommend that it should not only be continued for the reasons already given above, but the state governments should also take a positive interest in the scheme and make the necessary financial provisions for the same.

(*ii*) In regard to the Credit Guarantee Scheme for small-scale industries, we recommend that industrial co-operative banks, pending determination of their viable status and also their status as licensed institutions under the Banking Regulation Act, should be allowed to seek participation arrangements under the scheme with approved financing institutions other than the state co-operative banks or central co-operative banks, if they so wish.

(*iii*) The Reserve Bank should frame suitable criteria for including urban co-operative banks in the approved list of institutions which can directly avail themselves of the Guarantee Scheme even though they may not have been issued a licence by the Reserve Bank. Urban co-operative banks which cannot be approved in this manner, should be allowed to seek participation arrangements under the scheme with approved financing institutions other than the state or central co-operative banks.

Personnel and their Training

115. There remains an important aspect of the working of industrial co-operative societies which is not directly covered by our terms of reference, but which is as vital as the financial aspects in the success or failure of the societies. This concerns the staff for the societies themselves and in the co-operative department and the co-operative banks on whom will fall the responsibility for providing guidance to the societies and for supervision over their activities. We have earlier suggested in para 55 of our report that the Registrar should have ready

access to the advice of experts in whatever department of the government they may be located largely to assist him in framing criteria of viability in regard to existing and new industrial societies. Elsewhere in para 58 we have also recommended the creation of an industrial section in the state and selected central co-operative banks consisting of a cost accountant and an industrial engineer. The appointment of the staff as above together with such technical advice as the Registrar may be able to provide should meet the need of the industrial societies for such expert advice as may become necessary both before formation and later during their normal operations. But the above staff does not take care of the trained and adequately qualified personnel needed to run the industrial societies including processing societies and also the personnel needed in the financing banks to exercise general financial supervision. One could think of an independent cadre to be maintained by a state-level federation of industrial societies or processing societies or by the state co-operative bank so far as the staff of the central and urban co-operative banks is concerned. But until the formation of such a cadre the recruitment of the staff for technical guidance and financial supervision may be done with reference to certain minimum academic and other qualifications which may be stipulated by the Registrar of Co-operative Societies. We have referred above to the qualitative aspects of the staff. The actual number of technical advisers and financial supervisors in the banks will depend upon the workload involved both in respect of existing societies and of the societies which could be promoted. The actual number of managers of industrial societies will depend upon the number that will eventually emerge as viable or potentially viable societies. Whatever be the size of staff required in the banks and for the societies, we recommend that it should be appointed and the financial assistance that is available under schemes of co-operative development under the plans for appointment of the staff for agricultural credit and marketing societies should also be available for the staff appointed for and in the industrial societies.

116. It is not enough to have the staff in the required strength and with the prescribed academic qualifications. The training of the staff in the proper management of societies is as important or perhaps even more essential than their knowledge of co-operative principles and practices. Special courses may have to be designed to impart them the necessary training. The problem, to some extent, is one comparable to the problem of ensuring trained and paid secretaries for primary agricultural credit societies, even though the training and the experience required on the part of the managers of industrial co-operative societies

will have to be more intensive than those for the secretaries of primary agricultural credit societies in view of the complexity of the functions of the industrial societies. We can merely allude to the dimensions and importance of the problem and suggest that it should be examined with reference to each state by the technical groups of the apex banks and the central banks in consultation with the appropriate organizations concerned e.g., the National Co-operative Union, the state co-operative unions, the state khadi and village industries boards and the co-operative and industries departments of the state governments.

P. N. DAMRY	B. MAJUMDAR	R. T. POPAWALA*
P. NATESAN	V. SUBRAMANIAN	C. D. DATEY

Bombay 12 *August* 1968 *Signed on 21 August 1968

APPENDIX I

Statement indicating the credit facilities made available by various agencies to small-scale industrial units

(Rs Crores)

Sr. No.	*Source*	*Year in which the advances were provided or outstanding under advances as on*	*Amount provided*	*Remarks*
1.	State Aid to Industries Act	1965–6	4·18	Amount disbursed
2.	State Bank of India	1968	93·6	Amount sanctioned
		(31·3·1968)	52·1	Amount outstanding
3.	State Financial Corporations	1967 (30·9·1967)	13·91	Percentage of advances to small-scale industries to total advances as on March 31, 1967 was 23
4.	Scheduled commercial banks	1967 (31·3·1967)	313·85	Limits sanctioned and in force
			177·90	Amount outstanding Total limits sanctioned covered 50,649 accounts
5.	National Small Industries Corporation and State Small Industries Corporations	Total for 12 years	29·79	The National Small Industries Corporation has supplied machinery of the value of Rs 29·45 crores on hire-purchase basis to about 15,000 cases
6.	Industrial Co-operative Banks	30·6·1966	0·31	One state and 4 central industrial banks which have indicated that 309 industrial units have been financed to this extent
7.	Urban Co-operative Banks	30·6·1966	1·17	18 of the reporting 116 banks have financed 444 industrial units to this extent

Note: Details of financial accommodation made available to registered units, and cottage and small-scale industries by the khadi and village industries commission and state khadi boards, coir board, silk board, rubber board etc., are not available.

APPENDIX II

Membership and Pattern of Advances by the District Industrial Co-operative Banks

Rs Lakhs

Sr. No.	Name of the Industrial Co-operative Bank	Membership (30.6.67) Societies	Membership (30.6.67) Individuals	Advances made during the year (1966-7) Total	Advances made during the year (1966-7) Societies	Advances made during the year (1966-7) Individuals	Loans outstanding at the end of the year (30.6.67) Total	Loans outstanding at the end of the year (30.6.67) Societies	Loans outstanding at the end of the year (30.6.67) Individuals
	MYSORE								
1.	Belgaum	333	1,563	57.08	18.71	38.37	22.67	9.01	13.66
2.	Bijapur	236	614	20.35	19.58	0.77	14.83	12.47	2.36
3.	Dharwar	221	795	6.47	5.93	0.54	8.99	6.26	2.73
4.	Hassan & Coorg	65	385	28.19	0.17	28.02	12.14	3.66	8.48
5.	Mysore	61	826	9.90	1.07	8.83	9.75	2.20	7.55
6.	Bangalore District	73	1,454	8.31	0.18	8.13	14.22	3.89	10.33
7.	Bangalore City	25	460	2.72	0.58	2.14	5.84	1.96	3.88
8.	Bellary	45	91	1.75	0.03	1.72	2.93	0.48	2.45
9.	Chickmagalur	14	296	6.53	0.10	6.43	9.19	0.76	8.43
10.	Chitradurga	64	208	30.18	0.87	29.31	14.84	3.09	11.75
11.	Gulbarga	36	364	2.08	0.31	1.77	3.99	0.30	3.69
12.	Kolar	38	969	2.83	0.16	2.67	8.73	0.93	7.80
13.	Mandya	27	728	4.02	0.36	3.66	6.25	1.15	5.10
14.	North Canara	85	669	7.82	4.37	3.45	17.17	7.64	9.53
15.	South Canara	54	313	1.89	0.63	1.26	3.09	1.02	2.07
16.	Shimoga	25	989	0.94	0.16	0.78	7.54	0.95	6.59
17.	Tumkur	78	991	6.51	1.20	5.31	13.29	3.85	9.44
18.	Bidar	43	579	8.38	0.13	8.25	5.03	0.32	4.71
19.	Raichur	65	581	2.25	0.35	1.90	3.38	0.54	2.84
		1,588	12,875	208.20	54.89	153.31	183.87	60.48	123.39

APPENDIX II *Concluded*

MEMBERSHIP AND PATTERN OF ADVANCES BY THE DISTRICT INDUSTRIAL CO-OPERATIVE BANKS

Rs Lakhs

Sr. No.	*Name of the Industrial Co-operative Bank*	*Membership (30.6.67)*		*Advances made during the year (1966-7)*			*Loans outstanding at the end of the year (30.6.67)*		
		Societies	*Individuals*	*Total*	*Societies*	*Individuals*	*Total*	*Societies*	*Individuals*
	MAHARASHTRA								
1.	Sholapur	451	457	1029·38	1027·29	2·09	140·00	138·95	1·05
2.	Nagar Urban	145	11433	711·38	123·62	587·76	133·98	25·92	108·06
		596	11890	1740·76	1150·91	589·85	273·98	164·87	109·11
	GUJARAT								
1.	Southern Gujarat	231	1369	474·25	119·55	354·70	66·76	33·59	33·17
2.	Saurashtra	195	1535	8·24	1·57	6·67	37·54	5·96	31·58
3.	Baroda	113	1445	19·51	9·69	9·82	13·57	4·85	8·72
		539	4349	502·00	130·81	371·19	117·87	44·40	73·47
	PUNJAB								
1.	Ambala	NF	NF	NF	NF	NF	NF	NF	NF
2.	Jullundur	274	152	7·45	7·45	—	5·58	5·58	—
		274	152	7·45	7·45	—	5·58	5·58	—
	Grand Total	2997	29266	2458·41	1344·06	1114·35	581·30	275·33	305·97

Note : N.F. = Not Functioning.

APPENDIX III

Co-operative Industries Commission set up by the Maharashtra State Co-operative Bank

(1) *Constitution*

The Maharashtra State Co-operative Bank set up a Co-operative Industries Commission in 1961 with a view to exploring the possibilities of developing processing and other industries in the co-operative sector. The Commission which is headed by the chairman of the apex bank consists of twelve members including the representatives of the co-operative department and the apex marketing federation with the manager of the apex bank as its member-secretary. It has employed a panel of technical experts connected with the oil, food, cotton seeds, textiles and paperboard industries. District industries commissions have been set up by most of the district central co-operative banks on the model of the Industries Commission of the apex bank.

(2) *Functions*

The broad function of the Co-operative Industries Commission is the drawing up of sound and integrated plans for co-operative industries for each district and the region of the state on the basis of agricultural and other natural resources. It also evaluates new proposals for industries and renders technical and managerial advice to industries which have been set up but are experiencing difficulties in working profitably. All proposals for new industries channelled from the district are screened in regard to economic feasibility and co-operative structure by the District Industries Commission before being forwarded to the apex bank for consideration of the Co-operative Industries Commission.

(3) *Activities*

The Commission is reported to have so far evaluated 33 new projects including those relating to the processing industries for paddy in Bhandara, Kolaba and Thana districts, for groundnut in Sangli and Osmanabad districts, for cotton in Yeotmal district, for sugarcane and for fruits and vegetables in Nagpur and Jalgaon districts.

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