COMMITTEE TO REVIEW ARRANGEMENTS FOR INSTITUTIONAL CREDIT FOR AGRICULTURE AND RURAL DEVELOPMENT (CRAFICARD)

INTERIM REPORT

ON

NATIONAL LEVEL ARRANGEMENT FOR INSTITUTIONAL CREDIT FOR AGRICULTURE AND RURAL DEVELOPMENT

RESERVE BANK OF INDIA
BOMBAY
NOVEMBER 1979

ABBREVIATIONS

ACB	—	Agricultural Credit Board
ACD	—	Agricultural Credit Department
AFC	—	Agricultural Finance Corporation
ARC	—	Administrative Reforms Commission
ARDC	—	Agricultural Refinance & Development Corporation
CAB	—	College of Agricultural Banking
CCB	—	Central Cooperative Bank
DBDI	—	Development Bank for Decentralised Industries
DBOD	—	Department of Banking Operations & Development
DICGC	—	Deposit Insurance and Credit Guarantee Corporation
IDBI	—	Industrial Development Bank of India
IRDP	—	Integrated Rural Development Programme
KVIC	—	Khadi & Village Industries Commission
LDB	—	Land Development Bank
LIC	—	Life Insurance Corporation of India
LT	—	Long-term
MT	—	Medium-term
NABARD	—	National Bank for Agriculture & Rural Development
NCA	—	National Commission on Agriculture
NCUI	—	National Cooperative Union of India
NIC (LTO) Fund	—	National Industrial Credit (Long-term Operations) Fund
RBI	—	Reserve Bank of India
RPCC	—	Rural Planning & Credit Cell
RRBs	—	Regional Rural Banks
SCB	—	State Cooperative Bank
SFCs	—	State Financial Corporations
ST	—	Short-term
UTI	—	Unit Trust of India

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CHAPTER 1

INTRODUCTION

1.1 At the instance of the Government of India, the Reserve Bank of India appointed, on March 30, 1979, an 8-member committee under the chairmanship of Shri B. Sivaraman, to review arrangements for institutional credit for agriculture and rural development (CRAFICARD) with the following terms of reference :

(i) To review the structure and operations of the Agricultural Refinance and Development Corporation in the light of the growing need for term loans for agricultural and allied purposes including village industries, marketing, processing and other services relevant to integrated rural development ;

(ii) To examine the need for and the feasibility of integrating short-term and medium-term credit structure with long-term credit structure at national, State, district and village levels in the context of the intensification of rural development programmes ;

(iii) To consider the relative merits of three-tier and two-tier structures for co-operative financing institutions and suggest improvements, if any ;

(iv) To study the consultancy services provided by the Agricultural Finance Corporation and suggest improvements for achieving satisfactory co-ordination between it and financing institutions ;

(v) To review the role of the Reserve Bank of India in the field of rural credit having due regard to its central banking functions ; and

(vi) To make recommendations on the above issues and other related matters.

1.2 The Committee was asked to submit its report by the end of December 1979.

1.3 Till now, the Committee has met seven times. In the inaugural meeting on May 7, 1979, discussions were held with the Governor of RBI, who drew our attention to the need for ensuring that different constituents of the rural credit system grow harmoniously and function in a co-ordinated and complementary manner, avoid unnecessary duplication of efforts and above all keep in mind their primary purpose of promoting all-round higher production in the rural areas. Further, he requested the Committee to quickly appraise the problems referred to it and tender its advice early. Responding to the Governor's request, the Committee decided that though its comprehensive terms of reference may necessitate it to take more than the stipulated time, it may submit interim reports on any specific issues requiring immediate attention.

1.4 Following this, we decided to divide our assignment into two parts. The first pertains to the examination of the credit delivery system at the field level with a view to finding out the present position regarding the tie-up between credit and plan programmes and what further improvements are necessary. The second concerned with credit disbursement for rural development programmes. The main aim of these discussions was to obtain their assessment as to how they could improve their involvement in integrated rural development, how best the constraints in this regard could be overcome, and above all, whether a new arrangement or set-up at the national level would be necessary for achieving the desired focus on and thrust towards integration of credit activities. In essence, this meant examining part of items 1 and 2 of the terms of reference and item 5.

Existing Institutional Arrangements at the National Level

1.10 Chart 1 shows the different institutions concerned at present with provision of funds directly or indirectly to rural production and investment, while Statement 1.1 shows the magnitude of direct institutional finance for agriculture during the years 1974-78. At the national level, RBI provides short-term funds to RRBs and SCBs for agricultural operations, rural artisans and some village industries and to an extent to the Commercial Banks for loans to small farmers. RBI also provides long-term funds to ARDC in regard to agriculture and to IDBI in regard to industries including those in rural areas. ARDC with its resources additionally raised from GOI and floatation of bonds etc., provides investment credit to Commercial Banks, SLDBs, SCBs and RRBs. NCDC provides long-term finances for agricultural processing, storage and marketing in the co-operative sector through State Governments/SCBs. GOI and State Governments extend a measure of support to the SLDBs/SCBs by subscribing to debentures or granting loans and subsidies. AFC which started as a financing bank now serves as a consultancy organisation for rural development. IDBI refinances to an extent rural industries through Commercial Banks/SFCs. RRBs and SCBs can also avail of refinance for this purpose from IDBI.

1.11 Among all the above-mentioned institutions, RBI occupies a pivotal position at the national level in the dispensation of rural credit. Next in importance is ARDC. We have examined the relative roles of these two institutions in the context of the strategy of integrated rural development.

1.12 The Committee held discussions on the set-up at the national level with representatives of ARDC, AFC, RBI, Commercial Banks, SLDBs and SCBs.

Interim Report

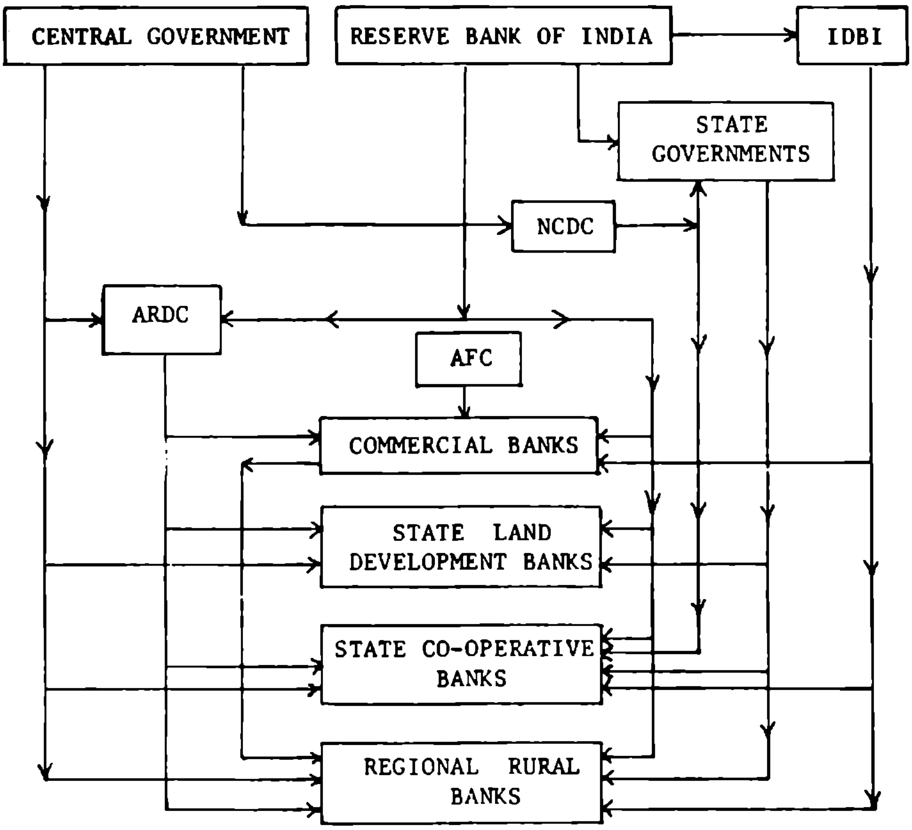
1.13 This interim report is divided into four chapters. The factual position regarding ARDC and the role of RBI in rural credit are presented in chapters 2 and 3. Chapter 4 contains our assessment of the problems of rural credit at the national level and also our recommendations in this regard.

Acknowledgements

1.14 The Committee wishes to place on record its gratitude to the representatives of the Reserve Bank, ARDC, AFC, co-operative banks and their National Federations and commercial banks for furnishing us the required information and meeting us for discussions. We are also grateful to the staff and officers of Rural Planning and Credit Cell of RBI without whose dedicated and competent work we would not have been able to expedite the interim report.

CHART - 1

EXISTING NATIONAL LEVEL INSTITUTIONAL SET-UP
FOR RURAL FINANCE



CHAPTER 2

AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION

2.1 The Agricultural Refinance Corporation was established by an Act of Parliament in 1963 and started functioning from 1st July 1963. Although primarily a refinancing agency, the Corporation had from the beginning assumed certain functions which are essentially developmental and promotional in nature. In order to emphasise the developmental and promotional role of the Corporation, it was renamed as Agricultural Refinance and Development Corporation (ARDC) by amending the original Act in 1975. The Corporation owes its birth to the wide recognition that a central organisation with adequate resources of its own is essential for supporting schemes for agricultural development. The Third Five Year Plan (1961-66) emphasised the urgent need for stepping up agricultural production and the importance of setting up a statutory Corporation to supplement the efforts of the existing agencies at the national level in regard to provision of funds for an accelerated growth in agricultural output. Earlier, the Committee on Co-operative Credit (1960) and the All India Rural Credit Survey, 1954, had drawn attention to the fact that the inadequacy of institutional finance for long term investment was a major factor impeding agricultural development in the country. They recommended that some arrangement, permanent in nature, must be made for provision of substantial amount by way of medium-term and long-term loans for agricultural development. It may be recalled that in 1954 the central land mortgage banks existed in 10 States only and they had only 304 primary banks affiliated to them. Their resources were limited and their loans were mostly meant for redemption of old debts. The loaning programme had no meaningful relation to the schemes of development. Following the recommendations of the All India Rural Credit Survey Committee, emphasis was shifted from land mortgage banking to land development banking and central land development banks (CLDBs) came to be established in almost every State. The Agricultural Refinance Corporation established in 1963 was largely meant to refinance, assist and guide these CLDBs. In due course, the Corporation extended its business to cover commercial banks and the state co-operative banks as these institutions entered the field of long-term investment for agriculture.

Objectives

2.2 According to the statute, the Corporation is to "provide such financial assistance to eligible institutions as it considers necessary for promoting the development of agriculture in India" and agriculture has been defined as including animal husbandry, dairy farming, poultry farming and pisciculture involving development of both inland and marine fisheries, catching of fish and activities connected therewith or incidental thereto. As enunciated in the statute, ARDC has evolved the following objectives over the last few years of its working :

(*i*) To assume an effective role as a development bank.

(*ii*) To increase participation in productive lending for the achievement of the Five-Year Plan targets.

(*iii*) To diversify lending for achieving a broad based growth of the economy.

(*iv*) To penetrate into backward and underdeveloped areas for correcting regional imbalances.

(*v*) To provide assistance to small farmers in an increasing measure.

(*vi*) To strengthen the member banks, both operationally and financially, to enable them to handle increased business.

(*vii*) To emphasize the observance of technical considerations in the formulation of projects.

(*viii*) To orient the commercial banking sector to greater participation in investments for agricultural development.

(*ix*) To provide assistance to governmental agencies in the formulation of viable projects.

(*x*) To translate the agricultural development programmes incorporated in the Five-Year-Plans and other objectives of national agricultural development into bankable propositions.

(*xi*) To undertake project evaluation, research and studies in order to improve decision-making process in the Corporation as well as in the member-banks.

Areas of Activity

2.3 Within the above-mentioned broad objectives, the specific purposes for which refinance facilities are provided by the Corporation to eligible institutions are :

(*i*) Minor irrigation works covering compact areas for exploitation of ground and surface water resources which include investments in dugwells, improvement of existing wells, tubewells, lift irrigation, installation of pumpsets, energisation of wells and other irrigation sources.

(*ii*) Reclamation and preparation of land for irrigation under the command of irrigation projects.

(*iii*) Soil conservation, water management and adoption of dry farming methods.

(*iv*) Farm mechanization and agro-service centres.

(*v*) Development of horticulture and plantation crops such as tea, coffee, rubber, cashewnut, coconut, cardamom and arecanut.

(*vi*) Construction of godowns and silos by organisations of agriculturists or by private entrepreneurs for the use of agriculturists and development of market yards.

(*vii*) Development of animal husbandry, dairy farming, fisheries and poultry farming.

(*viii*) Aerial spraying for control of crop pests and diseases by promotion of agro-aviation schemes.

(*ix*) Forestry development.

(*x*) Installation of gobar gas plants.

(*xi*) Purchase of work animals/animal-driven carts by small and marginal farmers.

Eligible Institutions

2.4 The eligible institutions to which alone ARDC can provide financial assistance are specified in the Act as follows :

(*i*) a central land development bank or a State co-operative bank or a scheduled bank, being in each case a shareholder of the Corporation.

(*ii*) a co-operative society (other than a C.L.D.B. or a State-co-operative bank) approved by the Reserve Bank in this behalf.

(*iii*) an Agricultural Credit Corporation established under the State Agricultural Credit Corporations Act, 1968.

(*iv*) such other institutions as may, on the recommendations of the Reserve Bank, be approved by the Central Government in this behalf.

However, no institution has so far been approved by the Central Government under (*iv*) above although this category was introduced specifically by the Amendment Act of 1975 to enable the ARDC to give direct finance to certain development institutions other than its shareholders.

Form and Extent of Assistance

2.5 The Corporation's assistance to the LDBs is in the form of subscription to the special development debentures floated by them on the strength of mortgages collected by them after issuing the loans. ARDC normally subscribes upto 75% of these debentures, the balance of 25% being contributed by the concerned State Government and Central Government in the ratio of 50:50. Considering the strategic importance of minor irrigation schemes in the country's plans for increasing agricultural production, ARDC agreed to increase its contribution to the special development debentures floated by LDBs for minor irrigation schemes to 90% in August 1967, with the governments being required to contribute only 10% of the value of debentures for such schemes. The Corporation has recently decided to extend indefinitely the concession of 90% in respect of minor irrigation schemes not only to the SLDBs but also to the commercial banks, SCBs and RRBs. In order to encourage the banks to take up more schemes in the eastern and north-eastern regions, ARDC is making available 90% refinance for all the schemes emanating from these areas as against 75% in regard to schemes other than minor irrigation in other areas. Further, the facility of refinance to the extent of 90% of the financial assistance is also extended to all special programmes such as IRD, CADA, Desert Area Development and Hill Area Development and to all special schemes such as those sponsored by appropriate agencies like SFDA, DPAP, Scheduled Castes/Tribes and Girijan Development.

2.6 In the case of SCBs and commercial banks, refinance is provided by the Corporation in the form of term loans repayable in annual instalments. The extent of refinance ranges from 75% to 90% depending upon the purpose of investment and the category of the beneficiaries, viz., small and marginal farmers.

Membership and Shareholding

2.7 RBI is the major shareholder (not less than 50%) as per the statute. Besides, the membership of the Corporation is open to LDBs, SCBs, Scheduled Commercial Banks, LIC, other insurance and investment companies and such other classes of financial institutions as may be notified by the Central Government. The shareholders of ARDC as well as their shareholding (the authorised capital being Rs. 100 crores) as at the end of June 1979 were as under:

(Rs. crores)

Particulars	No. of shareholders	Value of shares held	Per cent of total
Reserve Bank of India ..	1	31.07	54.0
State Land Development Banks	19	9.27	16.1
State Co-operative Banks	24	4.59	8.0
Scheduled Commercial Banks (including Regional Rural Banks).	106	11.09	19.3
Life Insurance Corporation and other Insurance Companies.	6	1.48	2.6
	156	57.50	100.0

2.8 The shares of the Corporation are fully guaranteed by the Central Government as to repayment of the principal and the payment of a minimum annual dividend at a rate fixed by the Central Government at the time of issuing the shares. The rate of the guaranteed dividend was fixed at 4.25% for the first series of shares. The rate was raised for the subsequent issues and it was fixed at 6.25% for the eighth series of shares issued in November 1978. This provision of a minimum annual dividend was made with a view to encouraging shareholding by private commercial banks and co-operative institutions. However, it has proved to be costly in the sense that the Corporation has had to earn 15% on the value of the shares in order to pay the above guaranteed dividend if it is not exempted from payment of income-tax.

Debt-equity Ratio and Borrowings

2.9 The maximum borrowing power of the Corporation is fixed at 20 times the paid-up capital and the reserve fund. The outstanding borrowings of the Corporation in the recent past have ranged between 15 and 18 times its paid-up capital and reserves. The Corporation can raise resources through:

(*i*) issue of bonds and debentures guaranteed by the Central Government as to the repayment of principal and payment of interest,

(*ii*) borrowings from the Reserve Bank of India for a period not exceeding 18 months against trustee securities,

(*iii*) borrowings from the Reserve Bank of India out of the NAC (LTO) Fund, (*iv*) borrowings from the Central Government and any other authority or organisation or institution approved by the Central Government,

(*v*) acceptance of deposits for periods not less than 12 months from the Central and State Governments, local authority, CLDBs, SCBs, scheduled banks or any person with the prior approval of the Reserve Bank,

(*vi*) loans in foreign currency from any bank or financial institution in India or elsewhere, with the prior approval of the Central Government.

2.10 To enable the Corporation to augment its resources, the Reserve Bank has been keeping with the Corporation the dividend accruing on its shares as an interest-free deposit for a period of 15 years from the establishment of the Corporation. With the expiry of this 15 year period, the Reserve Bank has since decided that ARDC should pay dividend to it from the close of the accounting year 1980; it has agreed to continue this special deposit (aggregating Rs. 5.2 crores as on 30-6-1979) due for repayment in June 1980 for another 10 years commencing from 1 July 1980.

Overall Resources Position

2.11 Till the end of June 1979, ARDC had issued 14 series of bonds for a total amount of Rs. 246.39 crores including the 10% excess contribution to each series allowed to be retained. The 14th series was issued at par with an interest rate of 6.25% and maturity of 10 years. For the borrowings from Government of India aggregating Rs. 502.4 crores at the end of June 1979, the Corporation is required to pay interest at 6.25% on loans with a maturity upto 9 years and at 6.75% on loans maturing between 9 years and 15 years with a rebate of 0.25% being allowed for prompt payment of interest. The Reserve Bank of India sanctions credit limits annually to the Corporation for drawals from the NAC (LTO) Fund. These borrowings are for a period of 10 years and carry an interest of 6% at present. The overall resources position of the Corporation as well as the borrowings at the end of June 1979 were as follows:

(Rs. crores)

	Particulars	Position as on 30 June 1979
1.	Paid-up Capital	57.50
2.	Reserves	25.28
3.	Research and Development Fund	2.00
4.	Special deposit	5.22
5.	Borrowings from	
	(*i*) Government of India	502.40
	(of which from IDA/World Bank)	(444.00)
	(*ii*) Reserve Bank	263.50
6.	Bonds	246.39
7.	Special loan account deposit	6.58
	Total ..	1108.87

Management and Organisation

2.12 The general superintendence, direction and management of the affairs and business of the Corporation are vested in a Board of nine directors with a Deputy Governor of the Reserve Bank of India as the Chairman. Apart from the Managing Director who is appointed by the Reserve Bank in consultation with the Board, one more director is nominated by RBI. Three directors are nominated by the Government of India from among its officers. The three other directors are elected once in every four years by three electoral colleges of shareholders consisting of (*i*) Central Land Development Banks, (*ii*) State Co-operative Banks, and (*iii*) Life Insurance Corporation of India, Scheduled Banks, Insurance and Investment Companies and other financial institutions.

2.13 The composition of the Board has remained unchanged over the years despite the change in the name of the Corporation in 1975 to signify its developmental role. The Chairman of the Corporation is a Deputy Governor of RBI. The M.D. is a full-time functionary. He is appointed by the RBI after consultation with the Board. The ARDC Act has not laid down any specific powers for Chairman or M.D. According to the Act, the Managing Director shall perform such duties as the Board entrusts or delegates to him. The RBI may, at any time remove the Managing Director from office, after consultation with the Board.

Administrative Structure

2.14 The Head Office of the Corporation is in Bombay. The Managing Director is assisted by two General Managers, 4 Senior Directors apart from Directors, Deputy Directors, Economists, Financial Analysts and other staff. Basically, the staffing pattern is officer-oriented to ensure speedy disposal of work. For help in technical evaluation, the Corporation has appointed a few senior technical experts in different areas of specialisation.

2.15 The Head Office of the Corporation consists of seven Divisions, *viz.*

(*i*) Three Project Divisions,

(*ii*) Funds, Accounts and Administration Division,

(*iii*) Planning & Development and Management Division,

(*iv*) Programming and Evaluation Division; and

(*v*) Technical Division,

In addition, the Corporation has also set up separate cells for Training and Internal Audit. The Organisational Chart for the Head Office is presented in chart 2. While one General Manager is in charge of all three Project Divisions each headed by a Senior Director for a group of states, the other General Manager is in charge of all the other Divisions.

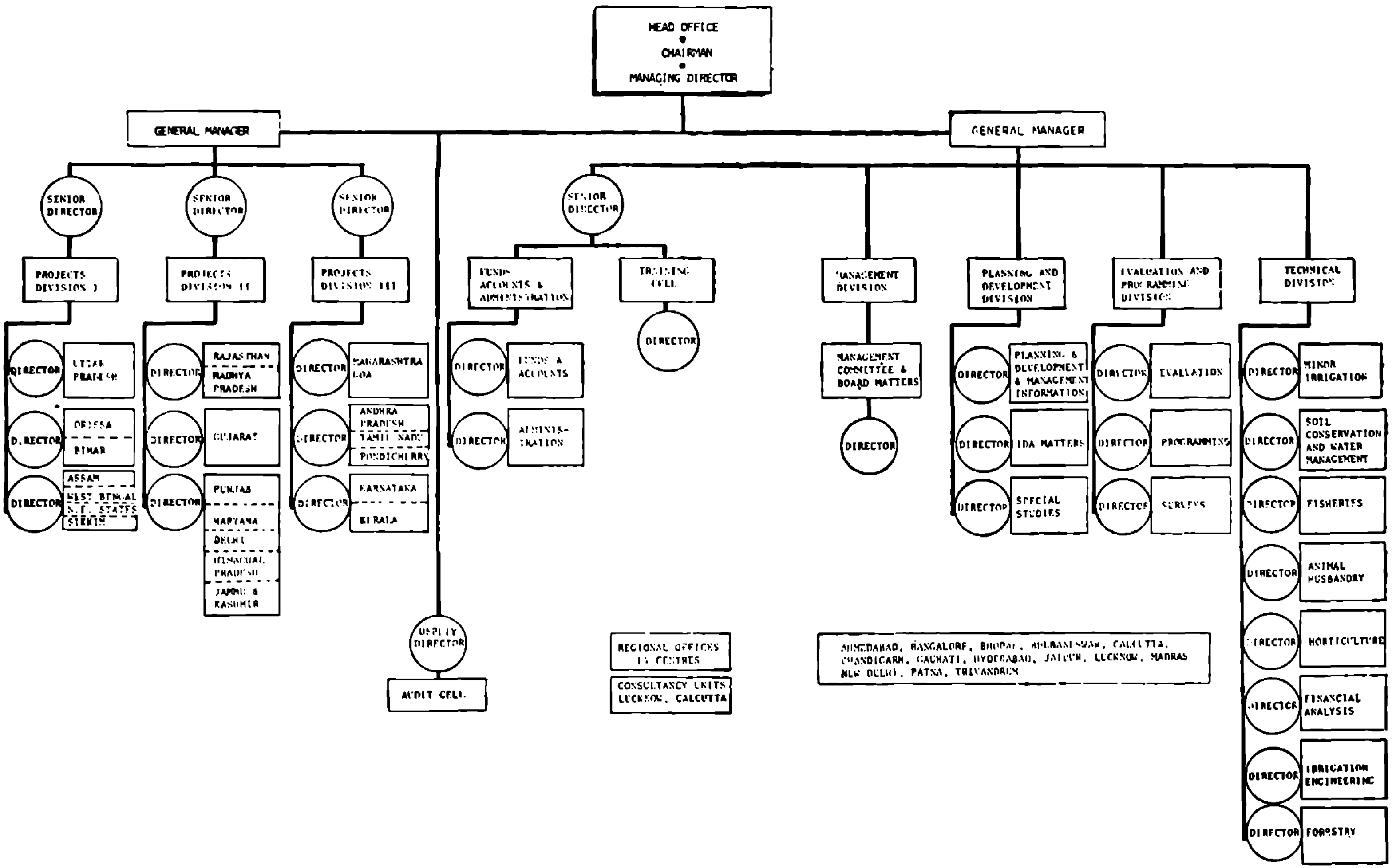
Regional offices

2.16 The Corporation has established 14 Regional Offices, located in the major State capitals. These are in Ahmedabad, Bangalore, Bhopal, Bhubaneswar,

CHART 2

AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION

ORGANIZATION CHART



Calcutta, Chandigarh, Gauhati, Hyderabad, Jaipur, Lucknow, Madras, New Delhi, Patna and Trivandrum. There is a regional unit for Maharashtra located in the Head Office itself.

2.17 The functions of the Regional Offices can be grouped in three categories :

(*a*) Financial and/or Technical Appraisal of Schemes including operational aspects
(*b*) Follow-up and Monitoring of Schemes
(*c*) Planning and Development

The role of Regional Offices is essentially developmental and promotional. They actively assist the financing banks and the State Governments in the identification and formulation of viable schemes, provide clarification on the Corporation's policies and procedures when required, undertake scrutiny of the schemes and their economic appraisal and carry out follow-up studies in respect of schemes sanctioned by the Corporation. They also scrutinise and recommend the debenture floatation proposals/drawal applications/rephasing proposals and keep the Head Office informed of the developments in the states affecting agriculture and financing banks and generally act as liaison offices of the Corporation in the different states. The organisational chart for a typical R.O. as proposed is given in chart 3.

2.18 Till 1973 all the schemes were referred to the Board for sanction. In 1973, the Board delegated to the Managing Director the power of sanctioning schemes involving refinance upto Rs. 50 lakhs. From 10 January 1979, the Board has authorised the Managing Director to sub-delegate to General Managers and Senior Directors in Head Office and Directors holding charge of Regional Offices, the power to sanction specified types of schemes involving refinance upto Rs. 40 lakhs subject to certain conditions and limitations. The Directors in charge of Regional Offices have been now empowered to sanction refinance assistance upto Rs. 20 lakhs in respect of minor irrigation schemes and upto Rs. 10 lakhs in the case of certain specified schemes for diversified purposes. At the Head Office, appropriate monitoring arrangements have been evolved to look into the schemes sanctioned at the Regional Offices. Although the sanctioning power has been decentralized to some extent, actual disbursement of refinance is attended to by the Head Office.

Consultancy Services

2.19 In order to help the formulation of viable agricultural development schemes in the northern and eastern states, the Corporation set up in August 1971 a Consultancy Service Unit in Lucknow. A new Consultancy Service Unit was opened at Calcutta (in 1973) to serve exclusively the eastern and north-eastern regions.

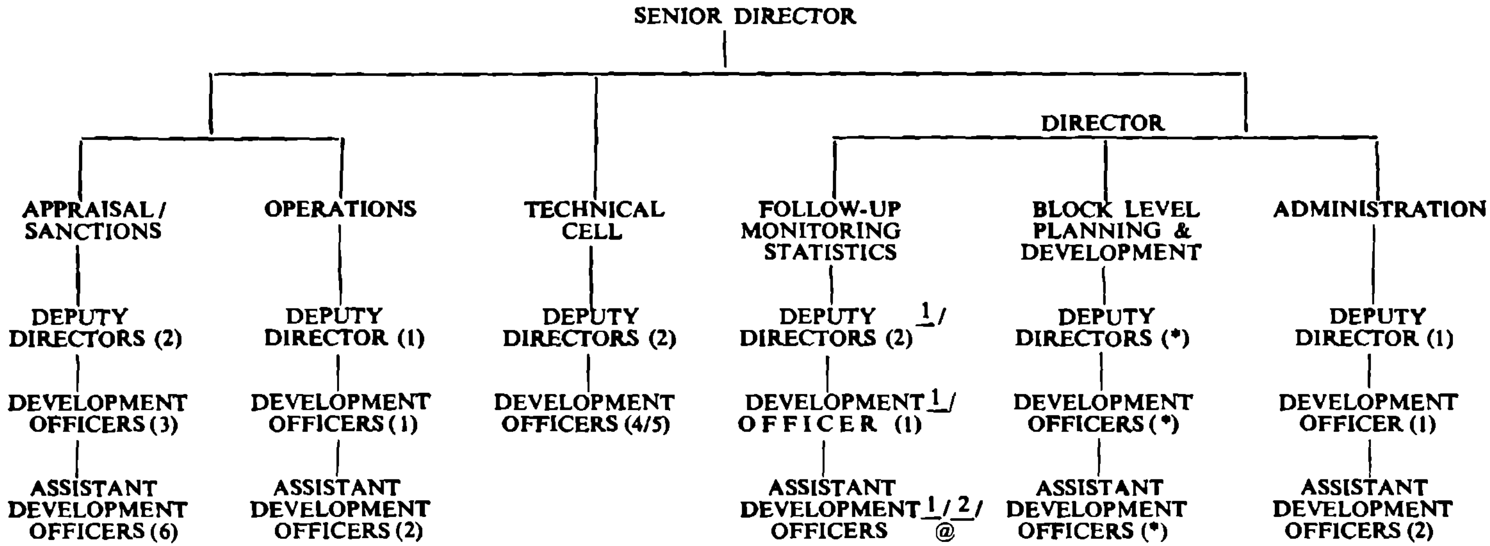
Staff

2.20 Although ARDC is empowered by statute to recruit its own staff, it has been drawing most of its staff from RBI since inception. In the light of its

CHART 3

ORGANISATIONAL CHART FOR A TYPICAL REGIONAL OFFICE OF ARDC

(Proposed)



(1) Include Agricultural Economists.
@ (2) Include field Survey / Investigation Units.
* (3) Strength of Each Category of Staff would be related to No. of Blocks to be covered under Integrated Rural Development Programme.

experience, ARDC has indicated to RBI its preference to develop its own cadres at all levels. The final decision on this matter has not yet been taken.

Training Arrangements

2.21 ARDC has embarked on a comprehensive programme of organising training for the senior and middle level staff of LDBs and other agencics and the junior level staff of LDBs connected with the implementation of ARDC schemes. The training programme for the senior and middle level staff is conducted through the CAB, Pune, while that for thejunior level staff, the training is through the regional training centres with the help of LDBs. In CAB, Pune and in other programmes, 86 courses have so far been conducted for senior and middle level staff of banks, state governments, RBI and ARDC, training 2325 members. The LDBs have trained 12110 members upto 30 June 1979 under the junior stafftraining programme under the overall guidance of ARDC.

Operational Dimensions

2.22 The progress in the business of the Corporation during the first few years of its inception was not significant because it had to bestow considerable attention to the spadework required for embarking upon fullfledged operations. The subsequent years, however, have witnessed a faster growth in the sanction of schemes as well as in the disbursement of refinance.

2.23 Starting with only 3 schemes involving financial outlay of Rs. 2 crores in 1963-64, the number of schemes sanctioned increased to 8655 as at the end of June 1979 with financial assistance of Rs. 2727 crores and the Corporation's commitment aggregating Rs. 2303 crores. The active association of the Corporation with the World Bank and its affiliate IDA since 1969 has been a noteworthy feature of the ARDC's operations. The cumulative refinance disbursed by the Corporation crossed the Rs. 1000 crores mark and stood at Rs. 1334 crores as at the end of June 1979. The progress details over the years are given below :

(Rs. crores)

Year July-June	No. of schemes sanctioned at the end of the year	DISBURSEMENT During the year	DISBURSEMENT Upto the end of the year
1963-64	3	—	—
1969-70	371	28.60	59.09
1974-75	2053	106.40	423.07
1975-76	2905	171.15	594.20
1976-77	4487	220.82	815.02
1977-78	6221	234.30	1049.32
1978-79	8655	284.87	1333.56

Coverage of Regions

2.24 As regards geographical coverage of ARDC's operations, every district in the country except for 27 out of the total 387 districts, had at least one ARDC scheme by January 1979. In terms of blocks 4621 out of 5004 have one type or other of ARDC schemes sanctioned for implementation. Except in the difficult hilly terrain particularly in the northern and north-eastern states, ARDC has penetrated into other areas where some type of agricultural development has been undertaken. With a view to reducing imbalances between different regions of the same state, ARDC is making efforts to cover all the districts in the country. The region-wise disbursement of refinance during the recent years may be seen in Statement 2.1. The position with regard to the distribution of refinance in the different regions is indicated below :

Region	REFINANCE DISBURSED (%)							
	1963 to 1969	1969 to 1974	During					Cumulative upto June 1979
			1974-75	1975-76	1976-77	1977-78	1978-79	
Northern	32.5	21.6	17.4	20.3	19.5	15.6	19.0	19.4
North-eastern	2.4	0.2	0.1	—	0.4	1.3	1.0	0.6
Eastern	0.8	3.7	10.2	10.6	13.0	15.8	14.7	10.9
Western	13.0	25.2	16.8	15.2	10.6	14.3	14.1	16.3
Central	5.0	17.8	28.9	26.5	28.7	25.5	23.0	23.8
Southern	46.3	31.5	26.6	27.4	27.8	27.5	28.2	29.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

While displaying a perceptible increase in the share of the under-developed states in the eastern and north-eastern regions upto 1977-78, the above data reveal a slight set-back to the trend during 1978-79. In order to encourage the member banks to take up more schemes in the eastern and north-eastern regions, ARDC is making available 90% refinance for schemes emanating from these regions irrespective of the nature of purpose as against 75% refinance in regard to schemes other than minor irrigation in other regions.

2.25 As at the end of June 1979, the refinance provided to less developed states@ worked out as under :

(Rs. crores)

Area	No. of schemes	ARDC commitment	Refinance provided by ARDC
(*a*) Less developed States	3899	1011.60	527.18
(*b*) Other States	4756	1291.00	806.38
(*c*) Total	8655	2302.60	1333.56
Percentage of (*a*) to (*c*)	45.0	43.9	39.5

@Includes U.P., M.P., Bihar, Orissa, W. B., Rajasthan, J. & K., H. P. and North-eastern States.

During the year ended June 1979 the less developed States accounted for Rs. 127 crores out of Rs. 285 crores disbursed by ARDC.

Purpose-wise Disbursements

2.26 The purpose-wise details of disbursements are shown in Statement 2.2. Minor irrigation schemes account for a major part of the disbursements (about 68% of the average during the period upto June 1979). Farm mechanisation schemes constitute the next largest single item with disbursements at Rs. 187 crores constituting 14% of the total. Storage and market yards schemes occupy the next place with disbursement of Rs. 91 crores constituting 6.9% followed by schemes of land development, reclamation, soil conservation and command area development which account for 4.2% of the total. The other schemes for which refinance assistance had been disbursed are plantation/horticulture (3.1%), fisheries (1.7%), dairy development (1.5%) etc. Though the business of ARDC has shown signs of diversification in recent years, the process is yet to become perceptible and achieve a better geographical spread. The recent trend of diversified lending is largely on account of commercial banks whereas in the case of LDBs, 83% of disbursements made were for minor irrigation schemes as at the end of June 1979.

Agency-wise Disbursements

2.27 The relative shares of the agencies through which ARDC finances show some interesting trends as may be seen from the details furnished below:

Year	DISBURSEMENT OF REFINANCE BY ARDC					
	SLDBs		Scheduled Commercial Banks		State Co-operative Banks	
	Amount (Rs. crores)	% to total	Amount (Rs. crores)	% to total	Amount (Rs. crores)	% to Total
Upto 30-6-1969	27.85	91.4	1.06	3.5	1.56	5.1
1969-73	167.93	89.2	11.09	5.9	9.32	4.9
1973-74	77.76	79.5	17.36	17.7	2.72	2.8
1974-75	77.06	72.4	27.87	26.2	1.47	1.4
1975-76	99.09	57.9	70.75	41.3	1.31	0.8
1976-77	126.70	57.4	92.98	42.1	1.14	0.5
1977-78	111.94	47.8	120.26	51.3	2.10	0.9
1978-79	131.32	46.1	149.52	52.5	4.03	1.4
Upto 30-6-1979 ..	819.59	61.6	490.53	36.8	23.44	1.7

The share of SLDBs in disbursements of ARDC refinance which was as high as 91.4% upto 1969 has continuously declined over the decade, to 46.1% in 1978-79. In sharp contrast to this, the relative share of commercial banks increased steadily from 3.5% in 1969 to 52.5% in 1979. Their involvement particularly in minor irrigation has been increasing in areas where the co-operative structure is weak.

Coverage of Small Farmers and Other Weaker Sections

2.28 It is one of the objectives of ARDC to promote flow of larger quantum of credit to small and marginal farmers and other weaker sections of the rural community. Special attention is, therefore, paid to the problems of small farmers. The small farmers who are not entitled to capital subsidy made available by Government of India/ State Governments under the special programmes such as SFDA, DPAP etc., but are classified as small farmers as per ARDC definition@ are entitled to concessional terms of loaning, viz., 5% down payment only as compared to 10% and 15% stipulated from medium and large farmers, and a longer period of loans upto 15 years especially for minor irrigation investments besides payment of a uniform rate of interest of 9.5% per annum on loans for all purposes as against 9.5% and 10.5% to be charged to others for minor irrigation/ land development and other purposes respectively. As against the usual 75-80%, the Corporation provides 90% refinance to banks against loans given by them for schemes of small and marginal farmers sponsored by SFD/MFAL agencies so as to encourage member banks to formulate more schemes for such beneficiaries. In eastern and north-eastern regions where small farmers are predominant, 90% refinance is made available for all categories of investments.

2.29 ARDC is also committed to ensuring that at least 50% of the refinance provided by it to its member-banks under the various schemes is against loans given to small farmers and other weaker sections. The Corporation has been stipulating in its sanction letters that the financing banks should ensure that at least 50% of the beneficiaries under each scheme are small farmers. As at the end of June 1979, a total of 534 schemes sponsored by the SFD/MFAL agencies were sanctioned by the Corporation involving an aggregate commitment of Rs. 90 crores of which Rs. 47 crores were availed of till then. The share of small farmers in ARDC's total disbursements rose from 48% as at the end of March 1978 to 49% as on 31-3-1979. Purposewise, 48% of the total disbursements for minor irrigation was in respect of small farmers while 52% of the amount advanced towards diversified purposes (other than farm mechanisation, storage and market yards which do not directly benefit the small farmers) was for small farmers. The schemewise position as on 31-3-1979 is shown on page 19.

Rate of Interest

2.30 The rate of interest charged by the Corporation on its refinance which was 5.5% per annum for all types of assistance from the Corporation in 1964 was gradually raised over the years in accordance with the overall credit policy. In August 1974 the rate was fixed as 7.5% per annum for minor irrigation and land development schemes and 8% per annum for other types of schemes. The lending rates to the ultimate beneficiaries were fixed in consultation with GOI/RBI at 10.5% per annum for minor irrigation and land development schemes and 11% per annum for other schemes, allowing a margin of 3% to the financing banks.

@ A farmer cultivating land providing a pre-development net return to family resources not exceeding Rs. 2000/- per annum based on 1972 prices is classified as a small farmer.

DISBURSEMENT OF REFINANCE TO SMALL FARMERS
(Schemewise Position as on 31-3-1979)

(Rs. crores)

Category of Schemes	Minor Irrigation			Diversified (excluding farm-mechanisation, storage and market yards)		
	Total disbursement	Disbursement to small farmers	Percentage of 3 to 2	Total disbursement	Disbursement to small farmers	Percentage of 6 to 5
1	2	3	4	5	6	7
IDA Projects	329.9	111.1	34	13.1	5.3	40
ARDC I	112.5	62.4	55	10.5	4.0	38
ARDC II ..	154.1	82.8	54	29.6	10.0	34
SFDA/MFAL	35.9	35.9	100	5.4	5.4	100
Other Schemes ..	201.4	111.9	56	74.5	44.2	59
Total ..	833.8	404.1	48	133.1	68.9	52

2.31 With the decision of Government of India to exempt ARDC from payment of income-tax for 5 years and a marginal reduction in the rate of interest on Government of India loans to ARDC, the Corporation has, with effect from 15 March 1979, reduced its rate of interest on refinance to the eligible institutions and the latter's rate to the ultimate borrowers as follows :

Type of scheme	Rate of interest on refinance to eligible institutions	Rate of interest to be charged by banks to ultimate borrowers
A. Minor irrigation/land development ..	6.5% p. a.	9.5% p.a.
B. Diversified purposes:		
(*a*) small farmers	6.5% p.a.	9.5% p.a.
(*b*) others ..	7.5% p.a.	10.5% p.a.

It may be noted that in the case of small farmers even for schemes other than minor irrigation and land development, the rate of interest on refinance is fixed at 6.5% per annum and the banks are required to lend at 9.5% to such farmers as against the earlier rate of 11% per annum.

Period of Loan

2.32 Loan maturities are determined on the basis of the repaying capacity generated by the investment undertaken by the beneficiaries but it will not exceed the useful life of the assets financed. Since certain types of investments do not fructify immediately, a suitable gestation/grace period is allowed. Thus in the case of minor irrigation or land development schemes, a grace period upto 23 months is allowed, wherever necessary. In the case of orchards and plantations, this gestation period may extend to 5 or 6 years. The maximum period allowed for loans does not exceed 15 years including the gestation period. In the case of dairy and poultry investments shorter loan maturities of 4-6 years are stipulated in view of relatively higher rate of return. For pumpsets, tractors and other machinery, the maximum period is 7 years to coincide with the useful life of the asset. For other investments the period may extend upto 9 years for those other than small farmers and upto 15 years for small farmers.

2.33 Since 1 July 1978, SLDBs are allowed to float special development debentures carrying a maturity of not more than two years in excess of the period of the corresponding loans given to the ultimate borrowers. This facility is not available in respect of loans given to the corporate bodies like State Electricity Boards. The maximum period of all special development debentures will, however, continue to be 15 years. Repayments from member banks to ARDC are fixed co-terminus with the repayment period fixed for the ultimate beneficiaries. Appropriate rephasing of loan repayment schedules at the farmer level is admitted in the case of natural calamities such as flood, droughts, etc.

Borrower's Contribution—Down payment

2.34 ARDC requires the beneficiary also to contribute to the project cost to ensure his stake in the investment and mobilise rural savings. Such down payment varies from 5% to 15% according to type of investment and the class of borrowers. Small farmers have to contribute only 5% of the cost of investment irrespective of the purpose while the medium category of farmers have to make a down payment of 10%. Large farmers are required to put in 10% for pumpset loans and 15% for other types of loans. In the case of two or more farmers in the medium category joining in a group loan, the down payment for pumpset loans and other loans will be 7%. For a group loan for large farmers down payment will be 7% for pumpset loans and 10% for other loans. These contributions are inclusive of the share capital contributions mandatory for borrowings from LDBs. Corporate borrowers such as Irrigation Corporations provide down payment of 20% to 25% of the investment costs.

Security

2.35 Security from the ultimate beneficiaries is that prescribed by the financing banks according to their normal rules of business. LDBs under the by-laws invariably obtain mortgage of land as primary security. Commercial banks obtain mortgages but do not insist on them in the case of milch cattle if the borrower is a landless labourer. In view of the difficulties experienced by commercial banks to effect a sub-mortgage or sub-hypothecation of the security obtained from their constituents in favour of the Corporation, the ARDC Act was amended in 1973 empowering the Board of the Corporation to waive security or Government guarantee for any eligible institution or a class of eligible institutions on the merits of each case. Thus for commercial banks ARDC has waived security requirements for the refinance. The security obtained by the commercial banks under their normal rules of business, will however, be held in trust on behalf of the Corporation. The Corporation has also decided to waive 'other security' or Government guarantee in respect of schemes of State co-operative banks provided they satisfy certain norms indicated by ARDC. In the case of SLDBs, their debentures are guaranteed by the concerned State Governments.

Interest Rate Structure and Margins

2.36 While setting up ARDC it was clearly recognised that there would be no element of subsidy in the interest rates charged by ARDC to the eligible institutions or to the ultimate borrowers. While a uniform rate of interest was charged with no distinction being made between loans to small farmers and others for the same purpose, a differential rate of interest has now been stipulated from 15-3-79 following Government of India's decision to exempt ARDC from payment of income tax for 5 years and the proposed marginal reduction in the rate of interest on Government of India loans to ARDC. Accordingly, small farmers now get loans for all purposes at the same rate of interest (9.5%) from banks under ARDC schemes while loans to other farmers for diversified purposes are charged 10.5%.

2.37 The interest rate structure depends on (*a*) the cost of resources to ARDC and (*b*) the margin to be made available to banks over the refinance rate.

The cost of resources is as indicated below for the present.

Source of funds	Rate of interest payable by ARDC
(*i*) Government of India loans by way of reimbursement of amounts disbursed under various World Bank assisted projects.	6.25 % for 9 year loans and 6.75 % for loans above 9 years and upto 15 years, with 1/4 % rebate for prompt payment.
(*ii*) Borrowing from RBI out of NAC (LTO) Fund.	6 %.
(*iii*) Open market borrowings through issue of bonds.	6 %. (The rate is fixed by Government of India and RBI keeping in view the overall monetary policy and the cost of raising resources for Government of India and State Governments).
(*iv*) Share capital	6.25 %. This is the current rate of guaranteed dividend payable.

2.38 The average lending rate, average borrowing rate and gross-spread available to ARDC during the last 5 years were as shown below.

(Rates in percentage)

	1973-74	1974-75	1975-76	1976-77	1977-78
(*a*) Average lending rate ..	6.26	6.37	6.56	6.74	6.94
(*b*) Average borrowing rate	4.99	5.10	5.25	5.43	5.53
(*c*) Gross spread (a — b) ..	1.27	1.27	1.31	1.31	1.41
(*d*) Spread after income-tax at 57.75 %	0.54	0.54	0.55	0.55	0.60

The capacity of ARDC to build up adequate reserves is limited by the spread between the average borrowing and lending rate. It will be seen that as at the end of June 1978 only 0.6% was available for meeting the establishment and administrative expenditure and for building up its reserves etc. As against the income-tax benefit of about 0.8% the Corporation has reduced the rate of interest virtually by 1%. The Corporation's ability to build up adequate reserves is mainly linked to further reduction in the rate of interest on Government of India loans.

2.39 The other factor that determines the interest rate structure is the margin to be allowed to the financing banks over the rate of refinance. The banks are now allowed a margin of 3% over the refinance rate to meet the cost of financing, supervision etc. A committee recently appointed by ARDC has looked into this problem of adequacy of margin for the on-lending banks.

Short-term Financing by ARDC

2.40 The original Act contained a provision prohibiting ARDC from providing working capital. This restriction was removed by an amendment to the Act in 1975. Although the Corporation had proposed, at the time of the amendment, that there should be an enabling clause for providing necessary working capital to farmers as part of the loaning operations of ARDC, Government of India had taken the view that this should be done as per the guidelines issued by them, according to which working capital requirements could be given by ARDC on a selective basis, in integrated development projects where the execution of the projects is dependent on ensuring the flow of short-term funds for inputs, on a specific decision on each case by the Board.

2.41 ARDC provides maintenance cost in the case of long gestation loans like plantation/horticulture until the investment starts yielding and for this funds are advanced at the same rate of interest as the investment cost. In the case of integrated cotton and apple projects, the problem of ARDC is in issuing working capital loans to the beneficiary at the same rate as that of the co-operatives through Reserve Bank. The market borrowings or borrowings from RBI (LTO Fund) or Government of India for this purpose do not leave adequate margin to ARDC as the interest rates are higher or equal to the rate of refinance. The Corporation's difficulties in expanding short-term credit facilities thus centre round the resource base.

2.42 The quantum of short-term loans provided by the Corporatoin has not been significant, *viz.*, Rs. 3 crores in the cumulative disbursement of Rs. 1334 crores since inception. ARDC has recently decided to extend the facility of interim accommodation to the LDBs beginning from January 1980 so that they can build up portfolio for floatation of special debentures. This scheme will save LDBs from incurring high interest charges on bridge finance. ARDC is also considering the extension of the system of composite loans, which is in vogue for plantation and sericulture, to minor irrigation and other schemes, thereby enabling LDBs to finance short-term credit needs of farmers who are granted long-term loans. @

@ Annual Statement of Chairman of ARDC, October 1979.

Financing Village and Rural Industries

2.43 The Act as at present does not specifically provide for financing all types of village and rural industries. The Corporation has, however, given a wider interpretation to the term 'agriculture' and thus is able to finance agro-based industries and input type of industries when these units are closely related to the agricultural production schemes. Instances of this type of financing are the setting up of tea factories in the tea gardens to process green tea, cotton seed processing units, vaccine manufacturing units etc. With no rigid ceiling stipulated for the capital cost of investment for the setting up of such units, the basic consideration guiding ARDC has been the capacity needed to process the additional agricultural produce from the development refinanced. In all such schemes, ARDC has taken care of forward and backward linkages which are necessary to ensure proper input supply, processing and storage arrangements.

CHAPTER 3

RESERVE BANK AND RURAL CREDIT

3.1 In striking conrast to the working of other Central Banks, the Reserve Bank of India has been given by its statute (Section 17 and 54) a very important role in the sphere of rural credit in view of the predominantly agricultural character of the Indian economy and the urgent need to expand and coordinate the credit facilities available to the agricultural sector. Keeping this in view, the framers of the RBI Act laid down in Section 54 of the Act that RBI shall create a special Agricultural Credit Department with the following broad functions :

(*a*) To maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, State Governments, State Co-operative Banks and other banking organisations; and

(*b*) to coordinate the operations of the Bank in connection with agricultural credit and its relations with state cooperatvie banks and any other banks or organisations engaged in the business of agricultural credit.

3.2 The Agricultural Credit Department was accordingly organised simultaneously with the establishment of RBI in April 1935. In the first 20 years from 1935 to 1954, the role of the Agricultural Credit Department was confined mainly to undertaking studies and advising State Governments regarding legislation for regulating private money lending and checking of malpractices. The All-India Rural Credit Survey Committee appointed by RBI focussed attention on the failure of co-operative credit agencies to meet the credit needs of agriculture; the co-operative credit institutions, for instance, accounted for only 3 per cent of the total credit availed by the ryots, which only reflected the structural, financial and managerial weaknesses of the co-operative financing system as a whole, as also the lack of co-ordination between credit and other economic activities especially marketing and processing and concluded that "co-operation has failed but co-operation must succeed." Therefore, the Committee recommended integrated credit scheme which among others included :

(*i*) Large primary credit societies and State partnership in co-operatives through contribution to their share capital;

(*ii*) full co-ordination between credit and other economic activities particularly marketing and processing;

(*iii*) administration through adequately trained and efficient personnel responsive to the needs of rural population; and

(*iv*) with a view to extending the banking facilities in rural areas,conversion of Imperial Bank of India into a State-partnered bank.

3.3 The key role of overall charge of co-ordinating the extensive effort on the credit side was assigned by the Committee to RBI. To enable RBI to meet the financial obligation cast on it as a result of the recommendations of the Committee, the RBI Act was amended in 1955 to provide for the establishment of two funds *viz.*, the National Agricultural Credit (Long Term Operations) Fund to provide long-term funds for State partnership in co-operatives and the National Agricultural Credit (Stabilisation) Fund to facilitate conversion of short-term loans into medium-term loans when repayment becomes difficult on account of natural calamities.

3.4 The recommendations of the Committee were broadly accepted by the central and state governments as well as by the general body of co-operative opinion. Without going into further details of follow-up, suffice it to mention that the State Bank of India, Central and State Warehousing Corporations were established, crop loan system was introduced and the co-operatives were strengthened through State partnership at all levels.

3.5 In 1966, RBI on its own set up a Committee to reassess the developments that had taken place in the field of rural credit since the submission of the Report of the All-India Rural Credit Survey Committee in 1954. This Committee, which reported in 1969, observed that although an impressive effort was made to implement the recommendations, "the uncertainties, delays and lack of effective action in such matters in the earlier stages did mean that some of the dynamism contemplated in the Rural Credit Survey Committee's recommendations was lost in half-hearted effort and lack of comprehension" (p. 39). It vindicated the role of RBI and recommended for its further enlargement. The Committee found that owing to certain factors such as structural weaknesses, failure to mobilise adequate deposits, overdues, lack of trained staff, etc., co-operative credit was trailing considerably behind the demand for it in the agricultural sector. The Review Committee, therefore, felt the need for inducting the commercial banks into the field of rural credit without, however, impairing the role of the co-operatives. A similar suggestion for channelling commercial bank finance through primary agricultural credit societies was made in the Report on "Organisational Framework for the Implementation of Social Objectives" by the Study Group constituted towards the end of October 1968, under the Chairmanship of Prof. D. R. Gadgil, in pursuance of a decision of the National Credit Council. The Group, while addressing itself to the task of identifying credit gaps had pointed out that in the context of Government's accepted social objectives, the main social objectives of banking and credit would be to spread more evenly the institutional credit over unbanked and underbanked areas and to ensure that neglected sections and small borrowers — who have been depending on non-institutional credit — also get adequate credit from banks at reasonable terms. The Group also emphasised the 'area approach' to rural development. Pointing out that the lowest unit for the 'area approach' should be the district, it stressed the need for integration of credit plan with other activities in a district. Commercial banks were initially assigned the role of financing farmers directly. In 1970, they were inducted into financing the primary agricultural societies in areas where co-operatives were found to be weak and later to the financing of the newly organised Farmers' Service Societies (FSS). In 1975, with the establishment of Regional Rural Banks for catering to the needs especially of weaker sections in rural areas, the resources of commercial banks were directed to the rural sector in a more positive manner. In the field of long-term credit, the multi-agency approach was already recognised as far back as in 1963 when the Agricultural

Refinance Corporation was established (later renamed as Agricultural Refinance & Development Corporation) for refinancing long-term investments in agriculture and allied activities by commercial banks side by side with the cooperative and land development banks. With these developments, the set-up for rural credit in RBI has also undergone a change as broadly reflected by Chart 4. For purpose of convenience, financing of agriculture by commercial banks is looked after by DBOD while ACD continues to take care of co-operative credit sector.

3.6 Against this brief historical background, the role of RBI in rural credit may be viewed with reference to three aspects: (i) provision of finance, *(ii)* promotional activities and *(iii)* regulatory functions. The first represents the quantitative aspect and the latter two relate to qualitative aspects of the role of RBI.

(i) PROVISION OF FINANCE

Co-operatives

3.7 Section 17 of the Reserve Bank of India Act provides for the extension of agricultural credit by RBI either through the State Cooperative Banks or through the commercial banks and Regional Rural Banks (RRBs). The credit provided by RBI for agriculture through cooperative channels is of three kinds *i. e.*, short-term, medium-term and long-term. Details of RBI credit to the cooperative sector for the period 1972-73 to 1977-78 are given in the statements appended to this report. Reflecting the growing involvement of RBI in the supply of agricultural credit, the credit limits sanctioned for the cooperative sector for all types of credit, increased from about Rs. 644 crores for 1972-73 to Rs. 1049 crores for 1977-78, that is, a rise of 63 per cent over the five years ending June 1978 (Statement 3.1). Keeping in line with the increase in credit limits, both drawals and outstandings have also gone up during the period. Total drawals rose from Rs. 859 crores in 1972-73 to Rs. 1429 crores in 1977-78, while oustandings increased from Rs. 349 crores to about Rs. 814 crores.

3.8 The bulk of the credit limits sanctioned by Reserve Bank of India relates to short-term credit. The share of short-term credit sanctioned in a year averaged about 81%. It was Rs. 513 crores in 1972-73 (or about 80% of the total) and steadily rose to Rs. 845 crores in 1977-78 or about 81%. Though the credit limits sanctioned by the Reserve Bank have gone up over the years, the limits have not been fully utilised for certain reasons. In the last few years deposit resources of the co-operatives have increased significantly while the avenues for lending became somewhat limited. The co-operatives have represented that they are not able to make full use of the funds at their disposal because of organisational weaknesses resulting in lack of fuller coverage of farmers and increase in the number of defaulters and limited permission to diversify for more profitable business. As regards National Agricultural Credit (Long Term Operations) Fund, medium-term credit accounted for 11% on an average in a year, while about 80% was for long-term purposes such as assistance towards share capital contributions. As regards long-term credit, a complete picture can however be obtained by taking into account long-term disbursements made by ARDC also.

3.9 The predominance and the sizeable growth of short-term credit are only logical, considering the fact that bulk of RBI credit available under various clauses of Section 17 is refinance for seasonal agricultural operations and marketing of crops and is therefore essentially short-term credit. Details of short-term credit provided by RBI to the co-operative sector are given in statement 3.2. Finance for seasonal agricultural operations and marketing of crops (both cotton and other crops) accounted for 89 per cent on an average of the total short-term credit. Over the period 1972-73 to 1977-78, credit for seasonal agricultural operations alone increased by 80 per cent. In addition to the increased demand for production credit following the increase in irrigation and large-scale adoption of improved agricultural practices, liberalisation of procedures and norms for credit, increase in coverage and reorganisation of co-operative credit societies at the primary level also contributed to this spectacular growth in credit for seasonal agricultural operations and marketing of crops.

3.10 Of the remaining components of short-term credit, credit for purchase and distribution of fertilisers, for production and marketing of handloom products and short-term accommodation to ARDC together accounted for about 9 per cent on an average of the total short-term credit extended by RBI. As regards credit for fertiliser distribution, cash credit limits are sanctioned to SCBs under Section 17 (4) (c) against State Government guarantee for financing the fertiliser distribution operations of State/Apex Marketing Federations or the affiliated CCBs to enable them to finance primary marketing societies. The rate of interest charged which was 3% above Bank Rate has been reduced to 1% above the Bank rate with effect from June 1978. The Reserve Bank provides funds if the marketing societies are not in a position to obtain funds for this purpose from commercial or co-operative banks. Since the availability of funds from banks has increased, the dependence on RBI has come down from Rs. 47 crores in 1975 to Rs. 6 crores in 1978. A purpose for which RBI credit has been increasing, of late, is the financing of cottage and small scale industries other than handlooms. Credit limits for this purpose which were below Rs. 1 crore till 1973-74 have increased steadily to Rs. 7.1 crores in 1977-78. The increase is due to the identification by RBI of 22 broad groups of cottage and small scale industries (other than handlooms), following the recommendations of the Working Group on Industrial Financing through Co-operative Banks in 1968. This was accompanied by relaxations in the loan procedure in respect of industrial co-operative banks, which finance industrial co-operative societies, and also the availability of refinance to central/primary urban co-operative banks providing working capital to the approved cottage and small-scale industries. It may be noted that the credit limits for other than seasonal agricultural operations and marketing of crops have been small, although the RBI has been willing to sanction such limits. This reflects the inadequacy of the delivery system and also the lack of supporting organisations and management expertise.

3.11 Turning to medium-term credit limits (statement 3.3) these averaged Rs. 94 crores a year during 1972-73 to 1977-78 or 11 per cent of the total credit limits sanctioned by RBI. In fact, the relative share of medium-term credit declined over the period—from 13 per cent in 1972-73 to 11 per cent in 1977-78. Originally, medium-term loans were sanctioned by RBI out of its general resources; however, since 1956, following the recommendation of the Rural Credit Survey Committee, these loans are provided from the National Agricultural

CHART 4 — RESERVE BANK OF INDIA AND RURAL CREDIT

RESERVE BANK OF INDIA → (AGRICULTURAL CREDIT BOARD)

- AGRICULTURAL CREDIT DEPARTMENT
  - REFINANCE
    - SECTION OF RBI ACT
      - I. SHORT TERM
    - PURPOSE
  - OTHER FUNCTIONS
- DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
  - REFINANCE
- RURAL PLANNING AND CREDIT CELL
  - REFINANCE
- INDUSTRIAL FINANCE DEPARTMENT

Section of RBI Act (I. Short Term)	Purpose	Other Functions	Dept. of Banking Operations and Development — Refinance	Rural Planning and Credit Cell — Refinance	Industrial Finance Department
(*i*) 17(2)(*b*) with 17(4)(*c*) (*ii*) -Do- (*iii*) 17(4)(*c*)	CROP LOANS Marketing of crops Distribution of Chemical Fertilisers.	(*i*) Statutory Inspection of SCBs, CCBs, Primary Co-op. Banks under Section 35 of B. R. Act (As applicable to Co. op. Societies)	(*i*) Commercial Banks under Small Farmer's window (ST). Section 17(3B) of the RBI Act.	Regional Rural Banks (ST) Section 17 (3B) of the RBI Act.	LT Loans to IDBI from NIC (LTO) Fund for Tiny & Decentralised Sector. Section 17(4G) with 46 C(2)(*a*) of the RBI Act.
(*iv*) 17(2)(*bb*) with 17(4)(*c*).	Production & marketing activities of weavers societies and 22 Broad Groups of Cottage and Small-Scale Industries.	(*ii*) Voluntary Inspection of SLDBs/PLDBs, Apex marketing societies etc.			

(*v*)	-Do-	Weavers and rural artisans for the above purpose through PACS/ FSS/ LAMPS.	(*iii*) Formulation of policies regarding rural credit in consultation with Agr. Credit Board.	OTHER FUNCTIONS (*i*) Lead Bank Scheme. (*ii*) Rural Branch Licensing (*iii*) Guidelines and Directives to Commercial Banks relating to rural credit. (*iv*) Undertaking special studies. (*v*) Inspection of RRBs.	OTHER FUNCTIONS (*i*) Policy regarding and establishment of new RRBs and monitoring the working of RRBs. (*ii*) Issue of inspection reports on RRBs. (*iii*) Guiding the formulation and monitoring of District Credit Plans.
(*vi*)	17(4)(E)	Loans to ARDC	(*iv*) Monitoring of the scheme of Commercial Banks financing PACS.		
(*vii*)	17(2)(*a*) with 17(4) (*c*)	Purchase and Sale of yarn.			
(*viii*)	17(4)(*c*)	Against pledge of sugar			
(*ix*)	17(4)(*a*)	General Banking Business.	(*v*) Co-ordination work regarding floatation of ordinary debentures by SLDBs.		
II. MEDIUM TERM					
(*i*)	17(4AA) with 46A (2)(*b*).	Agricultural purposes	(*vi*) Statutory functions under BR Act (As applicable to Co-op. societies) regarding liquidity, returns, licencing, etc.		
(*ii*)	17(4AA) with 46B (2)	Conversion of ST Loans.			
(*iii*)	17(4AA) with 46A (2) (*b*).	Purchase of shares in Co-op. processing societies.			
			(*vii*) Undertaking field and Special Studies relating to Co-operatives.		
III. LONG TERM					
(*i*)	17(4AA) with 46A (2)(*a*)	State Govts. for share capital contribution of Co-op. credit societies.	(*viii*) Training of co-op. personnel and evolution of appropriate staff development plans for Co-ops.		
(*ii*)	17(4AA) with 46A (2) (*e*)	Loans to ARDC.			
			(*ix*) Publication of statistical data relating to Co-operative Movement.		

Credit (Long Term Operations) Fund. The three components of medium term credit are (*i*) loans for purchasing shares in co-operative processing societies, (*ii*) loans for agricultural and other allied purposes including animal husbandry and pisciculture and (*iii*) conversion of short-term agricultural loans into medium term loans, whenever such conversion becomes necessary due to wide-spread crop failure. The first two are financed out of the NAC (LTO) Fund and the third out of NAC (Stabilisation) Fund.

3.12 Almost 85 per cent of the medium-term credit is in the nature of conversion loans and only 14 per cent relates to investment type medium-term credit for agricultural and other allied purposes. However, the share of conversion loan declined from 85 per cent in 1972-73 to 81 per cent in 1977-78. The relative share of pure medium-term credit, on the other hand, increased from 11 per cent in 1972-73 to 18 per cent in 1977-78. While the share of conversion loans fluctuated from year to year depending upon the climatic conditions and the consequent need for such conversions, the share of investment-oriented medium-term credit increased steadily though not as spectacularly as short-term credit. The relatively small size of medium-term loans is accounted for by the fact that these are not project loans but are scattered. Besides, the policy in regard to provision of medium-term credit by RBI has been one of deliberate restraint so as to ensure that there is no undue competition with LDBs in making such loans and that co-operative banks deployed, as far as possible, their own resources in extending medium-term loans.

3.13 The provision of long-term credit to the State Land Development Banks by RBI was, at least till 1972-73, in the form of purchase of ordinary debentures floated by them. These debentures were supported by RBI to the extent of the short-fall in public subscription subject to a maximum of 20 per cent of the concerned issue. However, with the increasing need for long-term loans and following the recommendations of Rural Credit Review Committee (1969) a consortium arrangement was evolved to support the debenture floatations. Under this arrangement, the debenture floatations were always fully supported by the financial institutions and agencies as these, being trustee securities, are attractive and this in turn obviated the need for RBI's support. RBI's total subscription to the ordinary debentures was Rs. 25.4 crores as on June 30, 1975 while the holdings of RBI amounted to Rs. 19.1 crores as on 30th June 1978. With increasing emphasis on projectisation of agricultural investment lending, the provision of refinance from ARDC through subscription to the special debentures of SLDBs has become a major source of funds to these banks.

3.14 At present, RBI provides long-term finance to co-operatives in the form of loans (out of LTO Fund) to (*i*) State Governments to enable them to contribute to the share capital of co-operative credit institutions and (*ii*) ARDC (Statement 3.4). The former accounted for about 27 per cent of the long-term credit limits during 1972-73 to 1977-78 and the latter for about 73 per cent. The share of loans to ARDC in the long-term finance provided by RBI rose from about 65 per cent in 1972-73 to 76 per cent in 1977-78, while that of loans to State Governments declined from 35 per cent to 24 per cent. However, in absolute terms, RBI assistance (credit limits sanctioned) to both State Governments and ARDC increased to Rs. 21 crores and Rs. 65 crores, respectively, by the end of June 1978. These trends in long-term finance reflect the growing role of ARDC.

Commercial Banks

3.15 No separate refinance facility from RBI is available to commercial banks in respect of their agricultural advances as such, but under the "Small Farmers' Window" introduced in December 1977, in the case of loans to small farmers — direct individual loans not exceeding Rs. 2,500/- each (whether extended as short, medium or long-term facility), the Reserve Bank gave refinance facility at Bank rate at 50 per cent of the advances under this category disbursed from January 1, 1978. According to the credit restrictions imposed recently, with effect from last Friday of September 1979, such refinance is available at 50% of the increase over the level as on last Friday of December 1978. The outstanding refinance under this facility as on 28 September 1979 was Rs. 26.3 crores.

Regional Rural Banks

3.16 Following the recommendations of theWorking Group constituted by the Government of India in July 1975, Regional Rural Banks (RRBs) were established in some districts of the country with a view to providing credit facilities to the rural poor — small and marginal farmers, agricultural labourers and rural artisans. Each RRB is sponsored by a nationalised or other commercial bank which provides facilities to the RRBs in several ways *viz.*, subscription to its share capital, provision of managerial and financial assistance and help in recruitment and training of personnel in the initial period. The Reserve Bank has been providing refinace to the RRB's, since October 1, 1976, to the extent of 50% of their outstanding advances at the same concessional rate of 6% per annum as in the case of co-operative banks. In August 1979, 57 RRBs with 2056 branches were operating in 106 districts of 17 States in the country. The credit limits sanctioned by the Reserve Bank in favour of RRBs amounted to Rs. 34 crores as at the end of June 1979, in respect of 31 RRBs. The total amount drawn against these limits and outstanding as on the last Friday of March 1979, was Rs. 28 crores. The Reserve Bank has also granted concessions and exemptions to the RRBs in the maintenance of cash reserves, etc. In their case, the cash reserve ratio continues to be 3% of the total demand and time liabilities as against 6% applicable to other scheduled commercial banks. The liquid assets to be maintained by the RRBs under Section 24 of the Banking Regulation Act, 1949, continues to be 25% as against 34% applicable to other banks. As these banks are in the initial stage of their development and require nurturing, their working has been entrusted to a separate Cell in RBI called the Rural Planning & Credit Cell. In pursuance of the recommendations of the-Committee on Regional Rural Banks (Dantwala Committee), a Steering Committee has been constituted by the Reserve Bank of India and this Committee is entrusted with the functions of identifying areas for location of RRBs, lending policy, supervision of the functions of RRBs, and suggesting guidelines on the follow-up action on Dantwala Committee Report, etc.

(ii) PROMOTIONAL ACTIVITIES

3.17 The quantitative aspects brought out earlier reflect the role of RBI as lender of the last resort. More important than these are the qualitative aspects of the role of RBI, *i. e.* its developmental or promotional activity in regard to agricultural credit. These qualitative aspects may be considered briefly.

(a) Reorganising the cooperative credit structure

3.18 RBI recognised fairly early the need for an extensive institutional machinery for providing credit and banking facilities for agriculture; it was also realised that such an institutional set-up should have the active involvement of the people covered by it. To achieve these objectives the cooperative movement was considered the most powerful instrument. It was recognised that what is required is not just an organisation but a viable institutional set up, that is, a structure which is strong, administratively efficient, financially sound and economically viable.

3.19 The policy of RBI towards reorganising and strengthening the co-operative credit structure (which is formulated jointly with all concerned) relates mainly to (*a*) reorganisation of the State and Central Cooperative Banks on the principle of one apex bank for each state and one central bank for each district, (*b*) rehabilitation of those central cooperative banks which are financially and administratively weak for reasons such as high level of overdues, inadequate internal resources, untrained staff, poor management, (*c*) strengthening and reactivisation of primary credit societies to ensure their financial and operational viability and (*d*) arranging suitable training programmes for the personnel of cooperaive institutions.

3.20 Thus, as on June 30, 1977, 182 central cooperative banks out of 344 and 5 State cooperative banks in States having two-tier structure were brought under the programme of rehabilitation. Most of the banks have attained viable status by increasing their deposits and loans and by improving their recovery performance. As for primary societies, the RBI has been assisting the State Governments in the formulation of viability norms and in drawing up programmes for amalgamation. As a result of the implementation of programmes for re-organisation into viable units, the number of primary societies declined from 1.54 lakhs in June 1974 to 1.23 lakhs in June 1977. According to the norms, a reorganised viable primary credit society will ordinarily cover a gross cropped area of 2000 hectares so as to have a minimum short-term agricultural credit business of Rs. 2 lakhs.

3.21 An important aspect of re-organisation of the co-operative structure on sound lines relates to the Study Teams appointed by the RBI to go into the various problems of co-operative credit institutions in the country and to study specifically the organisational and other problems of co-operative credit institutions in certain States. Mention may be made of the State-wise study teams — appointed jointly with State Governments — on West Bengal, Kerala, Maharashtra, Rajasthan, Madhya Pradesh, Bihar, Uttar Pradesh, Jammu & Kashmir, Himachal Pradesh and Orissa, which were entrusted with the job of studying the existing position of cooperative agricultural credit institutions in those states and making recommendations for streamlining them. While Study Teams on the last two States have yet to report, the other teams have high-lighted the need for reorganisation of the structure at the intermediate and primary levels. In the States like Madhya Pradesh and Rajasthan, the Teams had also recommended the organisation of special types of societies to cater to the needs of tribals. The various changes depend on the initiative shown by the State Governments.

3.22 As regards special studies, the Study Team on "overdues of co-operative credit institutions" (1974) needs special mention. The Study Team (which was requested to go into the causes of overdues and suggest remedial measures) concluded that lack of will and discipline among the cultivators to repay the loans was the principal factor responsible for the high overdues in the co-operatives. Apart from the need to create a favourable climate for recoveries, the Study Team suggested measures such as automatic disqualification of managing committees/boards of directors, denial of fresh credit and voting rights to defaulters as well as their sureties, adequate provision in co-operative laws for the speedy recovery of dues, the setting up of State Farming Corporations for the purchase of lands of defaulters, etc. While the implementation of the recommendations of this as well as the State-wise Study Teams were actively pursued by the RBI, majority of States have yet to act on the recommendations and the overdues position of the co-operatives in particular continues to be unsatisfactory. An aspect of major structural reforms in the cooperative organisation relates to the integration of the long-term and short-term structure. The NCA and the Banking Commission had endorsed the idea of such an integration. Later the Committee on Co-operative Land Development-Banks appointed by RBI in 1974 recommended the integration of the two wings in small States like Assam, Tripura, Jammu & Kashmir, Himachal Pradesh, etc. The Committee on Integration of Co-operative Credit Institutions (1976) appointed by RBI recommended that the integration of the short-term and long-term wings should be brought about at all levels but in a phased manner starting with the primary level. It also recommended the formation at district and apex levels new institutions called 'district cooperative development banks' and 'state co-operative development banks' to take over the existing institutions in the two wings. The Agricultural Credit Board which considered the recommendations at its 11th meeting decided to defer the implementation of main recommendations on integration of credit because of the divergent views expressed by the State Governments. However, it endorsed the suggestion made by the Committee that PACS may act as agents of LDBs in disbursing long term credit. The ACB also took a decision that in States where there were no LDBs, no new LDBs need be organised.

3.23 With the entry of commercial banks in the field of agricultural credit on the one hand and the organisation of RRBs on the other, wide variations were observed in interest rates charged to the ultimate borrowers (including small and marginal farmers) on agricultural loans issued by different agencies. Besides, even within the cooperative sector interest rates have varied from State to State and sometimes even from district to district within the same State. Following the suggestions made by the GOI in the Ministry of Agriculture and Irrigation (Department of Rural Development), RBI appointed in October 1977 a Study Group to examine in detail the present interest rate structure of cooperatives in the country dealing with short and medium term credit at all levels and suggest appropriate margins which may be retained at various levels for the co-operative credit structure. The Group was also asked to determine whether differential rates may be charged in favour of the small farmers. The Group submitted its report and most of the recommendations have been accepted by RBI.

3.24 In terms of the Development Credit Agreement with IDA for the Second ARDC Credit Project, RBI, in consultation with the GOI, constituted in April 1978 a Committee to study the 'Interest Rates Spread in Agricultural

Lending Sector" with particular reference to the needs of LDBs. The terms of reference included, *inter alia*, an examination of possibilities of reduction in the rate of interest in favour of small farmers. The Committee is understood to have submitted its report recently. In its promotional role, the Reserve Bank works in close coordination with the Central and State Governments, the Planning Commission, the national federation of SCBs and SLDBs and also with the organizations in the related fields such as NCDC and NCUI. Further, the Deputy Governor or Executive Director of the Bank in charge of rural credit holds discussions annually with the State Governments and cooperative institutions at which the problems of cooperative development in the State and the entire credit situation in particular are reviewed. In the context of the rapid expansion of agricultural credit, the availability of trained personnel for cooperative banks has become important. In order, therefore, to provide intensive training for the banking personnel at all levels in the co-operative banks and to create a cadre of skilled officers, the Reserve Bank established in 1969 a College of Agricultural Banking at Pune. The training wing in the Agricultural Credit Department of the Reserve Bank arranges orientation training to senior executives of co-operative departments of State Governments, Chief Executives of State co-operatives banks, State co-operative land development banks, etc. on the policies and procedures of the Reserve Bank in the sphere of rural credit. The Bank also arranges, under the scheme of management trainees drawn up by it in 1973, for the training of the newly recruited management trainees of State (apex) co-operative banks and State co-operative land development banks.

(*b*) *Reorientation of Lending Policies*

3.25 An important aspect of the promotional role of RBI relates to the improvements in and reorientation of the lending policies of co-operative credit institutions. The most important measure of reorienting lending policies is the introduction of the crop loan system according to which cooperative credit has become production-oriented rather than asset-based as in the past. Cooperatives now make loans to cultivators on the basis of production undertaken by them (with reference to the crop and acreage under the crop) and on agreed scales of finance based on certain norms of outlay. The other features of the crop loan system are : disbursal of credit in kind to the maximum possible extent, timing of lending and recovery with reference to seasonality of agricultural operations and recovery through marketing societies by linking credit with marketing.

3.26 The short-term credit limits are fixed by RBI annually in respect of each central cooperative bank after taking into account a number of considerations such as the financial condition of the bank, its audit classification, size of its owned funds and also the overdue loans. The finance is provided on a reimbursement basis and the credit limit is operated upon as a cash credit; the loan period is ordinarily 12 months in respect of any crop. Further, agricultural operations being seasonal, in recent years, credit limits are sanctioned separately for Kharif and Rabi crops. Where necessary, the Bank brings about changes in lending policies of cooperative banks by issuing appropriate directives. The RBI charges a concessional rate of interest on its loans to State cooperative banks for financing agricultural operations the effective rate varying with changes in Bank Rate. The concession has the effect of bringing down the average borrowing rate of cooperative banks which, in turn, enables them to keep their lending rates to ultimate borrowers, reasonably low.

3.27 In regard to medium-term finance, RBI has evolved norms for finance for various purposes, so as to ensure that the loans are not utilised by cooperative banks as "ways and means" advances. The amount of medium-term loans available to a central cooperative bank is normally limited to its owned funds, though additional limits (upto twice the owned funds) are also sanctioned in special cases. As in the case of short-term loans, a concessional rate of interest is charged by RBI on its medium-term loans. With a view to ensuring proper utilisation of these loans, central cooperative banks are required since 1970-71, to advance at least 40 per cent of their medium-term loans for identifiable productive purposes. Another type of medium-term finance available is the conversion/rephasing loan i.e. the facility to convert short-term loans into medium-term whenever necessary. The objective of the conversion facility is to maintain the flow of production credit uninterrupted to the farmers affected adversely by natural calamities.

3.28 In the sphere of long-term credit, RBI has been pursuing the objective of reorientation of lending policies of LDBs and streamlining the procedures by advising LDBs on matters like loan policies, investment of sinking funds, management of resources, development-oriented lending etc. Long-term resources being limited, RBI impresses upon the LDBs the need to ensure their optimum use. The RBI has, therefore, been issuing from time to time appropriate guidelines to LDBs in the matter of purposeful and productive utilisation of resources raised through debenture floatations. The LDBs, to be eligible for full support to their debentures, are required to issue 90 per cent of their loans for productive purposes, of which at least 70 per cent should be easily identifiable. In the context of rising overdues of LDBs, RBI has prescribed norms for regulating advances by LDBs on the basis of their recovery performance. In this connection, mention may be made of the Standing Committee on Debenture Norms constitued by the RBI in September 1975, for evolving uniform procedures for floatation of ordinary and special debentures. This Committee has recently recommended certain relaxations which were communicated to banks(LDBs)in January 1979 and these relaxations will enable them to step up their loaning operations, although the eligibility of PLDB/Branch of SLDB—it has to be noted—will continue to depend on its recovery performance. As LDBs have an important role to play in the provision of long-term credit for investment in agriculture, they have been receiving increasing support from ARDC in the form of refinance facility.

(*c*) *Resource Mobilisation*

3.29 It was expected that as the co-operatives grew both in size and efficiency, they should become increasingly self-reliant and should be in a position to progressively limit their recourse to RBI's refinance facility. However, with an increase in coverage, the overall credit needs of co-operatives have gone up, and though the owned resources of co-operatives have also gone up, these were not adequate in relation to growing needs. Therefore, with a view to encouraging the co-operative banks to rely more and more on their own resources and thus reduce their recourse to RBI refinance, the scheme of linking the rate of refinance available from RBI with co-operative banks' own efforts at deposit mobilisation (as recommended by the Rural Credit Review Committee) was introduced from 1973-74. To facilitate mobilisation of deposits by co-operative banks, the benefits of deposit insurance cover (for deposits held with these banks) have been extended to co-operative banks also and the actual implementation of the scheme is being pursued with State Governments. As at the end of June 1976, there were 537 registered insured co-operative banks; of these, 9 were State co-operative banks, 111 were central co-operative banks and 375 were urban banks.

(*d*) *Special Measures*

3.30 In order to ensure that the flow of credit from primary societies is not affected in areas where central co-operative banks are weak, the RBI evolved a scheme for financing of these societies by commercial banks and in December 1970 guidelines were issued to commercial banks on the procedures to be followed for financing primary societies. As it was realised that this scheme should be operated not merely from the angle of weak central banks but from the point of view of effective coverage of rural population, the scheme was extended even to areas where central banks were relatively strong. As at the end of June 1978, the scheme was operating in 12 States, the number of commercial banks involved being 24 and the primary societies financed numbering 2,217.

3.31 In December 1976, RBI launched the Agricultural Credit Intensive Development Scheme (ACID) with a view to concentrating efforts, on a selective basis, to strengthen the co-operative structure and link the credit programme with production programmes. The scheme has now been made a part of the District Credit Plan under the Lead Bank Scheme. This is referred to later.

3.32 The role of RBI in the provision of finance is extended to rural industries as well, i.e., provision of non-agricultural finance. An amendment to the RBI Act in 1953 enables the Bank to finance through State Co-operative Banks and SFCs, production and marketing of products of cottage and small-scale industries on State Government guarantee. A beginning was made in 1956 when a scheme was introduced for financing handloom weavers' co-operatives and this was extended later to silk and woollen handlooms and also powerlooms societies. The RBI has also identified 22 broad groups of cottage and small-scale industries for purposes of financing. In January 1977, RBI has introduced a scheme to finance weavers and rural artisans, who are widely scattered and who are unable to form co-operative societies, through PACs, FSS and LAMPS at a concessional rate of interest.

Commercial Banks

3.33 As mentioned earlier, while the RBI is not making specific refinance facilities available to the commercial banks in respect of their agricultural advances it has been its constant endeavour to induct commercial banks in this field with a view to diverting more and more of their resources for financing agriculture and other priority purposes in the rural sector. To this end, DBOD in the Reserve Bank issues guidelines/directives to the banks from time to time. Thus, the public sector banks were instructed to ensure that the rural and semi-urban branches separately should achieve a credit deposit ratio of at least 60 per cent, by March 1979, so that, funds do not flow from rural centres to the urban. The commercial banks have also been advised to ensure that the share of small farmers in their agricultural advances goes upto 50 per cent by 1982-83. Another step taken in this regard is the extension by Credit Guarantee Insurance Corporation (now

DICGC) of the guarantee cover to commercial banks in respect of agricultural loans. Under the Corporation's Small Loans Guarantee Scheme, farm loans upto a limited extent are guaranteed by it.

3.34 In 1969, RBI initiated the Lead Bank Scheme under which one commercial bank is nominated for each district as a lead bank. The lead bank is required among other things, to survey the resources and potential for banking development and coordinate bank lending programme in the district. District Credit Plans (DCPs) are prepared for this purpose. Currently DCPs for 1980-82 and Action Plan for 1980 are under preparation. A High Power Committee (HPC) has been constituted by RBI for the purpose of keeping the progress of the Lead Bank Scheme under constant review and for issuing policy guidelines for its effective implementation.

3.35 As a part of its work, RBI has been taking up studies relating to the problems faced by commercial banks in financing agriculture. In September 1969, an Expert Group to study the State enactments having a bearing on commercial banks' lending to agriculture was appointed. This Group suggested a model Bill for adoption by each State with a view to giving the same facilities as cooperatives to facilitate commercial banks' agricultural lending so that farmers borrowing from these banks are not at a disadvantage as compared to those borrowing from co-operatives. So far 16 State Governments have enacted the recommended legislation.

3.36 Mention may also be made of various other Committees set up by the RBI, particularly (*i*) the Committee to study 'Functioning of Public Sector Banks' (James Raj Committee), (*ii*) Working Group on Multi-agency approach in Agricultural financing (Kamath Group), (*iii*) Expert Group on Agricultural Credit Schemes of commercial banks (Dr. Gunvant Desai Group) and (*iv*) Working Group to study the problems of bank credit in North Eastern States.

3.37 More recently as a sequel to the Prime Minister's meeting with Chief Executives of banks and term lending institutions on October 8, 1978, five Working Groups were constituted by the GOI on (1) Differential rates of interest, (2) Small-scale industries, (3) Agricultural Credit, (4) Promotion of employment, and (5) Problems of sick industrial units. In pursuance of the recommendations of the Groups, banks were advised by RBI to participate effectively in IRDP in 2000 blocks selected by State Governments and in 300 additional blocks to be taken up annually, during the remaining period of the Sixth Plan. They are also to ensure that at least 50% of their total agricultural advances goes to small and marginal farmers by 1982-83. Priority will be given to these blocks in the establishment of new RRBs. The RBI (DBOD) has also issued instructions to banks not to ask for any collateral security/guarantee and not to insist on margin money for advances to artisans and village and cottage industries as defined. Other concessions relate to repayment period, rate of interest etc. Further, the banks have been asked to provide credit to at least two additional borrowers per branch per month over and above the rate of increase in the number of borrowers in the previous year (1978). Banks have also been asked to ensure that credit planning should weigh in favour of scheduled castes/scheduled tribes and special bankable schemes suited to the members of these communities should be drawn up to facilitate their participation in such schemes and also a larger flow of credit to them for self-employment.

3.38 As a result of the above efforts, scheduled commercial banks' outstanding short-term advances to agriculture increased from Rs. 179 crores at the end of June 1974 to Rs. 661 crores at the end of June 1979. Their term loans to agriculture during the same period rose from Rs. 257 crores to Rs. 1,087 crores. We have already pointed out that the share of commercial banks in the disbursement of refinance by ARDC for agricultural investment has gone up remarkably in recent years.

(iii) REGULATORY FUNCTION

3.39 The regulatory role of the RBI in regard to rural credit serves to enhance the quality of credit provided as also the efficiency of the channels through which it is provided. Certain provisions of the Banking Regulation Act and of the RBI Act were extended in 1966 to co-operative banks. Particular reference may be, made to (*a*) the powers given to RBI to inspect the co-operative banks — SCBs CCBs and urban banks, (*b*) the requirement relating to maintenance of cash reserve and liquidity ratios, (*c*) the requirement relating to filing periodical returns to the RBI and (*d*) licensing of new banks and branches of co-opertive banks. This has enabled the Bank to exercise over the co-operative banks broadly the same kind of control as it exercises over commercial banks. In order to regulate the advances by co-operative banks, RBI introduced in September 1976, credit authorisation scheme, under which prior authorisation from RBI for providing finance beyond a limit, has become necessary particularly in respect of non-agricultural financing.

3.40 The overall credit policy framed by the RBI takes fully into account the credit needs of agriculture. Short-term credit limits for co-operatives are fixed annually by the RBI, mainly on the basis of demand for credit put forth by the co-operative banks. These limits are fixed, not merely with reference to the observance or otherwise of such criteria as cash and liquidity ratios, etc. but also with reference to the lending programmes etc. of the co-operatives. No doubt, these limits are subject to some conditions which are in the nature of operational disciplines.

3.41 The macro-economic credit policy pursued by RBI does not hamper or choke the flow of rural credit, as credit to rural sector is shown preferential treatment. Thus cash/liquidity ratios applicable to co-operatives are lower than those fixed for commercial banks. Again, unlike commercial banks, co-operative banks can borrow from RBI at interest rate 3 per cent below the Bank Rate in respect of crop loans which is their main operation. These two special facilities enhance the ability of co-operative banks to borrow and also to lend. Moreover, cooperative banks are permitted to pay slightly higher rates of interest on their deposits.

3.42 The Committee would like to conclude this brief narration about the role of RBI in rural credit by saying that the role of RBI in the provision of rural credit has to be assessed not merely in quantitative terms but with reference to its qualitative aspects such as strengthening of the institutional framework, improvement of lending policies, resource mobilisation, designing of special schemes and regulatory functions to promote co-operative banking on sound lines. Given the enormity of the task and the constraints (physical, social, economic and administrative) the progress made by the rural credit system so far, is in no small measure, due to the active part played by the Reserve Bank. This has been possible because of the position the Bank occupies as the ultimate source of finance and as the monetary authority of the country and all along the RBI management has taken the view that a central bank of a developing country has to act as a development bank. This is the reason why RBI sponsored ARDC and taken various promotional measures under the multi-agency approach.

CHAPTER 4

RECOMMENDATIONS ON NATIONAL LEVEL INSTITUTIONS

4.1 The preceding survey of the existing national level institutions concerned with rural credit shows that they have done commendable work in their respective areas, notwithstanding the constraints — statutory, administrative and other — under which they have been functioning. However, over the next decade the institutional structure has to widen its coverage and deepen its involvement so as to be able to meet the graduated agricultural credit requirement of Rs. 9400 crores by 1985 as estimated by NCA (1976), besides credit requirements of other rural activities. It has also to tie up credit with technical expertise. The question is whether they will be equal to this stupendous task of integrated rural development which aims at the uplift of the weaker sections in the rural areas within a given time-horizon. While attempting an answer to this question, we have come across certain deficiencies and doubts. In this Chapter, we shall try to indicate the lines on which these deficiencies can be removed.

4.2 As regards ARDC, the major deficiency is its inability under the present arrangements to ensure that the borrowers under its schemes do always get the necessary supporting short-term credit and thus build up their earning or repaying capacities to the extent envisaged. Secondly, its support to activities not based on land has not yet reached a significant level compared to the need for promotion of such activities in the context of integrated rural development. In fact, the terms of its statute do not permit it to support activities which are not connected with agriculture as defined. They exclude a number of tertiary activities. Thirdly ARDC is still to make a satisfactory response to the increasing demand from State Governments and others for direct financing as distinguished from refinancing. The Amendment Act of 1975 made the necessary enabling provision; but, due to various reasons, this has largely remained a dead letter. Fourthly, ARDC has to expand its developmental role considerably in the field of institution-building, training and research if it is to meet the challenges of integrated rural development. In this, it has to work in close coordination with the State Governments. It has to build its own cadres of experts in diverse disciplines and for this purpose, review its personnel and recruitment policies and practices.

4.3 As regards RBI which, historically as well as by the nature of its organisation, has had to combine diverse functions and duties including rural credit, it is legitimate to ask whether its top management and policy-making bodies will, in practice, be able to set aside, amidst its multifarious responsibilities, the necessary time for giving attention, direction and focus to the details of the complex credit problems of integrated rural development in future. In the past, such questions have been asked in regard to one function or the other. And, on more than one occasion, the answer has been to hive of that function and to create a separate institution for it with suitable links with the RBI. The UTI, IDBI and ARDC are examples to point. In all these cases, separate Boards of Directors were constituted for giving detailed attention and the needed direction at the policy making level, subject to certain controls and guidelines of RBI. Although each of these cases can be distinguished on its merits, the question arises whether the time has come to take similar action in regard to all the aspects of rural credit.

4.4 It may be recalled that the proposal to hive of agricultural credit from RBI and create a National Level Agricultural Bank was rejected by the All-India Rural Credit Review Committee (1969) in the following words:

> "On all relevant considerations, such as those associated with the refinancing functions of the Reserve Bank, its role as a financier and adviser to the state governments on matters of co-operative credit, the statutory responsibility of the central bank of the country for ensuring the safety of the depositors' interests and regulating the credit operations in the economy, and the experience and expertise which the Bank has built up over the years, we are convinced that the Reserve Bank should continue to discharge the functions which it undertakes at present in the field of agricultural credit. A new institution in this context at the all-India level will only add to the cost of credit and the red-tape associated with its procedures without adding to the resources or the efficiency of the system or the service to the cultivator. It is, therefore, our considered view that there is no justification for having any national level institution for agricultural credit outside the Reserve Bank".

That Committee, however, felt that "the present time seems to us appropriate for a major structural change" and that certain changes were "warranted in regard to the manner in which the direction of this work is at present organised in the Reserve Bank". It recommended the establishment of a statutory Agricultural Credit Board and the entrustment of the formulation, review and modification of the Bank's policy in the sphere of rural credit to it. This recommendation was accepted in part and the then Standing Advisory Committee on Rural and Co-operative Credit was replaced by the Agricultural Credit Board through an executive order. It was not given statutory status, presumably because it was felt that no body parallel to the Central Board of Directors should be created. In the result ACB continued as an advisory body. It must be added that as a matter of convention, its advice is invariably accepted. The Board now consists of 19 members: Governor, Deputy Governor and E.D. in-charge of ACD, 3 Directors from the Board of RBI, 4 Secretaries to GOI in the Ministries of Agriculture, Co-operation and Finance, and Planning Commission, 4 representatives of co-operative banks, 2 representatives of commercial banks, 2 specialists in rural economics/agricultural credit/agricultural practice, and the Chief Officer, ACD. The Board has held 14 meetings in nine years, since its constitution in February 1970. Now, the point for consideration is whether this arrangement is adequate for the purposes of integrated rural development.

4.5 Since the Report of the All-India Rural Credit Review Committee, certain developments have taken place which have the result of enhancing the need for increase in the credit flow to the rural sector and for co-ordination, and thus of emphasising the role of ACB. Multi-agency approach to rural credit delivery has been adopted and pursued vigorously. Besides the co-operative banks and land development banks, commercial banks and RRBs have come to provide credit in rural areas in an increasing volume. In the RBI, all co-operatives, rural as well as urban, are looked after by the ACD while the commercial banks are the subject of DBOD. RRBs which have been in the charge of DBOD till recently are now with another administrative group known as RPCC. The Lead Bank Scheme and the progress of lending to priority sector including agriculture are monitored by DBOD while the district credit plans are entrusted to RPCC. We understand that co-ordination is generally achieved through frequent departmental consultations and at the level of Deputy Governors. The ACB which is the main co-ordinating body at the policy level is serviced by ACD. The Committee is justified in wondering how the Board can grapple with the several important and complex issues that must necessarily arise in the vast field of rural credit by holding one or two meetings only in a year. Probably, the ACB is called upon to advise on a selective basis. Perhaps the advisory nature of this body may have led to its under-utilisation. Or, it may simply be a case of the Chairman and the concerned functionaries not finding the time among their other pressing duties. Had it been a statutory body or likened to a Board of Directors it would have played a more intimate and significant role in the evolution of rural credit policies. These facts and the truly stupendous dimensions of integrated rural development have led us to consider afresh the desirability and feasibility of establishing a national level bank for agriculture and rural development.

4.6 We have studied the views expressed by other Commissions in the past. The Administrative Reforms Commission (1970) did not favour the creation of a separate bank for agriculture despite the recommendation of its own working group and stated as follows :

> "While the need for greater and more pointed attention to agricultural financing was irrefutable, any suggestion to establish an agency for this purpose without a direct link with the central bank of the country was open to serious objection".

The Banking Commission (1972) favoured combining ARDC & AFC to form a new institution within the RBI complex but stressed that all short-term credit should be under the control of a single authority *viz.*, RBI. The National Commission on Agriculture (1976) exhorted the RBI to take steps, in accordance with its historic role to "integrating the total structure for financing agriculture and rural development from ground level upwards right up to creation of an agricultural development bank of India as the apex organisation".

4.7 The main reasons for most Commissions to advise against a separate national level bank for agriculture are the almost total dependence of the new bank on RBI for short-term funds, the extra cost inherent in an additional tier and the likely conflict with the statutory responsibility of RBI for credit policy and banking regulation. These have been lucidly stated by the All-India Rural Credit Review Committee (1969) in the following words:

> "The most crucial question, however, which comes up in connection with any such national institution relates to the manner in which it will find the larger volume of resources which will be required. If it accepts deposits, this can only be in competition with, and at the expense of, the cooperative banks affiliated to it, in which case there

would be no net accretion of resources. On the other hand, if this national institution is expected to receive a large volume of funds from the Reserve Bank, it will mean, as we have said, that one more institution will stand between the Bank and the cultivator and that, as a consequence, credit will become costlier to him. If the Reserve Bank is expected to place large sums of money at the disposal of this institution to be passed on to a number of co-operative banks, it is obvious that the Bank will have to satisfy itself in regard to the soundness and the operational efficiency of such banks. This will mean that while the Reserve Bank will continue to maintain its organisation all over the country, the new national bank will also set up a machinery of its own for a similar purpose. Further, no national level bank can be certain of the resources which it can command, as the Reserve Bank can hardly be expected to surrender to any other institution its discretion to determine the volume of central bank credit which can be provided to any sector of the economy or for any category of purposes at any particular time. Finally, the inspection of co-operative banks and the regulation of the credit and banking structure are the responsibilities of the central bank of the country and cannot be entrusted to any other institution".

4.8 The above points, are no doubt, important and cannot be lightly set aside. Before we proceed to examine these points, we cannot miss to note, as indicated earlier, that there is a sea-change in the nature and magnitude of rural credit problem over the years — from 1969 when the All-India Rural Credit Review Committee put forth their view and now when the strategy of integrated rural credit has changed the complexion of the whole problem. Not only have the demands of rural development acquired new directions but also the quantum of credit requirements has expanded. On the other hand, the field conditions have not responded adequately enough to the changing situation. As mentioned in detail in paragraph 1.7, the task ahead in this sphere are such that a satisfactory solution must be found and the points in paragraph 4.7 resolved. We think that this can be done.

4.9 The first point to be examined is the argument that setting up of one more institution will stand between the Reserve Bank and the cultivator and, as a consequence, will make credit costlier to the ultimate borrower. According to our view, this is not a valid argument for more than one reason. In the first place, the new bank will not be an additional tier as made out, but will be taking over the rural credit operations presently handled by ARDC and RBI. As such, it will be a step towards decentralisation of work at the national level. However, the more significant point to be noted in this regard is that, with the expansion and diversification of the developmental role to be played by the national level institution, the costs of operations are bound to increase irrespective of the fact whether this role is played by RBI or by the new Bank. At the same time, with the delegation of rural credit functions from RBI to the new institution, there will be reduction in the costs of rural credit operations in the RBI itself.

4.10 Secondly, as the Banking Commission had asserted in 1972, it is important that all short-term credit which has an important bearing on the money supply should be under the control of a single authority and that authority can only be the Reserve Bank. We accept this proposition, particularly the point that short-term credit has an important bearing on monetary policy. But let us see the practice and policy that has been in vogue or likely to be followed in the foreseeable future. It has been explained to us that short-term credit for agriculture has, at no point of time, been inhibited by the requirements of monetary policy, as RBI has always accorded preferential treatment to rural credit and has imposed only such minimum operational disciplines as are necessary to ensure the sound health of the co-operative credit structure. The setting up of a new institution for agriculture and rural development should not, in our view, make any serious difference to this position. However, notwithstanding the present position, we do visualise that, in the years to come, the quantum of rural credit to be purveyed by commercial banks, co-operatives and RRBs, will increase to such an extent that not only the commercial banks and RRBs may have to seek recourse to RBI refinance but also RBI itself may be compelled to restrict, as an anti-inflationary measure, the volume of rural credit in the context of overall allocation of total loanable funds. The Reserve Bank can lay down the quantum of credit to be purveyed through the new institution and also the broad terms on which this credit may be extended to the bodies lower down, leaving the details of management and deployment to the new institution. It is the Committee's hope and expectation that the new institution, being equally responsible, will manage its credit operations within the available quantum and will not do anything to vitiate the disciplines required for ensuring the health of the system as a whole.

4.11 We find that hitherto the advocates of the idea of national level bank for agriculture have heavily relied on the analogy of IDBI and have argued for an institution which is entirely separate from RBI. This perhaps was the reason for the All-India Rural Credit Review Committee and other Commissions to reject the idea as undesirable. We, on our part, have no hesitation to assert that the analogy of IDBI is wrong and inapplicable. The IDBI deals with only long-term funds while the new national level bank for agriculture is required to deal with short-term funds also. It is agreed by all that the new bank will have to rely on RBI for the bulk of these short-term funds. Further, the major responsibility of the new bank will be the cooperative banking structure which is governed by State laws and State administration. If the new bank is perceived as an institution entirely separate from RBI, it may find it difficult to get the right responses from the State Governments, whereas there will be need for maintaining very close rapport with the State Governments. The prestige and continued assistance of RBI will be necessary to enable the new institution to maintain the sound health of the system.

4.12 As pointed out earlier, the device of a statutory body for policy making for agricultural credit has not worked in the manner envisaged by the All-India Rural Credit Review Committee and in the meantime the problems of agricultural credit have not only grown in complexity and size but also merged in the larger tasks of rural development. It is in this context we are looking for a new organisational device for providing, undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development. We envisage the new bank as an exercise in decentralisation, while the essential controls are retained where they belong, namely the RBI. We are therefore convinced that the balance of advantage in the present context lies in setting up a national level bank with close links with RBI. Further, we envisage the role of RBI as one of spawning, fostering and nurturing the new bank, somewhat in the same manner as ARDC. We would cast a special responsibility on RBI to develop the new institution, which in our view is a logical step in the organisational evolution of the RBI itself.

4.13 Our attention has been drawn to the recommendation of the Tambe Working Group appointed in May 1979 by RBI at the instance of Government of India that a new apex financial institution called Development Bank for Decentralised Industries (DBDI) be set up as an associate of RBI for meeting the credit requirements of the small, tiny and village industries. The main argument put forward for having a separate arrangement at the national level is that the IDBI may not be able to give sufficient attention to the development of decentralised industrial sector, at any rate, commensurate to the new emphasis on the growth of non-farm rural employment. We agree that the industries in the decentralised sector need special and continuous attention as pointed out by the Working Group. It is also true that overall development in this sector poses special problems involving not only credit but also upgrading of technical skills through training, supply of raw materials and marketing of finished goods. At the same time, it is important to recognize that integrated rural development as described earlier is all-pervasive and does cover all schemes, based on land and otherwise and meant to generate employment and improve income level of the poor in a compact area, *viz.*, block or district. Any institution catering to the needs of agricultural and rural development has to ensure that rural industries are not ignored. Often, agriculturists and labourers take to rural and cottage industries as ancillary or subsidiary occupations. Some of them are in the nature of supporting services to agriculture. And not all of them need be linked to outside markets. In these circumstances, it appears to be prudent to keep open the present channels of credit and refinance and even to expand them whenever necessary. In other words, the new national level institution we are recommending for integrated rural development may take over from RBI the existing refinance facilities for rural artisans and village industries and expand them as suitable. Such an arrangement would, no doubt, lead to certain amount of overlapping if and when the DBDI comes to be established. The matter can be reviewed at that stage, primarily as a problem of co-ordination and sorted out through mutual understanding and adjustment.

Our concept of national level bank

4.14 We have considered various names for this new institution: Agricultural Development Bank of India, Rural Development Bank of India and National Bank for Agriculture and Rural Development. We prefer the third name, *viz.*, National Bank for Agriculture and Rural Development (NABARD).

4.15 The functions of NABARD may be as follows:

(*i*) Developmental policy, planning and operational matters relating to credit for agriculture, allied activities, rural artisans and industries and other rural development activities;

(*ii*) Training, research and consultancy relating to credit for agriculture and rural development;

(*iii*) Refinance (ST, MT and LT) to the co-operatives and RRBs, including co-operative marketing and distribution;

(*iv*) Refinance to commercial banks against term lending (MT & LT), short-term accommodation for special purposes;

(*v*) Direct lending singly or through consortium arrangements in special cases;

(*vi*) Co-ordination and monitoring of all agricultural and rural lending activities with a view to tying them up with extension and planned development activities in the rural sector.

(*vii*) Inspection of co-operative banks and RRBs; and

(*viii*) Advice and guidance to State Governments, Federations of Co-operatives, NCDC, etc. in regard to the cooperative movement in close collaboration with the RBI and Central Government.

4.16 We have specifically suggested that co-ordination of district/block level programmes under IRD and institutional lending thereto at the district level, will be one of the important functions of the NABARD. In our discussions with the co-opertives and the commercial banks, views have been strongly expressed that at present they are being dealt with on different principles. This arises to some extent from the handling of the different institutional structures through different Departments of the RBI. They would like that the guidelines and policy on rural credit are better handled by one organisation. The District Credit Plan seeks, among others, to support the credit necessary for integrated rural development. During the discussions the Committee had with co-operative banks and the commercial banks, views were expressed that co-ordinating function for the District Credit Plan should preferably be done by a representative of the Reserve Bank. Rural credit forms the bulk of the District Credit Plan. It is also noticed that deposit mobilisation and resource deployment are also parts of District Credit Plan as now worked out. The function of co-ordination is best performed by the institution which deals with the bulk of the work under the programme of co-ordination. The Committee has not yet taken a firm view on this and would like to revert to this matter, later.

4.17 For successful undertaking of short-term lending business, NABARD has to maintain adequate staff to take up monitoring of the working of the borrowing banks, to ensure quality of on-lending and to keep track of the developments at the State, district and primary levels in the sphere of institutional credit. NABARD, as we envisage, will be the refinancing body to the entire rural credit system. Monitoring of the use of funds given to this system is better done by the NABARD itself. Detailed inspection of the borrowing institutions, from this angle, has to be carried out by NABARD. Although the commercial banks will be borrowing from NABARD for certain limited purposes connected with agricultural and rural development, bulk of their operations would relate to other lendings, *e. g.*, industry, commerce, etc. and hence the statutory inspections of these banks may continue to be carried out by the RBI itself. The case of State and Central co-operative banks is, however, on a different footing. NABARD will be providing refinance facilities to these co-operative banks to a substantial exent, as it covers agricultural production and investment, allied activities, rural industries, co-operative marketing and distribution. Their operations also by and large, are confined to agricultural and rural lending. Similarly, the RRBs will be exclusively rural credit institutions drawing upon the funds of NABARD for bulk of their operations. As the institutions involved in rural lending are many and as the areas of lending differ from institution to institution, the responsibility for inspection needs to be defined clearly. The Reserve Bank of India's inspection mainly covers two distinct aspects of banks inspected; the first dealing with the statutory aspects and the second with the developmental aspects of their working. The NABARD as a refinancing agency will be interested in the soundness of the borrowing institutions and also in monitoring the field level developments and as such will have to take up developmental inspection. Being an institution within the RBI complex, the statutory inspection of co-operative banks and RRBs may also be taken up by the NABARD as an agency function. This arrangement would avoid duplication of work. At the same time, we feel that RBI as a substantial lender of funds to the NABARD may have to keep a watch on the health of banking institutions as a whole. This can be ensured by occasional test inspection of these banks by RBI with a view to satisfying itself that their operations are being carried out in conformity with the provisions of Banking Laws.

4.18 There are also related items of work such as collection of annual statistics relating to Co-operative Movement in India and also Review of Co-operative Movement by the RBI's ACD which the NABARD may take over. Since RBI as a central banking authority will be concerned with all banking statistics, the data relating to co-operative banks and RRBs collected by NABARD will have to be in conformity with RBI's guidelines.

4.19 We would like to say a word about direct lending by NABARD. While the new Bank should not resort to direct financing as a general rule and thus enter into unnecessary and wasteful competition with the on-lending banks, yet it is felt that the progress of lending by the new Bank should not be helplessly dependent on the willingness and competence of such banks in respect of certain sectors of rural development. Thus, if NABARD finds that the institutional credit arrangements in a particular area or for a particular purpose are not coming up as fast as they should, it should then certainly undertake direct lending to the public development corporations such as forest development corporation for productive and commercially viable activities.

4.20 The Committee would like NABARD to start functioning within the framework of functions enumerated above. There is no point in burdening the new Bank with many other activities in the initial stage. The question of widening the scope of its activities may be reviewed after NABARD completes five years of its operation.

4.21 The functions listed in 4.15 imply that several items of work at present attended to in ARDC and the different departments of RBI such as ACD, DBOD, RPCC will have to be transferred to NABARD. As regards ARDC, there appears no serious difficulty as the entire organisation will have to be merged in the new set up. But in the case of RBI, a lot of detailed work has to be done as the existing departments combine within them central banking duties as well as ordinary financing, promotional and administrative functions. The Committee will work out details once the principles are accepted for implementation.

4.22 One member did not agree with the view that the new institution should deal with short-term refinance to co-operatives and RRBs and with short-term accommodation to commercial banks for special purposes. While there is a recognised need to link short-term credit with project finance or for granting composite loans where necessary, the bulk of short-term finance for agriculture comprising crop loans have no such integral connection with term finance. It is not, therefore, necessary to transfer short-term refinance from the Reserve Bank to the new institution for ensuring fuller co-ordination of long-term and short-term credit. As a monetary authority and lender of the last resort, the Reserve Bank should have the authority not only of determining the aggregate quantum of finance and of fixing the individual limits to the institutions (co-operatives, RRBs and commercial banks) but also the terms and conditions on which it should be made available to each institution. In the interest of maintaining credit discipline, it may not be proper to dilute the functions of the Reserve Bank. While there may be need for creation of NABARD to improve and co-ordinate the functioning of ARDC, the Reserve Bank should not be divested of its legitimate functions of central banking authority. The present functions of the Reserve Bank of short-term refinance as well as of monitoring the implementation of District Credit Plans (lead banks in charge of implementation are commercial banks) and of inspection of co-operative banks and RRBs should not, in his view, be transferred to NABARD.

4.23 The other members of the Committee have given careful consideration to the above view. All members of the Committee have agreed that there is need for decentralisation of functions of the Reserve Bank to a lower level organisation in order to handle the vastly increased magnitude of work in the field of rural credit for integrated rural development. The basic principle of decentralisation of functions is that the lower level organisation should deal with the details of the functions whereas the higher organisation should limit its involvement to broad policies and supervision along with test checks to understand the health of the system. We therefore think that it is advantageous for the new institution to deal with all operational aspects relating to rural credit. One other member also supports the proposition that statutory inspection should be retained by the Reserve Bank. It is observed that at present the Reserve Bank inspection is both statutory and also as the lender of money. The new institution being the lender of money will have to take over the functions of inspection which any lender would normally do. The Committee carefully considered whether it is desirable that there should be two types of inspections, one as the lender and another as the statutory authority. The Committee observes that the Reserve Bank has already accepted the agency functions of the state co-operative banks in carrying out the statutory inspections of the urban cooperative banking system. The other members of the Committee are, therefore, clear in their mind that, both for convenience of work and avoidance of duplication of inspections on the borrowing system, the Reserve Bank can follow the agency system through the new institution for the statutory function, whereas the new institution can carry out its normal function of inspection as a lender. We also feel that, as our recommendation is to maintain the organic link between the Reserve Bank and the new institution, this should be possible.

4.24 We had stressed in para 4.12 that NABARD should have close links with RBI. We shall now spell out the more important of them:

(*i*) Unlike in the case of IDBI, the RBI must own 50% of the share capital of NABARD and the balance only by the Central Government.

(*ii*) It would be necessary and advantageous to have some common members in the Boards of RBI and NABARD. The Board of NABARD may be a nominated Board consisting of the experts in the related fields. Considering the fact that agriculture and rural development are state subjects, some state government officers may be appointed on the Board with a view to bringing knowledge of different areas into it. The strength of the Board may not exceed 15 and not less than 3 directors excluding the Chairman may be from among the directors of the Central Board of the RBI.

(*iii*) A Deputy Governor of the Reserve Bank of India should be appointed as the Chairman of the Board (as is presently the case with ARDC). This will also help maintain proper perspectives in NABARD in regard to credit and monetary policies, and training.

(*iv*) The Managing Director should be appointed by the Board after consultation with RBI.

4.25 With the larger lending activities envisaged for the new Bank, it will require a strong share capital base as compared to the present level of authorised capital of ARDC at Rs. 100 crores. Taking into account the graduated credit requirement estimated by NCA at Rs. 9400 crores by 1985, it is suggested that the authorised capital of NABARD may be fixed at Rs. 500 crores. The paid-up capital may be placed at Rs. 100 crores in the first instance. In view of the promotional and developmental role assigned to the new Bank, it should be jointly owned by RBI and Central Government. The financial and developmental support of the Central Bank will add to its strength and as such RBI should have substantial involvement in this institution. In view of our recommendation that share-holding should be confined to RBI and Government of India, there is no need for payment of a minimum dividend. There should also be no difficulty in exempting NABARD from the payment of income-tax, particularly because there will be no private share-holders.

Staff of NABARD

4.26 Since the new Bank is to provide necessary leadership for the banks to play a proper role in integrated rural development and must have personnel of diverse disciplines and experience, it is desirable to empower the new institution to recruit directly the banking and technical staff required by it, although, to begin with, the personnel connected with the items of work transferred to NABARD will provide the nucleus. This means that NABARD will be administratively independent of Reserve Bank. Our discussions with the various persons concerned with investment lending in the agricultural sector have revealed that ARDC has found it difficult to build up expert staff under the existing staffing arrangements. It will, of course, have to be ensured that in the interest of smooth transfer of functions from RBI and ARDC to NABARD, the legitimate interests of the staff who have built up the present organisations are safeguarded. The Committee proposes to go into this matter in detail.

Resources of NABARD

4.27 With regard to term lending operations (MT and LT loans) by the new Bank, the existing arrangements obtaining in ARDC should continue. As at present, funds should be raised through borrowings from RBI (NAC (LTO) Fund) and Government of India and floatation of bonds by the new Bank.

4.28 As regards deposits as a source of funds, there should be an enabling provision for NABARD to receive deposits from the SCBs and SLDBs as also other deposits such as those accruing incidentally in the business of the new Bank.

4.29 Regarding funds required for providing ST/working capital loans to rural production, marketing and distribution in the agricultural and rural industrial sector, NABARD has to depend largely on borrowings from RBI which should fix aggregate credit limits in favour of the new Bank for these purposes in place of the present practice of fixing a separate credit limit for each one of the SCBs/CCBs, RRBs and Commercial Banks. Funds also should be made available on a similar basis, from RBI out of National Agricultural Credit (Stabilisation) Fund for relief in times of natural calamity and from out of NAC (LTO) Fund for granting medium-term loans to SCBs/CCBs and share capital loans to State Governments. NABARD should also have access to the NIC (LTO) Fund for facilitating block or composite loans to rural industries. The Committee envisages that while the Reserve Bank will grant a general line of credit in favour of the new Bank and stipulate whatever specific conditions as are felt desirable from the point of view of effective enforcement of its overall monetary and credit policy, separately for each of three components of the rural credit system, *viz.*, Co-operative Banks, RRBs and Commercial Banks, the operational details including the fixation of limits for individual banks in these three categories should be left to be decided by NABARD.

4.30 As in the case of IDBI, there is no need to stipulate any borrowing limit for NABARD.

NABARD and National Co-operative Development Bank

4.31 Our attention has been drawn to the proposal mooted by the co-operative movement for the establishment of a National Co-operative Development Bank (NCDB). The background to this proposal is that the Conference of Land Development Banks convened by the National Co-operative Land Development Banks' Federation in 1977 recommended that without establishing a National

Bank, the co-operative financing agencies may not be in a position to provide development look to the agricultural finance. Subsequently in 1978, the All-India Conference of Central Co-operative Banks convened by the National Federation of State Co-operative Banks urged the Government to establish a National Bank for Agriculture and Co-operatives. In March 1979, the Eighth Indian Co-operative Congress called upon the National Co-operative Union of India (NCUI), National Federation of State Co-operative Banks and National Federation of Co-operative Land Development Banks to take necessary steps to establish NCDB.

4.32 We have considered the proposal contained in the document prepared by NCUI and the view points expressed by the co-operative financial institutions. With the adoption of multi-agency approach to the problems of rural credit, the commercial banks together with the RRBs sponsored by them have started financing agriculture and rural development on a massive scale. The RRBs have come to stay as an integral part of rural credit system. A refinancing, co-ordinating and development banking body at the national level has to encompass all the credit institutions in the field. Besides, the RBI's National Agricultural Credit Funds are not meant for the exclusive use of co-operative credit institutions. With the establishment of RRBs, provision has been made in the RBI Act enabling RBI to extend financial assistance from out of these Funds to the RRBs as well. The Reserve Bank's Funds will have to pass through all these systems in a balanced way, according to the exigencies of time and requirements. Further, if the NCDB were to borrow from RBI or the proposed NABARD and to lend to the SCBs/SLDBs, this would be an additional tier (really the fourth tier) adding to the cost of retailing agricultural and rural credit.

4.33 The case for NCDB has been made out as a balancing centre in view of the reported lack of opportunity for lending the high cost deposits of the co-operative movement within the State concerned. Another reason made out is the maintaining of the health of the movement itself through an apex organisation armed with the power of the purse. As regards surplus funds, only a few apex banks seem to have real surpluses and that too for short periods only. Surpluses are generally the result of certain deficiencies in the system that stand in the way of expansion of credit in the rural sector. It is not clear whether these apex banks would agree to a national bank handling their money or whether they really want scope for lending on their own outside the State. Further, there is another aspect which needs a long and detailed dialogue. The national bank may have to be controlled by a national co-operative law. Co-operation being a State subject, it is yet to be discussed how far this is feasible. It is also doubtful whether the hierarchical system with the proposed NCDB at the top can maintain the necessary discipline over the loan business. We have already various signs that the apex co-operative banks are not able to bring in the discipline necessary in the credit system because of this inbreeding in the system. All these issues have to be considered separately as problems of the co-operative movement and not merely as problems of credit dispensation for agriculture and rural development. In fact, the NABARD which we have proposed will be largely for the co-operatives as most of the lending activities relating to rural sector in general and to the rural poor in particular will continue to be routed through the co-operative institutions.

Conclusion

4.34 In presenting the above recommendations in the form of an interim report, we are aware that these represent only a broad outline of the new national level institution, NABARD, and that several important details have to be considered before it can be brought into being and made an effective instrument. Some of them have been indicated in the foregoing paragraphs. Others are : the future role of Agricultural Finance Corporation; its relationship with NABARD and the related arrangements for consultancy; the delivery system in the field which includes the commercial banks, co-operatives and RRBs; and the relations between the national level credit institution and the State Governments, their extension, technial and development agencies. We shall address ourselves to these subjects in our subsequent reports. As we pointed out in paragraph 1.9, it will help the deliberations of the Committee if the reactions of the conncerned authorities to this interim report are made available as soon as possible.

B. Sivaraman
Chairman

Members	*Members*
G. V. K. Rao	M. Ramakrishnayya
M. R. Shroff	L. C. Jain
S. Satyabhama	K. B. Chore

H. B. Shivamaggi
Member-Secretary

Bombay, 28 November 1979

STATEMENT 1.1

DIRECT INSTITUTIONAL FINANCE FOR AGRICULTURE

(Rs. crores)

Source	Loans and Advances issued during the year ended June 30				
	1974	1975	1976	1977	1978 P
I. Co-operatives	877 (1970)	1039 (2160)	1187 (2357)	1430 (2792)	1475 (2761)
Of which :					
(*a*) Short-term[1] ..	663 (807)	750 (904)	881 (1012)	1016 (1216)	1108 (1310)
(*b*) Term-Loans[2]	214 (1163)	289 (1256)	305 (1345)	414 (1576)	367 (1451)
II. Government[3] (Short-term)	91 (N.A.)	77 (N.A.)	81 (N.A.)	82 (N.A.)	98 (N.A.)
III. Scheduled Commercial Banks[4]	219 (436)	274 (563)	405 (790)	508 (1031)	569 (1340)
Of which :					
(*a*) Short-term	105 (179)	146 (246)	212 (364)	254 (451)	288 (547)
(*b*) Term-Loans	114 (257)	128 (317)	192 (426)	254 (580)	281 (793)
IV. Regional Rural Banks (Short-term)	—	—	2	16	44
V. Total of I to IV ..	**1187 (2406)**	**1391 (2723)**	**1675 (3147)**	**2037 (3823)**	**2186 (4101)**
Of which :					
(*a*) Short-term	859 (986)	974 (1150)	1177 (1376)	1369 (1668)	1538 (1856)
(*b*) Term loans	327 (1420)	417 (1573)	498 (1771)	668 (2155)	648 (2245)

Note : Figures in brackets denote outstanding at the end of the year.

P = Provisional. N.A. = Not available.

1 = Relates to primary agricultural credit societies.

2 = Relates to primary agricultural credit societies and land development banks.

3 = Financial year data based on State Budgets.

4 = Relates to financial year.

(*Source :* Currency & Finance Report).

STATEMENT 2.1

DISBURSEMENT OF REFINANCE — REGIONWISE

(Rs. crores)

Region and principal states	DISBURSEMENTS DURING						
	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	Upto 30-6-79*
1. Northern	**15.9**	**18.5**	**34.7**	**43.1**	**36.6**	**54.2**	**258.3**
Haryana	8.0	10.8	15.7	17.7	11.1	21.0	106.8
Punjab	4.9	4.1	13.1	17.3	11.8	16.3	95.5
Rajasthan	2.8	3.5	5.4	7.9	13.1	16.2	52.7
Others	0.1	0.2	0.6	0.2	0.6	0.8	3.3
2. North-eastern	**0.3**	**—**	**0.1**	**0.8**	**3.1**	**2.8**	**8.3**
Assam	0.3	—	0.1	0.7	2.7	2.4	7.2
Others	—	—	—	0.1	0.3	0.4	1.1
3. Eastern	**6.2**	**10.8**	**18.2**	**28.5**	**36.8**	**41.7**	**146.8**
Bihar	5.9	9.3	13.2	16.9	18.6	22.5	90.6
Orissa	0.1	0.8	3.4	5.7	8.2	8.8	27.3
West Bengal	0.2	0.7	1.6	5.9	10.0	10.5	29.0
4. Central	**21.4**	**30.8**	**45.3**	**63.3**	**59.9**	**65.4**	**317.2**
Madhya Pradesh	6.5	12.3	19.3	26.1	16.7	16.7	104.4
Uttar Pradesh	14.9	18.5	26.0	37.2	43.2	48.8	212.8
5. Western	**20.6**	**17.9**	**26.0**	**23.5**	**33.6**	**40.3**	**217.5**
Gujarat	7.9	4.3	3.3	4.0	13.2	15.2	83.7
Maharashtra	12.7	13.6	22.5	19.3	19.7	24.3	131.7
Goa	—	0.1	0.2	0.2	0.7	0.8	2.1
6. Southern	**33.5**	**28.3**	**46.8**	**61.6**	**64.4**	**80.4**	**385.6**
Andhra Pradesh	4.2	8.9	12.9	21.2	38.5	49.6	164.3
Karnataka	11.0	10.1	19.5	21.9	13.2	14.3	104.2
Kerala	1.0	1.0	2.1	2.5	3.7	9.6	22.5
Tamil Nadu	17.1	8.2	12.3	15.9	8.9	6.9	94.3
Others	0.1	0.2	—	—	—	—	0.3
All Regions	**97.8**	**106.4**	**171.2**	**220.8**	**234.3**	**284.9**	**1333.6**

* Cumulative since the inception of ARDC.

STATEMENT 2.2

DISBURSEMENT OF REFINANCE BY ARDC—PURPOSEWISE

(Rs. lakhs)

Purpose	Upto 30 June 1969	DURING 1969-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	Upto 30 June 1979
Minor irrigation	1281 (42.1)	15631 (83.0)	8530 (87.1)	8378 (78.7)	10818 (63.2)	14210 (64.4)	14327 (61.1)	17106 (60.1)	90264 (67.7)
Land development	1388 (45.5)	1236 (6.6)	178 (1.8)	201 (1.9)	492 (2.9)	587 (2.7)	408 (1.8)	1140 (4.0)	5612 (4.2)
Farm mechanization	14 (0.5)	281 (1.5)	375 (3.8)	1223 (11.5)	4575 (26.7)	5177 (23.4)	2875 (12.3)	4135 (14.5)	18673 (14.0)
Plantation/Horticulture	207 (6.7)	703 (3.7)	219 (2.2)	200 (1.9)	307 (1.8)	516 (2.3)	787 (3.4)	1207 (4.2)	4159 (3.1)
Poultry/Sheep breeding/Piggery	1 (0.1)	21 (0.1)	9 (0.1)	65 (0.6)	68 (0.4)	66 (0.3)	212 (0.9)	365 (1.3)	809 (0.6)
Fisheries	56 (1.8)	144 (0.8)	86 (0.9)	178 (1.7)	243 (1.4)	196 (0.9)	540 (2.3)	786 (2.8)	2228 (1.7)
Dairy development	—	65 (0.4)	82 (0.8)	158 (1.5)	288 (1.7)	354 (1.6)	395 (1.7)	646 (2.3)	1994 (1.5)
Storage and Market yards	100 (3.3)	753 (3.9)	293 (3.0)	237 (2.2)	319 (1.9)	353 (4.3)	3777 (16.1)	2714 (9.5)	9143 (6.9)
Forestry	—	—	—	—	—	18 (0.1)	50 (0.2)	84 (0.3)	152 (0.1)
Agricultural aviation	—	—	12 (0.1)	—	5 (—)	—	—	—	17 (—)
Integrated cotton development project	—	—	—	—	—	5 (—)	58 (0.2)	255 (0.9)	255 (0.2)
Gobar gas plants	—	—	—	—	—	—	1 (—)	37 (0.1)	38 (—)
Others	—	—	—	—	—	—	—	12 (—)	12 (—)
TOTAL :	**3047** (100.0)	**18834** (100.0)	**9784** (100.0)	**10640** (100.0)	**17115** (100.0)	**22082** (100.0)	**23430** (100.0)	**28487** (100.0)	**133356** (100.0)

Note : Figures in brackets denote percentages of the total.

RESERVE BANK CREDIT TO CO-OPERATIVE SECTOR

3.1 Over-all Position

(Rs. Crores)

Year (July-June)		Short-term credit	Medium-term credit	Long-term credit	Total credit
1972-73	Limits	513.4	83.9	46.3	643.5
	Drawals	741.5	68.9	48.7	859.1
	Repayments	751.0	31.9	5.0	787.9
	Outstandings	162.7	86.6	100.1	349.4
1973-74	Limits	502.1	34.4	31.0	567.5
	Drawals	664.2	48.3	31.0	743.5
	Repayments	656.6	31.7	9.1	697.3
	Outstandings	170.4	72.3	122.0	364.6
1974-75	Limits	613.9	117.3	48.4	779.6
	Drawals	997.7	59.8	48.4	1105.8
	Repayments	892.7	34.5	12.2	939.4
	Outstandings	276.2	99.2	158.2	533.6
1975-76	Limits	751.2	65.1	73.5	889.9
	Drawals	1033.6	49.0	73.5	1156.2
	Repayments	1127.6	53.5	17.3	1198.4
	Outstandings	182.2	94.7	214.1	491.0
1976-77	Limits	812.6	147.0	81.3	1041.0
	Drawals	904.8	87.6	80.5	1072.9
	Repayments	827.2	47.6	23.7	898.5
	Outstandings	259.9	134.3	270.9	665.6
1977-78	Limits	845.4	117.7	86.1	1049.2
	Drawals	1227.9	115.2	85.8	1428.9
	Repayments	1163.1	88.7	29.1	1280.9
	Outstandings	324.7	161.3	327.6	813.6

Source: Reports on Currency and Finance, RBI.

RESERVE BANK CREDIT TO COOPERATIVE SECTOR

3.2. Short-term Credit

(Rs. Crores)

Year (July-June)	Seasonal agricultural operations[1]	Marketing of crops other than cotton and kapas[2]	Marketing of cotton and kapas[3]	Purchase and distribution of fertilisers[4]	Production and marketing of handloom products[5]	Financing other cottage and small scale industries£	Purchase and sale of yarn£	Loans to ARDC[6]	Against pledge of sugar[7]
1972-73									
Limits ..	415.5	52.8		14.8	14.0	0.6	0.9	15.0	—
Drawals ..	596.7	9.3	113.6	7.5	9.1	0.3	0.1	4.9	—
Repayments	603.8	9.4	111.9	13.5	10.9	0.2	0.1	1.2	—
Outstandings	144.9	0.6	2.9	2.8	7.7	0.1	0.1	3.7	—
1973-74									
Limits ..	430.8	40.6		—	14.5	0.8	0.4	15.0	—
Drawals ..	618.7	12.9	6.6	—	13.4	0.3	0.3	12.9	—
Repayments	612.8	10.7	8.6	2.8	16.1	0.3	0.3	4.9	—
Outstandings	150.8	1.9	0.9	—	5.0	0.2	—	11.6	—
1974-75									
Limits ..	489.5	40.3		28.2	15.7	2.5	0.7	15.0	22.0
Drawals ..	811.8	18.1	46.9	22.5	29.4	1.3	0.5	—	67.1
Repayments	751.2	19.6	37.5	3.7	23.4	0.3	0.4	11.6	45.1
Outstandings	212.2	0.5	10.3	18.8	11.1	1.3	0.1	—	22.0
1975-76									
Limits ..	611.9	37.4		47.1	20.0	4.8	0.6	15.0	14.5
Drawals ..	899.7	—	21.9	62.9	34.3	2.5	0.1	1.7	10.5
Repayments	965.3	0.5	31.9	61.8	33.9	1.6	0.1	—	32.5
Outstandings	146.6	--	0.2	19.9	11.1	2.3	0.1	1.7	—
1976-77									
Limits	696.3	9.2	22.3	33.3	26.4	6.7	0.6	10.0	7.8
Drawals ..	818.8	4.6	—	21.2	35.8	3.9	0.3	—	20.2
Repayments	736.2	4.4	0.2	31.2	32.2	2.4	0.1	1.7	18.8
Outstandings	229.2	0.3	—	9.9	15.0	3.9	0.2	—	1.4
1977-78									
Limits	748.8	0.5	13.5	12.6	43.8	7.1	1.6	10.0	7.5
Drawals	994.2	0.5	1.1	23.6	167.3	4.7	0.9	—	35.6
Repayments	934.1	0.3	1.1	30.5	158.6	3.9	0.6	—	34.3
Outstandings	289.3	0.5	—	3.0	23.7	4.7	0.5	—	3.0

[1] (*a*) at ½% below Bank Rate for 1972-73 to 1975-76 and 2% below Bank Rate for 1976-77 and 1977-78 ; (*b*) At ½% below Bank Rate from 1973-74 subject to a rebate of 1½% as per Rebate Scheme excepting under Section 17(4)(*a*) which continued to be at 2% below Bank Rate; (*c*) At 2% below Bank Rate from 1975-76 (at 3% below Bank Rate from 1-3-78) subject to recovery of an additional interest of 1½% as per linking scheme. [2] At 3% above Bank Rate from 1974-75 to 1977-78 and at Bank Rate from 1-6-1978. [3] Including monopoly procurement cotton ; at 3% above Bank Rate from 1974-75 to 1977-78 and at Bank Rate from 1-6-1978. [4] At 2% above Bank Rate upto 1973-74, at 3% above Bank Rate upto 1977-78 and 1% above Bank Rate from 1-6-1978. [5] At 2½% below Bank Rate from 1-3-1978. £ Data relate to April-March. [6] At Bank Rate. [7] 3% above Bank Rate.

Source : Reports on Currency and Finance, Reserve Bank of India.

RESERVE BANK CREDIT TO CO-OPERATIVE SECTOR

3.3 Medium-term Credit

(Rs. Crores)

	Year (July-June)	Agricultural purposes [1]*	Conversion of short-term loans [1]*	Purchase of shares in co-op. sugar factories and processing societies [2]*
1972-73 :	Limits	8.7	73.3	1.6
	Drawals	—	68.1	0.8
	Repayments	7.4	24.1	0.3
	Outstandings	16.9	68.7	1.1
1973-74 :	Limits	11.8	22.5	0.2
	Drawals	6.0	41.3	1.0
	Repayments	10.4	20.8	0.4
	Outstandings	20.0	51.2	1.2
1974-75 :	Limits	9.9	106.9	0.5
	Drawals	4.6	55.0	0.2
	Repayments	8.8	25.4	0.3
	Outstandings	15.7	82.6	1.0
1975-76 :	Limits	11.6	50.5	3.0
	Drawals	7.2	41.8	—
	Repayments	7.5	45.6	0.4
	Outstandings	15.4	78.7	0.6
1976-77 :	Limits	14.9	130.4	1.7
	Drawals	9.3	77.8	0.5
	Repayments	7.7	39.6	0.3
	Outstandings	17.0	117.0	0.8
1977-78 :	Limits	21.3	95.4	1.0
	Drawals	12.2	102.9	0.1
	Repayments	7.0	81.4	0.3
	Outstandings	22.2	138.5	0.6

1. At 2½ % below Bank Rate from 1-3-78.

*Data relate to calendar years 1972 to 1977.

2. At Bank Rate.

Source : Reports on Currency and Finance, RBI.

RESERVE BANK CREDIT TO CO-OPERATIVE SECTOR

3.4. Long-term Credit

(Rs. Crores)

	Year (July-June)	Loans to State Governments for contribution to share capital of Co-operative credit institutions +1	Loans to ARDC2
1972-73 :	Limits	16.3	30.0
	Drawals	18.7	30.0
	Repayments	4.5	0.5
	Outstandings	65.6	34.5
1973-74 :	Limits	8.0	23.0
	Drawals	8.0	23.0
	Repayments	5.6	3.5
	Outstandings	68.0	54.0
1974-75 :	Limits	8.4	40.0
	Drawals	8.4	40.0
	Repayments	6.4	5.8
	Outstandings	70.0	88.2
1975-76 :	Limits	13.5	60.0
	Drawals	13.5	60.0
	Repayments	7.5	9.8
	Outstandings	75.7	138.4
1976-77 :	Limits	31.3	50.0
	Drawals	30.5	50.0
	Repayments	7.9	15.8
	Outstandings	98.3	172.6
1977-78 :	Limits	21.1	65.0
	Drawals	20.8	65.0
	Repayments	8.3	20.8
	Outstandings	110.8	216.8

1. At 6 % for 1974-75 and 1975-76.

+ Data relate to April-March.

2. At 4¼ % to 4¾ % upto 1975-76 and 6 % for 1976-77 and 1977-78.

Source : Reports on Currency and Finance, RBI.